

Meeting of the ETS WG held virtually on 20 April 2021

Attendees

Bill Thompson	Co-Chair	Philip McNaughton	British Sugar
Lucy Candlin	Co-Chair/P&P	Gerald Mason	Tate & Lyle
John Craven	ETG Secretariat	David Morgan	CPI
Anne-Marie Ferguson	ETG Secretariat	Ross Nickson	BP
Tarun Arora	Tate & Lyle	Amanda Pakes	BSI
Suzanne Al-Dabbagh	BEIS	John Palmer	EIC
Tom Bainbridge	LuxNova Partners	Andrew Park	Swan Energy
Tom Bardwell	SE	Paul Parker	LRQA
Paul Batty	BEIS	Paul Percy	British Glass
Paul Bedford	HMT	Emma Piercy	FDF
Dempsey Best	BEIS	Kirsty Pilcher	UKAS
Neil Billingham	National Grid	Graeme Precious	SLR Consulting
Diana Casey	MPA (WG Vice Chair)	India Redrup	Energy UK
Sarah Catmull	P66	Sam Reed	BEIS
Claire Chaffer	Jacobs	Matthew Reizenstein	Shell
Richard Coey	DAERA-NI	Andy Roberts	UKPIA (WG Vice Chair)
Joe Cooper	BEIS	David Robinson	Lucideon
Tim Cowling	Tarmac	Maria Rokicka	Essaroil
Matthew Croucher	SMMT	Steve Roebuck	WPIF
Paul Dawson	RWEST	Julian Ross	E.ON
Phil Elliott	DAERA-NI	Jane Roughley	RWE G UK
Holly Feeney	British Glass	Rachel Skinner	eco-act
Adrian Fitzpatrick	DAERA-NI	Jonathan Spence	Uniper
Anthony Finn	Conocophillips	Suzanne Stafford	BEIS
Joan Forteach	EA	Matt Streeter	EDF Energy
Sarah Fryer	Swan Energy	Jill Talbot	P66
Seamus Gallagher	BEIS	Andy Taylor	Erncvs
Lindsay Goater	BEIS	Naomi Walker	EA
Mark Griffiths	NRW	Malcolm Watson	EIC
Martin Hills	Cemex	Simon Watson	Redshaw Advisors
Alastair Kerr	WPIF	Will Webster	O&GUK(WG Vice Chair)
Bill Kyte	ETG hon President	Rich Woolley	CIA
Jude Lemmens	Tata Steel		
Bob Lewis	Tata Steel		
Charlie Lewis	BEIS		
Jodie McDaniel	British Steel		
Andrew McDermott	BCC (WG Vice Chair)		
Paul McLaughlin	KIWA		
Ronan McGarry	SEPA		

Welcome, competition law reminder and introduction; agreement of the agenda

1. Bill Thompson EU ETS WG Co-Chair (Policy) welcomed those attending and reminded attendees of ETG competition policy. The agenda was agreed as tabled subject to the exclusion of the item 'Future consultation on the future of the compensation schemes for UK ETS indirect emissions cost' which Arjan Geveke had been asked to be postponed until the next meeting since the consultation would not appear until after the purdah period for upcoming local and regional elections.

Minutes of ETS WG meetings held on 9 February and 25 February 2021 + Actions

2. The minutes of the ETS WG meetings held on 9 February and 25 February 2021 were agreed as an accurate reflection of the discussion by meeting participants. John Craven noted that actions were complete except for one action at paragraph 27 of the 9 February minutes which he would take up with the EA and BEIS outside of the meeting. – *Action John Craven*

UK ETS and EU ETS

EU ETS emissions year 2020 completion – update: Seamus Gallagher BEIS

3. Seamus Gallagher presented the slide headed ‘EU ETS completion’ in the BEIS slide pack (Annex 1 - circulated to ETS WG members). He mentioned the completion of the EU ETS emissions year 2020 with allowances due to be surrendered by 30 April, and encouraged operators to talk to their regulator as soon as possible if they had any concerns. An issue with the Union registry whereby the surrender totals of a small number of operators across the EU had been incorrectly reported had now been resolved and the UK operators concerned had been contacted. A report on 2020 compliance and consistency would be issued by September. There were no questions.

Environment Agency Report – Joan Forteath EA

4. Joan Forteath gave the presentation at Annex 2 (circulated to ETS WG members) by way of an EA report. She said that the annual emissions report for 2020 had now been completed for which she thanked members – over 99% compliance. The UK’s involvement with the EU ETS was closing down with surrender of allowances for Phase 3 due by 30 April – in relation to the Union registry, any outgoing transactions must complete on 30 April 2021. There would be no incoming or outgoing transactions from 1 May and the EA could not help with any Union registry related matters from that date. It was not possible to transfer any allowances for the EU ETS to the UK ETS. Those receiving free allocation for the UK ETS should submit their activity level data via ETSWAP by 30 June and should make sure that this had been verified. Regulator contact details for England, Wales, Scotland and Offshore were included in the slides along with that of the UK Registry Administrator (the EA). The following main points arose in discussion.

5. Bob Lewis said that although it was understood that operators would have no access to the Union registry beyond 30 April 2021, could it be confirmed that the Regulator/registry officials would still have access to make any necessary updates in the Registry or would such updates have to be completed by 30th April? Seamus Gallagher responded that whilst access would cease for operators, there was an understanding with EC regulators that national administrators could have any necessary ongoing access.

6. Andrew McDermott raised an issue in relation to annual activity levels. He noted that 2020 had been a horrific year for many operators with extended unscheduled plant closures caused by COVID. This would trigger significant cuts in 2021 free allocation for many industrial operators (as the +/-15% threshold was transgressed). Was BEIS considering removing scheme year 2020 from all calculations impacting free allocation? Seamus Gallagher responded that the implications of Covid would be considered in the context of the current Call for Evidence on free allocation.

7. In response to Amanda Pakes, Seamus Gallagher confirmed that verifiers did not need to open an account in the UK ETS Registry; whereas in the EU ETS system verifiers had to validate emissions, that was not the case with the UK ETS.

8. Laura Partridge noted that the EA would not review an emissions report until they had received an activity level change (ALC) report. They had returned all emissions reports to operators. Any operator who had not had their emission report returned should contact the help desk. Ronan McGarry said that a similar approach was being adopted by SEPA. They were expecting to return all relevant emission reports shortly and were preparing communications to advise installations. However, if an operator was keen to get access in the meantime, SEPA could be contacted accordingly and could return emissions reports on a case-by-case basis. Paul Batty added that OPRED was also in the process of returning emissions reports to offshore operators to allow the ALC template and Verification Opinion Statement (VoS) to be uploaded.

9. Amanda Pakes asked whether emissions reports could be changed by the operator once returned. Would verifiers have to verify that there had been no changes to the emissions report? The EA responded that no changes should be made to the emissions report unless agreed with the Regulator – e.g. to correct an error in 2020 emissions. The EA would therefore be checking to ensure that no amendments had been made.

Updating of EU Commission guidance documents for the purposes of UK ETS – Naomi Walker EA

10. Naomi Walker gave the presentation at Annex 3 (circulated to ETS WG members) setting out proposals for the updating, as necessary, according to a specified priority of EU Commission guidance documents for the purposes of the UK ETS. She added that the EA was keen to draw upon ETS WG members' experience in identifying priorities and deciding what guidance needed to be amended. John Craven confirmed that the ETG would be happy to set up an ETS WG subgroup to assist with this process and would issue a call for expressions of interest after the meeting. – *Action John Craven – Action complete*

12. Amanda Pakes suggested that it would be important to complete priority 1 updates by the beginning of September 2021 to tie in with verifier training which would typically be happening then. Naomi Walker responded that whilst the EA could try to operate within this timescale for priority 1, it was not essential to do so since existing guidance would operate unless the UK had amended it - and it was expected that the majority would not change as in practice, the EA would not be undertaking substantive re-writes unless there was a strong reason to do so. To that end, it would be helpful if the proposed subgroup could identify what they perceived as both good and bad elements of the present guidance.

13. Bill Thompson asked about the legal status of the eventual UK ETS guidance. He noted that the EU guidance had no status but could be used in a Court to explain points of law in the legislation itself. Sam Reed said that BEIS would need to further investigate this question and revert at the next meeting since the interpretation of UK ETS law may be different from that of EU ETS law. – *Action BEIS*. More generally, BEIS would want to ensure that rules were put into operators' language.

UKAS report - Kirsty Pilcher

14. Kirsty Pilcher gave the UKAS presentation at Annex 4 (circulated to ETS WG members). There were no questions.

UK ETS Legislative and Market update – Seamus Gallagher, BEIS

15. Seamus Gallagher presented the slides in the BEIS pack at Annex 1 (circulated to ETS WG members) on the UK ETS Legislative and Market update. He said that the auction regulations and the relevant FCA regulations had now been passed by the House of Commons and the House of Lords. These set out the change in the Auction Reserve Price (ARP) to £22 and confirmed the Cost Containment Mechanism (CCM). The FCA consultation on UK ETS rulebook change had concluded. The auction calendar published on 26 February had scheduled the first auction for Wednesday 19 May from 12.00 – 14.00. Further auctions would follow at two-weekly intervals on Wednesdays at the same time; operators should contact ICE if they were interested in participating in Q2 auctions. Around 83m allowances were due to be auctioned during 2021. BEIS had heard participants' views on the early-years' operation of the UK ETS market and were reflecting on this feedback.

16. EU ETS benchmarks, which will be used to calculate free allocation in the UK ETS, were published on 12 March 2021. Work is underway to calculate free allocation entitlement for each installation covered by the UK ETS. The aim is to publish the Allocation Table – which would set out each installation's entitlement – ahead of the first auction, and to issue allowances to accounts as soon as practicably possible after that. Free allocation for 2022 would be issued before 28 February 2022 i.e. ahead of 2021 compliance deadline.

17. The UK Emissions Trading Registry went live for trading account registrations on 6 April – see <https://view-emissions-trading-registry.service.gov.uk/> - and Operator and Aircraft Operator accounts were currently being created in the Registry using ETSWAP data. The onboarding of users to Operator and Aircraft Operator accounts would begin on 4 May and UK Kyoto Protocol Person Holding Accounts in late May. Guidance had been published on the documentation required for Registry accounts. The following main points arose in discussion.

Allocation table

18. Bill Thompson asked whether the UK ETS allocation table would be similar to that for the EU ETS and if it would include NACE codes – these were important to ensure that there were no surprises relating to installations and sector benchmarks, particularly since sectors in the UK ETS would be smaller. Sam Reed responded that the table would be at installation level. He undertook to explore the issue of NACE codes – *Action BEIS* - and suggested that details could be submitted as part of the current Free Allocation Review Call for Evidence. **BEIS update: It is not planned to publish NACE codes, the allocation table will mirror previous allocation tables. If participants feel there is a need to know NACE codes, they should inform us of the rationale and it can be considered as part of the Free Allocation review.**

19. Andrew McDermott asked if the free allocation table would include small emitter targets - or would that be separate? He also noted that the published small emitter table was before the 5% target cut. It would be good to get clarity on the final numbers for everyone to work from - in the case of his organisation with more than 30 small emitters, there would be a great deal of 'legwork' to find the numbers for each installation. However, Bob Lewis noted that the

targets (including the 5% reduction) would be in the revised permits issued earlier this year. BEIS confirmed that the name of the small emitter would appear against the associated target.

20. Bob Lewis said that it was very encouraging to hear the proposed timetable for publishing the allocation table, and particularly that it was not tied to ALC impacts. He asked if BEIS could explain what was involved in the step between publishing the allocation table and the issuing of allowances. Hopefully that would be a small step and result in seeing allocations in accounts by the end of May? Could BEIS also clarify the likely timescales that would be required for return of over-allocated allowances - receipt of additional allowances via any notices served due to ALCs? Sam Reed responded that although he could not comment on the detail of the timing of the issue of allowances, the step should be a relatively small one and clarity would be given as soon as possible. He would take away these points as key questions needing clarification. – **Action BEIS - BEIS update: BEIS will provide an update as soon as possible.**

21. Andrew McDermott asked if BEIS would publish a second allocation table after taking account of ALCs. Sam Reed confirmed that the allocation table would be updated after every ALC.

Unanswered E-meeting 'Chat' Question to BEIS

22. India Redrup asked if the publication of the 2021 free allocation table would include provisional expectations for the whole first period between 2021-25? - **Action BEIS - BEIS can confirm that the allocation table will contain entitlement for each installation for each scheme year 2021-2025.**

UK Carbon price and auctions

23. Tim Cowling asked whether there was a more detailed update as to consideration being given to member concerns about the UK ETS carbon price and as to actions in mind. BEIS reiterated that they remained keen to receive member feedback and would be continuing to reflect on that. It was not intended to give a live running commentary on the CCM but a report would be issued on key fundamentals as soon as possible after the first – and each subsequent - auction. Information would also be published on the ICE website. Bill Thompson asked if data could be published on the day – particularly since exchange rates varied – so that there would be no surprises. He added that it would be helpful to have an ETS WG meeting for BEIS to brief ETG Members on the systems performance and outcome of the first UK auction. – **Action John Craven to note**

24. India Redrup flagged her members' concerns about UK ETS auction access because of administrative hurdles from wider financial regulation. She understood that although the FCA might roll-over access to UK ETS auctions for 2020 participants in the UK's EU ETS auctions, some of the UK's EU ETS operators relied on futures markets, as they were deep and liquid, rather than entering auctions. Since this was not going to be the case for UK ETS futures markets, at least initially, could HMG ensure that access to the UK ETS auctions starting in May would be streamlined for all UK ETS compliance buyers to ensure they were not excluded? Seamus Gallagher agreed to pursue this bilaterally with India Redrup and the FCA – **Action Seamus Gallagher** - but in the meantime noted that there was updated guidance on the ICE website and that he would be happy to respond to specific queries. **BEIS update - The UK ETS Authority has since updated the guidance on gov.uk to give more details on**

auction eligibility. Organisations that want to bid in the auctions should contact ICE.
<https://www.gov.uk/government/publications/participating-in-the-uk-ets/participating-in-the-uk-ets#auctioning-and-market-operation>

Press reports of the setting of a 78% UK carbon reduction target for 2035

25. ETS WG members drew attention to press reports that morning of an announcement that the UK government would legislate for a new climate change target to reduce emissions by 78% by 2035 compared to 1990 levels. Paul Percy asked how this would tie in with the UNFCCC target and the UK Carbon Budget. The announcement would cause concern in his sector (glass) where furnaces had a 10-15 year life – clarity was needed as to what sectors would be impacted. Bill Thompson suggested that this appeared to be a spot target and thus a breakaway from the Carbon Budget 5-year period; Bill Kyte asked about the timeline for it to be reflected in the UK ETS target. Matthew Reizenstein noted that the recently announced UK NDC under the Paris Agreement envisaged a 68% reduction by 2030.

26. Charlie Lewis said that he was unable to comment on the basis of press reports, and encouraged ETS WG members to await the formal announcement. Later note: The announcement (circulated to ETS WG members) is at:
[UK enshrines new target in law to slash emissions by 78% by 2035 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035)

Call for evidence on Free Allocations in the UK ETS published on 17 March – closing date 23 April: Presentations by Joe Cooper, BEIS and Diana Casey, ETG

27. Joe Cooper presented the slides in the BEIS slide pack (Annex 1, circulated to ETS WG members) on the call for Evidence on Free Allocation – link at <https://www.gov.uk/government/consultations/uk-emissions-trading-scheme-free-allocation-review-call-for-evidence> – and future UK ETS policy development reviews including possible expansion to the two thirds of emissions not currently covered and international co-operation. He noted that the UK wanted the UK ETS to be more ambitious than the EU ETS. Charlie Lewis added that when the design of the UK ETS was first mooted, many members had made the point that improvements on the EU ETS should be considered. Diana Casey gave the ETG presentation at Annex 5 (circulated to ETS WG members) as a possible basis for an ETG letter responding to the Call for Evidence. The following main points arose in discussion.

28. Bill Thompson asked about the scope of the consultation to follow the Call for Evidence on Free Allocation – given that the original scope was relatively limited - and about the running order of the further reviews set out in the BEIS presentation on UK ETS policy development. It would be helpful if the timetable for these into 2022 could be shared with the ETG. Joe Cooper responded that BEIS would advise the ETG of the timetable once it was known. – **Action BEIS.** Joe Cooper also clarified that the reference in his presentation to an intention to explore expansion of the UK ETS to the two-thirds of currently uncovered emissions was to an intention to examine the potential for such expansion rather than a firm commitment to future UK ETS sector expansion. Charlie Lewis noted that possible expansion had been flagged in the Energy White Paper.

29. Bill Thompson added that in the current absence of a published allocation table it was impossible to know what UK ETS free allocation amounted to. There was also the issue of how free allocation was determined going forward – the detailed question of how it would be

generated. It would seem premature to have a consultation in the absence of such data – were BEIS looking for input on how to ‘tweak’ free allocation or the bigger question of whether free allocation was the best way of avoiding carbon leakage? Sam Reed responded that that the present call was for evidence specific to free allocation in the context of how to mitigate the risk of carbon leakage.

30. In discussion, Bob Lewis and Paul Percy commented that it was difficult to identify clear evidence of the contribution of free allocation to the avoidance of carbon leakage given the protection represented by the existing carbon leakage provisions. Gerald Mason said that carbon leakage needed to be looked at in the round along with, inter alia, linking (which could effectively remove the risk of carbon leakage with the EU), and availability of technologies that were affordable and worked - particularly in relation to heat which was the big issue for his sector (sugar). If the carbon market became too tight too quickly his sector would be at a higher risk of carbon leakage. This pointed to evidence being confined to a theoretical analysis that said that risks were higher if one set of things happened and lower if another set of things happened. The difficulty of identifying evidence was further complicated by the differing susceptibility of particular products to carbon leakage and the extent to which they were exposed to international markets. Paul Percy added that carbon leakage risks had also been increased in his sector (glass) because trade tariffs had been reduced for non-free trade countries.

31. Will Webster agreed that carbon leakage needed to be tackled by a joining-up of policies - the CO2 price and free allocation would only be part of the story in future. The EU also had a CBAM proposal (awaiting publication in June) plus a 10bn euros innovation fund, and there were also various individual Member State programmes. Higher CO2 prices alone would not deliver the government objectives set out in the Industrial Decarbonisation Strategy (IDS). He would revert to this later in his presentation around the IDS (see paragraphs 36-37). Charlie Lewis noted that BEIS recognised that free allocation was linked to various other elements of policy.

Update on linking

32. Suzanne Al-Dabbagh gave a verbal update on linking. She said that whilst there was a commitment in the EU–UK Trade and Cooperation Agreement (TCA) to cooperate with the EU on carbon pricing, discussion with the EU would need to await ratification of the Agreement and would start in due course. Later note: The EU-UK trade and cooperation agreement ratification was completed by the EU Council on 1 May 2021. The Agreement is now in force – see below:.

<https://www.consilium.europa.eu/en/policies/eu-uk-negotiations-on-the-future-relationship/>

BEIS was aware of industry’s support – including that expressed by industry in correspondence – for linking with the EU ETS but would also be looking at global ETSs as a basis for linking. No decisions had been made and the ETG and other stakeholders would be kept updated on developments.

Proposed ETG letter in response to the Call for Evidence

33. Bill Thompson said that whilst it was clearly in ETS WG members' interest to respond to the Call for Evidence from their own particular standpoints, Diana Casey had drafted a possible ETG overarching response reflecting the points in her presentation at Annex 5. This included reference to prioritising linking of the UK ETS and the EU ETS; concern that the ability to decarbonise was linked to whether they were in the vicinity of industrial clusters; and that

political uncertainties would impact detrimentally on attracting investment to the UK. It was agreed that this letter would be shared with ETS WG members and, subject to any comments, would then be submitted to BEIS in time for the closing date of 23 April. Later note: The letter submitted to BEIS on 23 April (circulated to ETS WG members) is below:



ETG response on
Free Allocation Revi

Border Carbon Adjustments – update by Andrew McDermott, SG Chair

34. Andrew McDermott gave a short update drawing upon his written brief at Annex 6 (circulated to ETS WG members). He referred to the European Parliament's non-binding report on CBAM, the removal of an earlier call to end free allocation and opposition to CBAM from trading partners such as the US, Australia and China. Further developments were awaiting the publication of the EU CBAM proposals in June. There were no questions.

HMT Response to CET consultation published on 23 March – Paul Bedford HMT

35. Paul Bedford gave a short verbal report on the HMT Response to the Carbon Emissions Tax (CET) consultation published on 23 March at Annex 7 (circulated to ETS WG members). He said that, following the decision to expand carbon pricing through a UK ETS, there was no specific intention to introduce a future CET. However, it had been useful to investigate - and receive responses on – the principle of a CET.

UK Net Zero 2050 Series

HMG Industrial Decarbonisation Strategy – published on 17 March - Will Webster ETS Vice Chair, BEIS

36. Introducing his presentation (Annex 8) around the HMG Industrial Decarbonisation Strategy (IDS) published on 17 March and drawing on the North Sea Transition Deal, Will Webster said that this was an opportunity to consider whether and how the ETG might develop thinking on longer term policy through to 2050. As discussed earlier in the meeting, free allocation was not the whole story and all elements of policy were linked. The IDS had identified the need for fuel switching. Decarbonisation of oil and gas required a switch to decarbonised electricity which in turn focused attention on carbon capture and storage and hydrogen. As noted earlier in the meeting, the UK was lagging behind on deep decarbonisation projects – the EU had a 10bn euros innovation fund.

37. The story needed to move on from the carbon price and compliance issues - on which the ETG had hitherto focused - to how to decarbonise and how to finance that decarbonisation. The question for consideration now was therefore whether the ETG could have a role in this wider story and provide industry sectors with some collective thinking by comparing and

contrasting their decarbonisation strategies. Supporting this, Bill Kyte said that the ETG needed to expand to become an industrial 'think tank' to move forward – this was important work that ought not to be left to other potentially less-representative groups.

38. Bill Thompson suggested that as a first step in expanding its role from the current focus on legislation and implementation, the ETS WG might arrange a meeting at which sectors could compare and contrast their net zero decarbonisation plans; these needed to develop in a way that ensured that industry did not miss out on Government investment possibilities. Depending on the success of an initial such meeting, it might be worth considering the formation of a more permanent 'Futures Group' within the ETG.

39. Diana Casey said that it would be helpful for members to receive insight into the approach of other sectors, particularly if BEIS was also involved in this process; she was also attracted to the idea of a 'Futures Group'. Andrew McDermott saw this as an essential first move forward and would welcome an ETG forum/focus. Andy Roberts also supported the concept and drew attention to the report 'UKPIA Input into the Transport Decarbonisation Plan' – see <https://www.ukpia.com/media/2516/ukpia-tdp-submission.pdf> - which acknowledged the need for a holistic, systems approach to energy uses and vectors that had also been highlighted by the Energy Systems Catapult (ESC) in their 'Innovating to Net Zero' report. UKPIA had therefore also considered supply systems and alternative uses of petroleum products. Jonathan Spence added that it would be good to understand government policy on future carbon capture and utilisation (CCU). Carbon capture and storage and hydrogen had a future policy direction but there was a lack of information on CO2 usage.

40. Summing up, Bill Thompson proposed an initial meeting – preferably before the next ETS WG meeting on 29 June - at which Andy Roberts could make a short presentation on the future of transport and systems, extending beyond potential emissions reduction to the need in terms of capital funding. Bill Thompson would also engage with a couple of other sectors to establish whether they would be willing to present to the meeting on their decarbonisation plans. – ***Action Bill Thompson and John Craven to note.*** Joe Cooper undertook to feed this discussion back to colleagues in the BEIS industrial decarbonisation team in the expectation that they too would find the proposed meeting/meetings of interest.

Remaining provisional 2021 meeting programme – commencing at 10.30 hours – and meeting closure

41. The following provisional ETS WG meeting programme was noted – commencing at 10.30 hours: Tuesday 29 June 2021 – incorporating the ETG Ltd AGM; Tuesday 12 October 2021; Tuesday 7 December 2021. In closing the meeting at 13.10, Bill Thompson, once more thanked all attendees, presenters and the ETG Secretariat for their contributions to and preparation of the meeting. He looked forward to proposed additions to the provisional ETS WG programme in the form of a session following the first UK ETS auction (paragraph 23) and a session to receive presentations on sector plans for achieving net zero (paragraph 40).

**ETG Secretariat
30 April 2021**