# WRITTEN STATEMENT

# BY

# THE WELSH GOVERNMENT

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| **TITLE** | **The Emissions Trading Scheme** |
| **DATE** | **25March 2022** |
| **BY** | **Julie James, Minister for Climate Change** |

As the recent IPCC report showed, we are reaching a point of no return for the planet. The impacts of climate change are likely to be worse than expected, and hit us sooner than we thought. That is why this must be the decade of action in tackling the climate emergency and why this Government has pledged to embed our response to it in everything we do.

Today I want to bring the UK Emissions Trading Scheme to the Senedd’s attention. The UK ETS is a little known and very technical policy area, but it will play a critical role in achieving our climate ambitions. It covers just under half of all Welsh emissions (a higher proportion than any other UK nation) and raises hundreds of millions of pounds from Wales for the UK Treasury.

The UK ETS works by getting big emitters in the industry, power and aviation sectors to pay for their emissions; with allowances coming from an ever shrinking pot (known as the allowances ‘cap’). Where the cost of decarbonising is less than the cost of buying allowances, industry drives emissions from the sector at the lowest cost. Of course, there are a range of protections and safeguards in the system to prevent business simply moving elsewhere, offshoring our emissions to other countries.

The Scheme was created in January 2021, in response to the UK leaving the EU ETS. However, it already needs to develop if it is going to support our ambitious net zero targets.

Today, the Welsh Government as part of the UK ETS Authority has published a [consultation](https://www.gov.uk/government/consultations/developing-the-uk-emissions-trading-scheme-uk-ets) on how the scheme might change. In particular, the consultation includes proposals on a new cap, which would be implemented in 2024. By reducing the number of allowances available, we can bring the scheme in line with a net zero trajectory (including our recent net zero plan and UKG net zero strategy). The consultation looks at how free allocations of allowances are managed within the scheme, including their role and relative proportion to protect business competitiveness while still driving down emissions.

The consultation also recognises the significant emissions not covered by the UK ETS, and proposes the scheme should be expanded to cover domestic shipping, waste incineration, Greenhouse Gas Removal technologies. It calls for evidence on how we might improve the measuring of agricultural emissions to support future decarbonisation policy; whether this would be done though the UK ETS or by a different means. Other high emitting sectors will be considered at a later point.

Alongside these significant proposals, the consultation puts forward a range of technical amendments to ensure that the scheme operates effectively and remains fit for purpose.

Informed by the outcome of this consultation, we will have to collectively steer a course that balances the different needs of future generations. It is important that the final decisions take all views into account, and are based on strong, credible evidence, to which the consultation and ongoing analysis will contribute.

There may be difficult choices about how best to meet the purpose of decarbonisation while at the same time protecting business competitiveness in a volatile global market, and where the costs of decarbonisation should fall to ensure that we enable a ‘just transition’. Wales has never shied away from making these decisions as we pursue a greener, fairer and stronger nation for the future. We have already taken tough decisions to better control phosphate pollution with new regulations, we are undertaking a roads review to enable us to reduce Wales’s carbon footprint and produced new TAN15 flood maps; not to mention our clear stance on fossil fuel extraction.

Not all of these decisions and actions have been universally popular. But this Government is not afraid to take action where we know it will make a difference. We only have one planet and we need to give hope to future generations.

Our recently published *Net Zero Wales* sets out the actions Welsh Government has already begun taking steps to lead, enable and support the changes we need in this Senedd and beyond. More than 120 policies and proposals covering every area of life, from peatland restoration to renewable energy are set out.

The Plan recognises the Welsh Government cannot tackle the climate and nature crisis on our own and importantly sets out the expectation of the UK Government. It needs to play its part and take the action needed to unlock a green future in Wales and across the UK, especially in the industrial and energy sectors, where many of the powers are reserved to Westminster.

The revenues raised from the Emissions Trading Scheme flow to Westminster too but we do not yet have transparency over how these revenues are used to support decarbonisation in Wales. The Welsh Government has put our money where our mouth is – with over half of our capital budget allocated to tackling the climate emergency – but we now need to see the same level of commitment from the UK Government.

I urge members to take the time to read and understand the questions being raised. Help us ensure this important lever is used to deliver this Senedd’s net-zero ambition in a way that leaves no-one and no place in Wales behind.

The consultation documents can be found here: [Developing the UK Emissions Trading Scheme (UK ETS) - GOV.UK (www.gov.uk)](https://www.gov.uk/government/consultations/developing-the-uk-emissions-trading-scheme-uk-ets)