# WRITTEN STATEMENT

# BY

# THE WELSH GOVERNMENT

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| **TITLE** | **Publication of the UK Emissions Trading Scheme Scope Expansion: Maritime and Non – Pipeline Transport of CO2 Consultations, alongside the Free Allocation Review Initial Authority Response Covering Proposals to be Implemented in 2025** |
| **DATE** | **28 November 2024** |
| **BY** | **Huw Irranca-Davies MS, Cabinet Secretary for Climate Change and Rural Affairs** |

The UK Emissions Trading Scheme (UK ETS) Authority – formed of Ministers from Welsh Government, UK Government, Scottish Government, and the Northern Ireland Executive – has today published two consultations on the expansion of the UK ETS. In addition, an Authority Response has been published which confirms proposed changes to the treatment of free allowances to operators who permanently cease activities at their sites.

In July 2023 the Authority confirmed its intention to bring domestic maritime into the scheme from 2026. This will begin with a ship threshold of 5000GT, although there is a commitment to reassess this threshold by 2026. The consultation provides further details on how this expansion will be implemented, giving clarity to drive investment in decarbonisation.

The consultation on non-pipeline transport (NPT) methods (i.e. shipping, road or rail for moving captured carbon into geological storage) follows the Authority’s announcement, also last July, that it intends to recognise NPT methods of CO2 transport. It provides more detail and seeks views on the regulatory framework required for implementation. This will enable operators transporting CO2 for storage by non-pipeline transport methods to deduct these emissions. This is particularly crucial for industry in Wales without suitable storage options such as the South Wales Industrial Cluster.

The Authority, along with officials across the Welsh Government, will engage extensively with affected stakeholders to gather views to support final decisions on how the UK ETS will be expanded. These reforms to the UK ETS will require amendments to the Greenhouse Gas Emissions Trading Scheme Order 2020, so the Senedd along with other UK Parliaments will have the opportunity to scrutinise plans once they are finalised.

The initial Authority Response follows proposals to make two technical changes to free allocation rules within the Free Allocation Review consultation released in December 2023. One is to the treatment of permanent cessations and the other is to clarify the definition of a permanent cessation. Free allocations are allowances provided for free to industries with global competitors from countries with less ambitious climate policies.

Under current rules, when permanent cessation of an activity occurs, operators keep free allocations they were entitled to during the final year in which they operated. However, as the final year allocations are based on average activity levels, operators may receive more allowances in their final year than required to mitigate carbon leakage. The new rules will alter this so that the level of allowances given in the final year of operation would be based on actual activity levels for that final year. An exception to the new rule will be in place for when cessation of an activity occurs for the purposes of decarbonisation e.g., installation of new technology. Participants closing for decarbonisation will therefore be able to retain the full entitlement, subject to sufficient evidence being provided. This is in line with maintaining the scheme’s incentive to decarbonise.

These rule changes will require changes to the legislation, which will be taken in the Greenhouse Gas Emissions Trading Scheme (Amendment) Order 2025. This is currently aimed to be laid in the Senedd in December 2024, with the in-force date in February 2025.

The UK ETS continues to be a highly important policy lever in Wales, providing a vital investment signal in the decarbonisation required to meet our Net Zero goals. The information collected in the consultations will play a crucial role in shaping the expansion of the scheme, ultimately increasing the greenhouse gas emissions included under its emissions cap. Making the changes to free allocation rules will also improve equity and targeting of free allocation in the scheme, ensuring it can be used for participants who need it most.

I expect to write again regarding the outcome of the consultations and further policy proposals in the coming months. I have written to the Chairs of the Climate Change, Environment, and Infrastructure Committee and the Legislation, Justice, and Constitution Committee to inform them of these consultations and the Authority Response.