Session 3: Implementing multiple carbon pricing instruments

UK Experience

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Department for
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UK Climate Ambition

- Jun 2019 – 2050 Net Zero legislation
- Dec 2020 – UK NDC: -68% by 2030 vs 1990
- Apr 2021 – Sixth Carbon Budget adopted: -78% by 2035 vs 1990

We use a combination of tax, spend and regulation

UK Emissions Trading Scheme

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UK ETS: Timeline

- June 2016: EU Referendum
- May 2019: Consultation: The Future of UK Carbon Pricing
- Summer 2020: Consultation: Carbon Emissions Tax
- December 2020: UK and EU Trade and Cooperation Agreement signed, and states that:

‘The Parties shall cooperate on carbon pricing. They shall give serious consideration to linking their respective carbon pricing systems in a way that preserves the integrity of these systems and provides for the possibility to increase their effectiveness’

- 1 Jan 2021: UK ETS launched

Why an ETS?

- The UK has a long-standing commitment to carbon pricing as a key part of its approach to reducing emissions.

- UK pilot ETS (2002)
- EU ETS design and development
- EU ETS systems provided building blocks
- Majority of respondents to public Consultation supported the proposal being put forward

UK ETS design features

Cap: initially set at 5% below the UK's expected notional share of the overall EU ETS cap. In 2021 this was 155.7MtCO2e. Declines by 4.2MtCO2e per year. Approximately 10% of the EU ETS size

Auctioning: Participants can trade UK ETS allowances on a secondary market. May 2021: first auction

Free allocation: awarded to industry to protect against carbon leakage.

£22

Auction Reserve Price: bids below £22 ($30) not accepted. 'Top up' **Carbon Price Support** of £18 ($24.5) pt

Cost Containment Mechanism: allows (does not require) intervention to mitigate high prices if triggers are met

Scope: a third of UK emissions are covered (energy, energy-intensive industries, aviation)

UK ETS Evolution

We are exploring opportunities including:

- **Net Zero alignment** – setting the cap trajectory to meet our net zero target.
- **Free Allocation review** – to review possible future changes in a rounded way
- **CORSIA interaction** - to determine how the Carbon Offsetting and Reduction Scheme for International Aviation and UK ETS should interact
- **Scope expansion** - We have committed to explore expanding the UK ETS to the two-thirds of uncovered emissions, including issue of greenhouse gas removal technologies.
- **Cooperation** - Under the terms of the Trade and Cooperation Agreement (TCA) the UK and EU agreed to cooperate on carbon pricing, including through giving consideration to linking our respective carbon pricing schemes

Carbon Price Support

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The Carbon Price Support

A tax in Great Britain on fossil fuels used in the generation of electricity. Introduced 2013, the CPS rate:

- ‘topped up’ the EU ETS, and has remained in place under the UK ETS;
- is capped at £18 (c$24) per tCO2e from 2016-24;
- provides greater certainty on carbon pricing and incentivises low carbon investment.

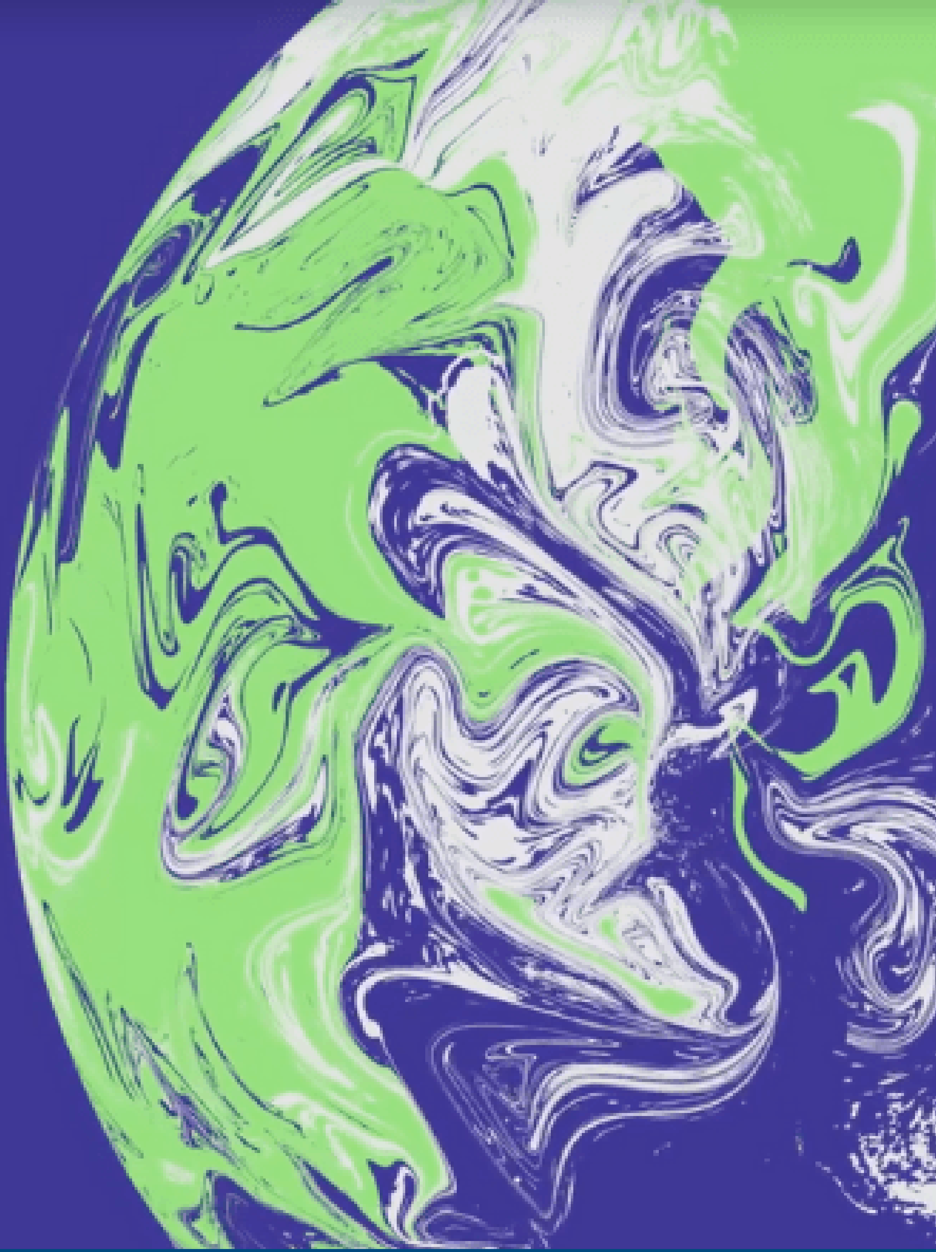
The CPS rate combines with the UK ETS price to form the total Carbon Price for electricity generators

- This was c£70 (c$95USD) per tCO2e in the first half of 2021

Impacts:

- Electricity generated from coal fell from 40% to 5% over 2012-18
- Raised over £500m ($675m) last year;
- adds c£20-25 (c$15-18.5) p.a. on average to a household electricity bill; and

Climate Change Levy



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The Climate Change Levy

- A tax on the supply to businesses of energy products in the UK, introduced in 2001
- Purpose: encourage the efficient use of energy and reduce business and the public sector emissions
- Chargeable at the point of supply of energy products
- Rates reflect the energy content of the products
- Domestic energy supply is excluded
- Qualifying businesses can enter into Climate Change Agreements (CCAs) to pay significantly reduced rates of CCL if they meet targets to improve energy efficiency and/or reduce emissions.
- **Impact:** Raised £1.1bn in revenue (2020-21)

Where do the CPS and CCL fit in the energy supply chain?