Aldersgate Group response to the consultation: Extending the UK ETS Cap Beyond 2030

April 2025

Introduction

The Aldersgate Group is an alliance of major businesses, academic institutions and civil society organisations which drives action for a competitive and environmentally sustainable UK economy.[1] Our corporate members represent all major sectors of the economy and include Associated British Ports, Aviva Investors, BT, CEMEX, the John Lewis Partnership, Michelin, Nestlé, Siemens, SUEZ, Tesco, and Willmott Dixon. Aldersgate Group members believe that ambitious environmental policies make clear economic sense for the UK, and we work closely with members when developing our independent policy positions.

The consultation, including a full list of questions, can be found here.

Questions

1.1. Do you agree with the Authority's minded to position, as presented above, that the UK Emissions Trading Scheme should be extended into a Phase II to follow directly on from Phase I? (Y/N) Please explain your answer.

Yes.

We support the Authority's position to extend the UK Emissions Trading Scheme (ETS) into a Phase II. The UK ETS is a key policy for incentivising decarbonisation which has been shown to be effective. Between 2005 and 2014, when the UK was a participant, the EU ETS contributed significantly to the direct industrial and fuel supply emissions abatement and encouraged emissions reduction.[2] Moreover, extending the UK ETS will also maintain alignment with the EU, with the EU ETS also being extended. Alignment with the EU helps reduce policy complexity and the compliance burden faced by businesses operating across both jurisdictions.

Phase II of the UK ETS must take an ambitious approach to incentivising decarbonisation while maximising ease of compliance for ETS participants. Regulating with reference to international standards and globally recognised assurance (such as accredited verification and validation) enables the robust and consistent evaluation of carbon emissions data and reporting. Alignment and interoperability also help reduce technical trade barriers and lowers the

[1] Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.
[2] Dechezleprêtre, A, Nachtigall, D and Venmans, F, 2023, The joint impact of the European Union emissions trading system on carbon emissions and economic performance.

burden for businesses that arises from the need to comply with different schemes.

The Authority should strive to maximise alignment with the EU ETS and seek to link the UK and EU ETS. The Aldersgate Group supports the linkage of the UK ETS and carbon border adjustment mechanism with the equivalent schemes in the EU. Linkage would ease compliance for UK companies exporting to the EU, reduce trade friction and improve liquidity and price stability in the ETS. The Authority should consider potential future linkage as the legislation for UK ETS Phase II is developed.

We also agree that Phase II should follow directly on from Phase I, providing a smooth transition between Phases.

2.1. Do you have a preference regarding the length of the post 2030-phase? (Y/N) Please explain your answer.

Yes.

We support the Authority's intention to ensure clarity and certainty for participants and recognise the benefits of flexibility, to adapt the scheme to maintain function in the face of unforeseen external changes.

Businesses require long-term certainty to inform investment decisions. While shorter phases may bring more flexibility to adapt the scheme, in practice this would be challenging due to policy development timelines and the need to ensure policy changes are fair and avoid unintended consequences. A longer phase will provide greater certainty to participants and is better aligned with decarbonisation timelines (i.e. the time it takes to decarbonise a facility).

We welcome the Authority's exploration of the length of Phase and the option to align with the Carbon Budgets. Whilst a second 10-year phase would not present significant challenges, a phase length aligned with the Carbon Budgets may provide a clearer decarbonisation signal and trajectory as part of a wider decarbonisation policy and regulatory framework. A 7-year (partially aligned with carbon budget 6) and a 12-year period could work in practice, balancing the need for long-term signals and flexibility. It may be more efficient for the Authority and provide long-term stability and certainty for businesses to opt for the longer timeline (12 years). The Authority should consider mechanisms to embed flexibility and potential risks associated with the different proposed lengths and alignment with Carbon Budgets to ensure the scheme can continue to operate effectively.

2.2. Beside the options outlined, are there other durations that should be considered for the length of Phase II? (Y/N) Please explain your answer.

We agree with the range of options laid out in the consultation and encourage the Authority to be open to other phase lengths if compelling evidence is provided. The phase length should not be shorter than the options currently proposed.

3.1. Do you agree with the Authority's minded to position to allow banking of allowances between phases of the Scheme? (Y/N) Please explain your answer.

Yes.

We agree with the Authority's position to allow the banking of allowances between phases of the scheme. This approach helps to maintain market stability through the phase transition and gives participants the flexibility to plan for the future and manage their market exposure. This approach has also been taken by the EU ETS, which means participants in both schemes will be familiar with and have greater ease of planning with consistency in the approach across both schemes.

We welcome the Authority's commitment to monitor UK emissions targets and the ongoing implication of banking in phase II cap-setting.