

Sarah Jones MP
Minister of State for Industry
Department for Energy Security & Net Zero
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CC: Gillian Martin MSP, Acting Cabinet Secretary for Net Zero and Energy (Scottish Government); Huw Irranca-Davies MS, Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs (Welsh Government); Andrew Muir MLA, Minister for Agriculture, Environment and Rural Affairs (Northern Ireland Executive)

6 November 2024

Dear Minister Jones,

We are writing in response to your request for our advice on implementing the expansion of the UK Emissions Trading Scheme (UK ETS) to include Energy from Waste (EfW) and waste incineration from 2028.

The Committee is supportive of the inclusion of EfW and waste incineration in the UK ETS, but we recommend that the ETS Authority does not increase the overall cap on emission allowances when EfW and waste incineration are added. This is for the following reasons:

- The current UK ETS cap was set at 936 million allowances (where one allowance allows for the emission of 1 tCO₂) for the period 2021–2030. This is 49 million allowances higher than the cap which would reflect the central assumptions of the previous UK Government's 2021 Net Zero Strategy (NZS), which would be 887 million allowances. The new UK Government will of course wish to set out its own strategy. However, as things stand with the current UK ETS cap, the non-traded sectors would need to reduce emissions by 49 MtCO₂ more than in the non-traded 'central' NZS trajectory in order for total emissions to follow the 'central' NZS trajectory.
- In the *Developing the UK Emissions Trading Scheme* consultation document, the choice to set the cap at the high end of the NZS uncertainty range was described as factoring in the 'possibility that emissions reductions could exceed what is necessary to meet the Fourth Carbon Budget'. As the Fourth Carbon Budget was not set on a path to reach Net Zero, this increases the risk of falling behind the necessary emissions reductions in the traded sectors for the 2030 Nationally Determined Contribution, the Sixth Carbon Budget, and Net Zero. The consultation acknowledged that this 'could result in the need to find additional emissions reductions in other sectors, should policies not deliver their full decarbonisation potential.'

- Climate Change Committee assessments of policy progress published since the release of the NZS have consistently concluded that the UK Government needs to speed up emissions reductions in both the non-traded and traded sectors.
- The UK Government has estimated that to be consistent with its Carbon Budget Delivery Plan and its Energy and Emissions Projections, emissions in the parts of the waste sector to be incorporated into the UK ETS should be around 22 MtCO₂ for the period 2028-2030. This is small compared to the excess allowances described above, so could easily be absorbed within this excess.
- The average UK ETS auction price for the first half of 2024 was £37 per tonne of CO₂ emitted. This is far lower than the cost of many decarbonisation measures in the traded sectors, such as carbon capture and storage, which are required for the UK to achieve its climate targets. It is also significantly lower than the UK Government's carbon values used outside the traded sector, or the equivalent EU ETS price. Therefore, the UK ETS alone does not provide sufficient incentive for these measures to be deployed. This indicates that the cap on emission allowances is currently too loose.

Not increasing the cap while including EfW and waste incineration in the UK ETS offers an opportunity to tighten the ETS, increasing its effectiveness in driving decarbonisation (including deployment of recycling) and reducing the burden placed on the non-traded sectors. The alternative of increasing the supply of allowances could result in non-traded sectors having to decarbonise faster than their shares of the 'central' NZS trajectory. However, delivery in many of these sectors is already behind.

Yours sincerely,



Professor Piers Forster
Interim Chair, Climate Change Committee