

Sarah Jones MP
Minister of State for Industry
Department for Energy Security & Net Zero
55 Whitehall
London
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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)

9 July 2025

Dear Minister,

We are writing in response to your request for our advice on extending the UK Emissions Trading Scheme (UK ETS) beyond 2030.

The Committee welcomes the UK Government and EU commitment to work towards linking their ETSs. We understand that the Authority still wants advice on these requests, which precede that announcement. In the first instance, the UK ETS Authority should work towards post-2030 arrangements which best align the UK and EU schemes, to maximise the benefits of linking. However, the right answer will inevitably depend on the terms of linking, which are not yet clear. In the meantime, we are setting out some broad principles. But these should not stand in the way of mechanisms that might be more consistent with the final terms.

A robust carbon pricing mechanism covering the period beyond 2030 is an important part of the policy landscape to deliver the emissions reductions that are required. The Committee therefore supports extending the UK ETS beyond 2030 as a means of achieving this, provided the next phase is robustly and resiliently designed with an effective markets policy and consistent with linking to the EU ETS.

The next UK ETS phase should be 10 years long, with an option to review the cap part way through. This would provide certainty over the market, which will be important to provide confidence for investors in the UK's decarbonisation pathway, while providing an opportunity to address any emerging issues with the Scheme.

- There should be clear guidelines around what this mid-phase review would cover, such as whether the cap is at an appropriate level or whether new technologies, decarbonisation options, or macroeconomic developments that were not foreseen have materially changed the dynamics in the market. This would ensure that it gives flexibility for the UK ETS Authority but also does not undermine the certainty that a 10-year phase period would provide to the market.

Banking of allowances into the next phase should be allowed, but the cap for the next phase should be reduced by the number of allowances that are expected to be carried over. This would help create a robust, resilient, and meaningful pricing mechanism for emissions, while avoiding a cliff edge in value for allowances released during the current phase of the Scheme. In addition, allowing for banking of allowances would recognise, reward, and de-risk early investments.

We would be happy to meet to discuss further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Piers Forster', with a light blue circular stamp or watermark behind it.

Professor Piers Forster
Interim Chair, Climate Change Committee