



Department for
Energy Security
& Net Zero

Rt Hon Graham Stuart MP
Minister of State for Energy Security and Net
Zero

**Department for Energy Security & Net
Zero**
1 Victoria Street
London
SW1H 0ET

Rt Hon Sir George Howarth MP
House of Commons
London
SW1A 0AA

www.gov.uk

Our ref: MCB2023/08231

13 April 2023

Dear Sir George,

Thank you for your email of 16 March addressed to the Secretary of State, on behalf of your constituents, regarding the UK Emissions Trading Scheme (ETS). I am responding on behalf of the Department.

The UK ETS acts as a cross-cutting policy lever to drive market-based abatement, incentivising industries to find the most cost-effective solutions to decarbonise. Last year we launched a consultation to develop the UK ETS, and we will be publishing the government response to this in due course. Our goal is to make the UK ETS the world's first net zero consistent cap and trade market, and ensure it plays a crucial role towards achieving the UK's ambitious climate targets, including net zero greenhouse gas emissions by 2050.

Turning to the point in your e-mail about free allocations of allowances, free allocations are designed to mitigate the risk of carbon leakage. Carbon leakage is where, without specific support, production and associated greenhouse gas emissions would be offshored to other countries with lower levels of climate ambition and regulation, therefore not reducing global emissions. As such, we currently provide sectors at risk of carbon leakage a proportion of their allowances for free to reduce their exposure to the carbon price and the risk of carbon leakage. Not all ETS operators receive free allocations, for example, free allowances are not generally provided to power generators.

We have committed to review our free allocation policy for our heavy industry participants, and as part of this we will look at the current methodology for distributing free allowances and will explore ways to better target free allocations for those most at risk of carbon leakage to ensure they are distributed fairly.

The government is committed to ensuring that the UK's climate policies to support decarbonisation and the reduction of emissions both globally and in the UK are not undermined by carbon leakage. In parallel to reviewing the approach to free allocations and working with partners to find international solutions to carbon leakage, government will consult this spring on a broader package of potential domestic policy measures to mitigate carbon leakage risk in future. This includes a carbon border adjustment mechanism, product standards, and measures to help grow the market for low emission industrial products. I hope you will continue to engage with this process as it develops.

Thank you again for taking the time to write.

Yours ever,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Rt Hon Graham Stuart MP
Minister of State for Energy Security and Net Zero