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Edward Mountain MSP
Convener, Net Zero, Energy & Transport
Committee

The Scottish Parliament
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29 March 2023

Dear Convenor,

UK EMISSIONS TRADING SCHEME (ETS) COMMON FRAMEWORK

I have attached to this letter the text of the provisional **UK Emissions Trading Scheme (ETS) Common Framework**, along with the associated cover page, Framework Outline agreement and concordat.

My officials, together with their counterparts in the UK Government, Welsh Government and the Department of Agriculture, Environment and Rural Affairs in Northern Ireland, have jointly developed this Framework, which was agreed by Ministers from all four governments between October and December 2022.

I am sharing these documents for your Committee's interests and my officials are happy to provide any further information if that would be helpful.

I am copying this letter and all attachments to Clare Adamson MSP, Convener of the Constitution, Europe, External Affairs and Culture Committee due to the Committee's interest in the overall UK Common Framework programme.

Yours sincerely,

MICHAEL MATHESON

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

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Summary cover page:

1. Framework ownership

- **Framework name**
UK Emissions Trading Scheme Common Framework
- **Responsible portfolio Minister**
Michael Matheson, Cabinet Secretary for Net Zero, Energy & Transport
- **Framework lead policy team (incl. contact details)**
Patrick Kirkham
Mariana Cover
Matthew-David Knowles
- **Committees that the framework is being actively shared with**
Net Zero, Energy and Transport Committee
Constitution, Europe, External Affairs and Culture Committee for wider Frameworks programme interests.

2. Points for the Parliamentary committees to note

a. Procedural

Date of Joint Ministerial Committee (EU Negotiations) and portfolio Minister sign-off of the provisional framework: The published version of the framework was agreed by UK portfolio Ministers between October and December 2022.

b. Content

- *Purpose of the framework*

The UK Emissions Trading Scheme (ETS) is a cap-and-trade system that places a market-determined price on carbon emissions for the energy-intensive industry, non-renewable power generation and short-haul aviation sectors, creating a cost-effective incentive for decarbonisation.

Despite most of the ETS legislation being within devolved competency, the four governments of the UK agreed that ETS participants would benefit from a single, UK-wide common set of rules for the scheme. For that reason, we jointly developed the ETS Common Framework to establish how the four governments will work together to exercise decision-making powers and responsibilities relating to the implementation and ongoing maintenance of the UK ETS. It also ensures policy development and potential divergence between governments are managed appropriately.

- *Issues to flag*

The current absence of a Northern Ireland Executive poses risks to future ETS amendments where the legislation requires to be approved by the four legislatures, including the Northern Irish Assembly.

- *Relevant legislation*

Following the UK's withdrawal from the EU, the EU ETS Regulations were brought into the UK legislation as retained EU law:

- The legal basis for the UK ETS is the Climate Change Act (2008), which enables the establishment of trading schemes which operate by limiting or encouraging the limitation of activities that consist of the emission of greenhouse gases.
- The Finance Act (2020) allows the UK Government to charge participants by providing for emissions allowances to be allocated in return for payment.

The four governments of the UK have introduced secondary legislation to establish a single, UK-wide ETS with a common set of rules for participants: the Greenhouse Gas Emissions Trading Scheme Order 2020.

- *Significant differences between the provisional framework and phase 3 summary*

There have been no major changes made to this Framework (notwithstanding the cross-cutting issues) since the provisional versions were agreed at the end of last year.

- *Stakeholder engagement*

A 10-week consultation and extensive stakeholder engagement on proposed UK ETS policy was conducted in 2019.

- *Any Scotland specific policy considerations or interests*

None

- *Information about any significant points of difference between administrations over the course of agreement of the framework and how these have been addressed*

None

- *Information on any relevant developments that the committee should be aware of*

Further to the publication of this Common Framework, the Scottish Government, together with the other UK Government and the other Devolved Administrations, will publish the final Government Response to the ETS consultation later this year. A Statutory Instrument will be laid as part of ongoing changes to the ETS and will be brought to the committee for scrutiny by the end of this year.