

Lesley Griffiths MS

Minister for Environment, Energy and Rural Affairs

27 July 2020

Dear Lesley,

Common Framework – UK Emissions Trading Scheme

Thank you for your letter of 15 June in relation to the development of a Common Framework to replace the EU Emissions Trading System (EU ETS). The Committee shares your view that this is a technically complex area, but is potentially an important measure to assist the Welsh Government in meeting its carbon emission reduction targets.

The Committee is grateful to you for your offer of assistance during the scrutiny process of this framework, through your and your officials' attendance at meetings of the Committee. We are also grateful for the offer of a technical briefing from Welsh Government officials. I have asked Committee officials to make the appropriate arrangements to facilitate your attendance.

The Greenhouse Gas Emissions Trading Scheme Order 2020 ('the Order'), which establishes the UK ETS, was laid on 15 June. In your letter, you said that a framework Outline Agreement and a concordat between the Ministers from all four governments would be shared with the Committee as soon as they are finalised. You will understand that the Senedd's ability to scrutinise the framework will be severely limited without these documents and I would be grateful if you could inform the Committee when it can expect to receive them.



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To assist the Committee in preparing for its scrutiny work, I would be grateful if you could respond to the following questions:

1. Are you content that the Welsh Government has played a full role in the development of the proposed framework? Do you have any concerns about any aspect of the proposals?
2. How are Welsh interests reflected in the proposals? In particular, how do they reflect the emissions profile in Wales?
3. What is your response to the suggestion by the UK Committee on Climate Change, set out in Lord Deben's letter of 20 March, that the proposals are "inconsistent with the UK's Net Zero ambitions in some respects, primarily relating to the relatively high level of allowed emissions under the proposed cap"?
4. The Committee is aware that the UK governments have responded to Lord Deben's letter, saying that "it is important to put in place a policy which provides a pragmatic and feasible approach to meeting net zero through the ETS." Do you believe that the proposed cap is set at an appropriate level?
5. In the Explanatory Memorandum (EM) accompanying the Order, you accept that "It may be necessary to adjust the cap further to ensure it is in line with our net zero ambitions. The UK Committee on Climate Change (CCC) will be providing advice on a pathway to net zero in December (2020) and we have committed to consult on any changes to the cap within 9 months and implement required changes by 1 January 2023 if possible and at the latest by 1 January 2024." Does this delay pose a risk to the likelihood the Welsh Government will meet its 2030 interim target for emissions reduction?
6. How will the Senedd be involved in scrutinising the effectiveness of the scheme in future? What provisions are contained within the proposals in relation to this matter?
7. Clause 17 of the Order sets out a review mechanism for the ETS. This consists of the ETS Authority (one or more of the UK governments) reviewing its own scheme and making recommendations to itself. Why do you believe this is an appropriate review mechanism? How will the UK governments ensure a degree of independence in the review process?
8. The Order sets out that reviews must be concluded by 31 December 2023 and 31 December 2028. Can you explain why this timeline has been chosen? Can you explain how this will complement the timelines for carbon budgeting and interim targets set out in Welsh legislation?
9. Do you have any concerns about the governance arrangements arising from the framework, including arbitration arrangements in the case of disputes?



10. The response of the four governments to the consultation on the proposed UK ETS said that "55 respondents indicated that they had a UK-wide interest in the operation of the system, whereas 19 indicated England, 8 indicated Scotland, 6 indicated Wales and 2 indicated Northern Ireland. Note that respondents were able to select multiple locations." In the EM accompanying the Order, you also referred to two stakeholder events "held in Wales to gather views of interested parties including potential scheme participants." Are you satisfied that Welsh businesses and stakeholders have been consulted sufficiently?
11. The EM says that the ETS scheme will incur staffing costs for Natural Resources Wales. However, "it is not anticipated the scheme will result in any additional staff costs compared to" remaining in the EU ETS. Can you confirm that you are satisfied that NRW has sufficient resources to undertake its work as a regulator of the UK ETS in Wales?
12. In the EM, you explain that, currently, funds generated by the EU ETS scheme are "not hypothecated but contribute to general Treasury coffers". You go on to say that "an alternative approach the Welsh Government supports for is the establishment of an industrial decarbonisation fund to recycle auction receipts into funding packages for deep decarbonisation of our industries." Can you confirm whether funds generated by the proposed UK ETS scheme will continue to be returned to the treasury? Can you explain the status of your proposed "alternative approach" for an industrial decarbonisation fund?
13. The UK Government has undertaken an impact assessment for the Order. The assessment does not consider certain issues that are specific to Wales, such as the impact of the proposals on the Welsh language or an assessment of the measure against the wellbeing goals. Are you content with the impact assessment that has been undertaken?
14. Will the proposed framework have any impact on existing or planned Welsh legislation and/or policies?
15. In your letter, you refer to a second, more technical Order that is due later this year. Can you clarify when the Committee can expect to see this Order, what it will cover, and the extent to which the Senedd will have an opportunity to scrutinise it?

I look forward to receiving your response by Friday 11 September.

Yours sincerely,



Mike Hedges MS
Chair of Climate Change, Environment and Rural Affairs Committee

Croesewir gohebiaeth yn Gymraeg neu Saesneg.

We welcome correspondence in Welsh or English.

