

Huw Irranca-Davies AS/MS
Y Dirprwy Brif Weinidog ac Ysgrifennydd y Cabinet dros New
Hinsawdd a Materion Gwledig
Deputy First Minister and Cabinet Secretary for Climate
Change & Rural Affairs



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: HID-PO-628-25

Mike Hedges MS
Chair
Legislation, Justice and Constitution Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

4 December 2025

Dear Mike,

I am writing to inform you that the UK Emissions Trading Scheme (UK ETS) Authority (comprising of the Welsh Government, the UK Government, the Scottish Government, and the Northern Ireland Executive) has today published two responses to UK ETS consultations.

The first is an Authority Response to the consultation on extending the UK ETS cap beyond 2030¹. Since the launch of the UK ETS in 2021, the Authority has worked to develop and expand the Scheme in line with net zero commitments across the UK. The Authority intends for the ETS to be a cornerstone of the UK-wide approach to decarbonisation over the coming decades. This response confirms the Authority's decision to extend the UK ETS, continuing to drive decarbonisation beyond 2030 while supporting industries in the transition to net zero by 2050.

The Greenhouse Gas Emissions Trading Scheme Order 2020 currently provides for the UK ETS to operate until the end of the current trading period on 31 December 2030 (UK ETS Phase I). To ensure that the UK ETS continues to operate after 2030, the Scheme will be extended into a UK ETS Phase II to begin on 1 of January 2031. UK ETS Phase II will run for 10 years from 1 January 2031 to 31 December 2040. This will ensure that market signals remain consistent with long-term decarbonisation goals, enabling strategic planning and long-term decarbonisation investment.

¹ [Extending the UK Emissions Trading Scheme cap beyond 2030 - GOV.UK](#)

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

The Authority has also decided to allow banking of allowances² between Phases I and II of the UK ETS. Allowing interphase banking between UK ETS Phases I and II will extend the Scheme's existing flexibility provisions and give participants greater opportunity to take advantage of longer-term abatement options.

The Authority, including officials across the Welsh Government, engaged extensively with affected stakeholders including the Climate Change Committee (CCC), who supported the extension of the scheme and interphase banking.

This Authority Response relates to the extension of the scheme beyond 2030. It does not propose a specific trajectory for the UK ETS Phase II. Before legislating to extend the Scheme, the Authority will consult on the specifics of a detailed Phase II cap profile. We will seek to consult again on a specific trajectory for the Phase II cap as soon as possible. The consultation process will outline the analytical basis for the range of trajectories we are considering, and the emerging impacts of those trajectories. It will also consult on potential review points, to ensure the design and operation of the Scheme achieves our ambitious climate targets while supporting businesses to decarbonise. The Phase II cap will be set sufficiently ahead of the beginning of Phase II on 1 January 2031 to provide the required certainty for participants.

The second publication is an Authority Response to the UK ETS: Future Markets Policy consultation³, which reviewed markets policy to ensure the UK ETS remains fit for purpose and is effective in managing the risks faced by an established and maturing scheme. The response considers interactions with the announcement on 19 May 2025 that the UK and EU will work towards establishing a link between the UK ETS and the EU ETS. It confirms that changes to markets policy will only apply in the context of a domestic standalone scheme. Markets policy in a linked scheme will be determined through ongoing negotiations between the EU and the UK.

The response sets out the decision to retain and inflation-proof the Auction Reserve Price (ARP). The ARP was introduced in 2021 and currently sets a minimum bid price at auctions of £22. The response confirms that there will be an initial inflation-based increase in 2026 from £22 to £28 with a yearly increase based on inflation from 2027. This rectifies the decrease in real terms of the ARP since it was introduced and ensures it continues to provide market participants with a long-term minimum price signal.

Other existing markets policies will be maintained as further changes would require complex technical reforms which may be impacted by linking negotiations. The response reflects the policy decisions the Authority considers proportionate to support an effective standalone market while negotiations to link the EU and UK ETSs are ongoing.

The Authority, including officials across the Welsh Government, engaged extensively with affected stakeholders including the Climate Change Committee (CCC), who supported the changes to the ARP.

These rule changes will require changes to The Greenhouse Gas Emissions Trading Scheme Auctioning Regulations 2021 ("the Auctioning Regulations"), which the UK Government will take forward in The Greenhouse Gas Emissions Trading Scheme Auctioning (Amendment) Regulations 2026 by way of an enabling power within the Finance Act 2020. The Auctioning Regulations are part of the UK ETS framework and set out the auction design, including the auction clearing price.

² Banking means purchasing an allowance in a given year for surrender in subsequent years. This ensures that emissions abatement can happen at least cost, by supporting participants to meet their purchase and surrender obligations under the Scheme as flexibly as possible, while decarbonising their operations when it is cheapest to do so.

³ [UK Emissions Trading Scheme: future markets policy - GOV.UK](https://www.gov.uk/government/consultations/uk-emissions-trading-scheme-future-markets-policy)

In accordance with the UK ETS Common Framework, the Welsh Government's stance on the UK ETS is that the financial elements are simply the mechanism by which the ultimate goal of the system – environmental protection via incentivising decarbonisation – is achieved. As the amendment to lower the auctioning allowances is being made to the Auctioning Regulations, and not primary legislation, a Legislative Consent Motion is not relevant. The amendment is being made by an SI to subordinate legislation. As the SI does not amend primary legislation within the legislative competence of the Senedd, an SI Consent Memorandum is not required under Standing Order 30A of the Senedd Standing Orders. However, I can assure you that my officials and our Legal Services will be involved in reviewing the drafting of The Greenhouse Gas Emissions Trading Scheme Auctioning (Amendment) Regulations 2026 and I will write to you again when the SI is laid, which is currently aimed for March 2026.

Overall, I believe that the UK ETS remains a highly influential policy lever in achieving net zero in Wales and provides a crucial platform for encouraging businesses to invest in and adopt decarbonisation technologies. These publications are part of ongoing developments to refine the scheme, allowing us to create more robust mechanisms that will incentivise innovation, drive emission reductions, and secure a resilient, sustainable future for Wales.

I am also copying this letter to the Chair of the Climate Change, Environment and Infrastructure Committee.

Yours sincerely,



Huw Irranca-Davies AS/MS

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