

UK Emissions Trading Scheme

Background

- The UK Government has international climate change commitments as well as more demanding domestic targets for carbon dioxide reductions. The UK Emissions Trading Scheme (UKETS) is one of a number of initiatives employed to promote carbon reduction as part of the of the Government's Climate Change Programme.
- An important driver in the development of the UKETS was the Climate Change Levy, and in particular the need to offer a flexible mechanism to those companies who had entered into Negotiated Agreements (NA) with government to reduce carbon emissions in return for an 80% rebate on their Levy payments.
- The UKETS came into operation on 1st April 2002.

What is it? How does it work?

- Emissions trading is a market-based mechanism designed to enable business to deliver carbon emissions reductions in the most cost-effective way. Companies that are able to reduce emissions at relatively low cost are able to sell permits to companies unable to make reductions cost-effectively.
- Participation in the UK scheme is voluntary and incentivised with three separate methods of participation – cap and trade, conversion of energy efficiency gains (for those with Negotiated Agreements), and specific emission reduction projects.
- The government has offered financial incentives, £215 million over 5 years, to encourage wider participation in the direct entry scheme. Companies agreed to take an emissions reduction target in return for a financial incentive, thus providing valuable liquidity for the market as a whole.
- Generators have been excluded from the UK scheme to avoid flooding the nascent market with some of the relatively easy gains generators could make through switching to gas. Any company, including generators, can participate in the UKETS through the project component although this has been slow to develop.
- Direct Participants and Climate Change Agreement participants included in UK ETS have been allowed to opt-out of the first phase of the EU ETS, which began in January 2005.

British Energy's position

- British Energy believes that it is necessary to review the UK ETS and CCL in the light of the emergence of EU ETS and the EU energy tax respectively.
- There is a danger of confusion and inconsistencies if the UK ETS is continued beyond 2006 in parallel with the EU ETS.