Carbon Business Council

August 14, 2024

Emissions Trading
Department for Energy Security and Net Zero
3rd Floor
3 Whitehall Place
London SW1A 2EG

RE: Integrating Greenhouse Gas Removals in the UK ETS
Submitted via email to ukets.consultationresponses@energysecurity.gov.uk

Dear Madams and Sirs:

The Carbon Business Council (CO2BC) is a nonprofit trade association of more than 100 innovative carbon management companies with over $16.5 billion in combined assets working across six continents. We appreciate this opportunity to comment on this consultation regarding Integrating Greenhouse Gas Removals (GGRs) in the UK ETS.

The CO2BC and our membership applaud the UK government's ambitious intention to integrate greenhouse gas removals (GGRs) into the UK Emissions Trading Scheme (ETS) before 2030. Overall we consider the design offered by the UK ETS Authority ("the Authority") to be well and intelligently considered, and we would like to offer the following comments in response to the questions listed in the consultation:

- Policy design. Overall we agree with the Authority's principles for policy design, and with the Authority's proposed Option 2 for maintaining the gross cap for initial integration of GGRs with the UK ETS. We recommend taking a "wait and see" attitude with respect to when and how to transition to Option 3 – based on experience and learnings from the initial years of integration, both in terms of ETS market function as well as impacts on the larger GGR market, both voluntary and other ETS's. (*Questions 1 and 2.*)

- Sub-mandate. A key objective potentially missing from the overall policy design is incentivizing the near-term deployment of GGRs – which integration of GGRs into the UK ETS will not achieve in itself. In an effort to address this important goal, we favor a new allowance type to differentiate GGRs from the existing UK Allowances (UKAs). We further encourage the Authority to consider a "sub-mandate" as the mechanism to integrate GGRs in the UK ETS. Such a sub-mandate would stipulate that [5%] of total allowances in year 1 of integration be GGRs, and increase ratably over time, reaching 100% in advance of the UK's target net zero date (currently 2050). (*Questions 3 and 8.*)

➢ GGR "Clearinghouse." Because of the price differential between UKAs and GGRs, and in order to provide UK GGR project developers with more predictable multi-year offtake demand that will make initial projects "bankable," we encourage the Authority to act in the initial years of GGR integration as an intermediary "clearinghouse" that purchases GGRs from suppliers and acts as the seller of those allowances to emitters in the UK ETS. In the long term, with a mature market, GGR suppliers will be able to sell GGRs directly (as UKAs are currently transacted) but in the initial years of integration we suggest that greater intervention will be needed on the part of the Authority. Additionally, it is likely that the Authority will need to provide some level of price support for GGRs in the initial years of integration, which can be facilitated via this clearinghouse function. This requirement would diminish over time, as GGRs come down the cost curve, and as the sub-mandate increases to require that emitters purchase a growing percentage of GGRs to compensate for their residual emissions. We would recommend that the Authority commit to operating this clearinghouse at least through 2035, with the intention to evaluate the need to continue this function through 2040 or beyond. (*Questions 5 and 11.*)

➢ Tech neutrality. We encourage the Authority to take a tech-neutral approach to determining which types of GGR are to be transacted in the UK ETS. The science and techno-economics are clear that meeting the goals of the Paris Agreement will require a full portfolio of GGR solutions, including biomass carbon removal and storage (BiCRS); direct air capture (DAC); marine carbon dioxide removal (mCDR); mineralization based approaches; and potentially as yet undeveloped GGR methods. It is critical that quality standards for the UK ETS (and other GGR markets) be criteria-based, and not pick or enumerate individual winners, in order to let the full range of GGR solutions innovate and compete to deliver the highest climate impact, at the lowest cost and with the most co-benefits. For more information on the importance of tech neutrality please see the CO2BC's May 2023 Defining CDR Issue Brief.

➢ Interoperability. We applaud the Authority's commitment to high quality standards and methodologies, and we encourage the Authority to engage and align with counterparts in the European Union (EU) as well as with the United States (US) Department of Energy (DOE), United Nations Framework Convention on Climate Change (UNFCCC), and other key national and multilateral governing bodies. To meet Paris Agreement targets will require globally interoperable carbon markets which are not subject to a patchwork of rules, regulations, standards, and methodologies. To the same point, while the Authority's intention to limit UK ETS market participation to UK GGR projects in the early years of integration, the CO2BC encourages the Authority to widen geographical eligibility as soon as practicable. It will be particularly important for compliance markets to support projects in the Global South, both because a number of GGR approaches may be most effectively deployed in those geographies, as well as to deliver the economic benefits of the development of GGR equitably to those populations. (*Question 12.*)

➢ Timing. Delivering the scale of GGRs necessary to meet Paris Agreement goals will require rapid and massive policy intervention from world governments in every geography. We applaud the UK government's continued climate leadership, and encourage the Authority to continue to strive to integrate GGRs in the UK ETS by 2028. (*Question 34.*)

We would be pleased to discuss these points further with you if additional information or clarification would be helpful. Thank you again for the UK government's continued climate leadership, and ambitious plans to integrate GGRs in the UK ETS. We very much appreciate the important work that you do, and the opportunity to submit this input for your consideration.

Sincerely,

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