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The UK Emissions Trading Scheme

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Contents

The Four administrations announced in June 2020 that they would be introducing a UK Emissions Trading Scheme (UK ETS) to replace the EU Emissions Trading Scheme (EU ETS) after the UK left the EU. This was following a consultation and recommendations from the Climate Change Committee.

The UK government and the devolved administrations collectively constitute the UK ETS Authority to oversee the UK ETS.[1] The UK ETS, a cap and trade emissions scheme, is of similar design and has similar aims to the EU ETS. However, it will have a 5% reduction in the emissions cap that would have been set under that scheme. In addition, the aim is to align it with the UK 2050 net zero target by 2024 at the latest. Further details of the UK ETS were provided in the Industrial Decarbonisation Strategy published in March 2021. The Government also announced the first auction of allowances would take place in May 2021.

The UK and EU Trade and Cooperation Agreement committed both parties to explore options for linking their schemes but does not go further.

[1] Gov.uk, Participating in the UK ETS [website visited 4 May 2021]

1. The UK in the EU ETS

The EU ETS is the largest multi-country, multi-sector greenhouse gas emissions trading system in the world covering more than 11,000 power stations and industrial plants across EU Member states. Around 1,000 of those were in the UK until it left the EU and the EU ETS on 31 December 2020, after the end of the Brexit transition period.[2]

The EU ETS is a mandatory emissions cap-and-trade scheme. It sets an EU-wide cap on the total amount of greenhouse gas emissions from energy intensive sectors including power stations and industrial plants. The cap decreases over time to reduce overall emissions.[3]

The EU ETS now also includes airlines operating between countries covered byt the EU ETS, via a separate cap. Approximately 140 UK-administered aircraft operators take part in the EU ETS.[4]

The EU ETS was launched in 2005 and has since undergone a number of reforms. Under the scheme, companies either receive EU allowances (EUAs) free or purchase them during auctions of allowances issued by Governments.[5] Surplus allowances can also be traded on the open carbon market. The number of allowances held by any company that falls under the scheme at the end of an EU ETS year must be equal to, or more than, the total volume of its emissions, or they are fined.[6]

As a result of the low allowance prices the EU introduced several measures over time to reduce allowances, including removing surplus allowances from the market. The UK also responded to the issue of the low cost of EUAs by introducing the Carbon Price Floor (or CPF) in 2013. This was a UK-only carbon tax which supplemented the price of EUAs. The CPF increased the price of carbon for UK participants, by setting a minimum price, and helped to drive coal almost completely out of the UK energy mix.[7] Revenue from both the EU ETS auctions and the CPF were retained by HM Treasury. There is no equivalent EU-wide floor price for EUA auctions.

In Phase III (2013-2020), power stations purchased all their allowances whereas other industries still received some of their EUAs via free allocation. Both sectors were also able to buy international credits from emission-saving projects around the world.[8]

The UK participated until the end of Phase III, which aimed for an overall emissions reduction of 21% compared to 2005 emissions for power stations and industrial plants. Phase IV of the EU ETS runs from 2021-2030, without UK participation. Under this, sectors covered by the EU ETS are required to reduce their emissions by 43% compared to 2005 levels. To increase emissions cuts, the overall number of emission allowances will be reduced by 2.2% a year from 2021 onwards, compared to the previous 1.74% annual reduction. The amount of surplus allowances that will be held in reserve will also be significantly reduced after 2023.

2 The greenhouse gases covered by EU ETS are carbon dioxide (CO_2), nitrous oxide (N_2O) and perfluorocarbons (PFCs).
3 European Commission, Climate Action, 'Emissions cap and allowances', [accessed: 4 May 2021]
4 Gov.uk, Meeting climate change requirements if there's no Brexit deal, 12 October 2018
5 Each allowance gives the holder the right to emit one tonne of carbon dioxide or the equivalent of nitrous oxide and perfluorocarbons.
6 European Commission, Climate Action, 'The EU Trading System (EU ETS)', [accessed: 4 May 2021]
7 BEIS, Coal Generation In Great Britain The pathway to a low-carbon future: consultation document, November 2016
8 European Commission, Climate Action, 'Free allocation', [accessed: 4 May 2021]

Further details of how the EU ETS works can be found on the EU Commission page and BEIS page on the EU ETS. Carbon Brief has also published a detailed Q&A on the EU ETS.

2. Options for carbon pricing after Brexit

The Climate Change Committee (CCC) published a letter to Government in August 2019 following a request from the Government on its recommendations for the approach to carbon pricing after Brexit. It made three key recommendations:

1. The Government should not rely on carbon pricing alone. Whilst carbon pricing is essential it needs to be used as part of a suite of policy instruments, as confirmed by real-world experience internationally.
2. We agree with the Government's preference for a linked UK-EU ETS in the case of EU exit. Should a linked scheme prove not to be possible, we will offer further recommendations.
3. We recommend that the cap of the linked UK ETS be set based on the cost-effective path to the UK's new net-zero target. We will provide that trajectory in our advice on the sixth carbon budget (covering 2033-2037), which is due in 2020.[9]

The CCC examined three options: a linked scheme, a standalone scheme and a carbon tax. The Annex to the letter set out its views on all of these and of continuing in the EU ETS:

- **Linking a UK ETS to the EU ETS** is the Government's current preference for a scheme:

  This would offer access to a liquid market in emissions allowances, incentivising decarbonisation at lowest cost across Europe. The EU's Market Stability Reserve is likely to enable price visibility. Additionally, if there were common emissions trading arrangements with a large (and geographically close) trading partner this would reduce the risk of carbon leakage.

  However, unless and until the EU adopts a net-zero target and amends the EU ETS, the scheme is less aligned to the UK's net-zero target, implying a greater role for supplementary policies in the UK. Additionally, under this scheme it is likely that the UK will need to mirror the EU ETS scheme as closely as possible. Therefore there may be limited room for expanding the sectoral coverage of any scheme in the near term, and the UK may have limited input on governance arrangements.

- In case a linking agreement with the EU cannot be reached, **a standalone UK ETS** could be an option:

  A standalone UK ETS may offer more policy autonomy than a linked ETS, and the opportunity to align the scheme more directly to the UK's current emissions, net-zero ambition and directly to carbon budgets.

  However, the scheme risks low liquidity in the long-term unless sectoral coverage is expanded. The system would require robust rules and governance around price or quantity of permits to ensure that a sensible price prevails, particularly given likely volatility in the early years of a new scheme. Furthermore, expansion of a UK scheme could impact the possibility of securing linking agreements to other schemes, as experience suggests linking of differentiated schemes can be a complex and lengthy process.

  •Implementation of a UK **carbon tax** is the Government's fall back position in the case of leaving the EU without a deal:

  – A carbon tax offers less complexity than trading schemes, and lower administrative costs potentially expanding the range of actors and sectors to which it can be applied

[9] CCC, Annex to the Letter to the Government on the Future of Carbon Pricing, 7 August 2019

> in the near-term. A strong and rising tax that offers stability and visibility will give greater price certainty than an emissions trading scheme, though less certainty over the quantity of emissions.
>
> – However, experience with the Carbon Price Support and Fuel Duty Escalator suggests that effective governance arrangements around a carbon tax would be required in order to ensure price visibility. Additionally, as taxes do not set a limit on quantity, a greater role may be required of other policy instruments if a tax under delivers.
>
> •Remaining a member of the **EU ETS** would maintain current arrangements.
>
> We agree with the Government's preference for a linked UK-EU ETS in the case of UK exit. This maintains key benefits of membership of the EU scheme, most notably access to a wider market and addressing competitiveness issues by maintaining a level playing field across the EU.[10]

In addition to its recommendation to Government, the CCC also published a report by VIVID economics on the Future of Carbon Pricing in the UK which provides more detailed analysis of each option.

3. The UK ETS

Throughout the Brexit negotiations both the UK and EU had expressed a preference for a linked ETS (for further details of the negotiations and how they addressed climate change more broadly see the Commons Briefing Paper Brexit: Energy and Climate Change) .

The Government considered the options of a carbon tax or a UK ETS scheme after the transition ends. As part of this, in May 2019, the UK Government and the devolved Administrations launched a consultation on The future of UK carbon pricing. [11] The consultation set out a number of options. It also identified the establishment of a UK national emissions trading system (UK ETS) linked to the EU ETS following the end of Phase III as the preferred option of the UK Government and the devolved Administrations. This was also the CCC's preferred option, as set out above.

3.1 Decision to implement a UK ETS

The consultation was followed by an announcement by the four Administrations on 1 June 2020, in the consultation response, that Administrations would establish a UK ETS and be open to a link with the EU ETS:

> We intend to establish a UK Emissions Trading System with Phase I running from 2021- 2030, which could operate as either a linked or standalone system. As stated in 'The UK's Approach to Negotiations' the UK would be open to considering a link between any future UK Emissions Trading System (ETS) and the EU ETS (as Switzerland has done with its ETS), if it suited both sides' interests. As announced at Budget 2020, the UK Government will publish a consultation later this year on the design of a Carbon Emission Tax as an alternative to a UK ETS, to ensure a carbon price remains in place in all scenarios.[12]

The consultation response also set out the Government's intention to set a 5% tighter cap for UK emissions than was set out in Phase IV of the EU ETS:

10 CCC, Annex to the Letter to the Government on the Future of Carbon Pricing, 7 August 2019,
11 Gov.uk consultation, The future of UK carbon pricing, 21 May 2019
12 The future of UK carbon pricing UK: Government and Devolved Administrations' response, June 2020

> In light of the UK's commitment to reaching net-zero emissions by 2050, the UK ETS will show greater climate ambition from the start. As such, the cap will initially be set 5% below the UK's notional share of the EU ETS cap for Phase IV of the EU ETS.[13]

Unlike the EU ETS, the Government proposed setting an auction reserve price for the UK ETS. This would be £15 "to ensure a minimum level of ambition and price continuity". This was increased to £22 when the scheme was launched (see section 4 below).[14] In addition, international credits would "not be permitted at this time".[15]

An Impact Assessment covering the UK ETS operation from 2021-2024 was published by BEIS, alongside the consultation response in June 2020.[16]

The main conclusions of the assessment for introducing a UK ETS, as opposed to remaining in the EU ETS, were of an overall benefit to society, higher revenue to Government, and potentially higher costs to business (although with a wide range of variables that could affect this):

> 122. Overall, the analysis in this IA suggests that a standalone UK ETS design, as set out in the government response, could deliver a net benefit to society in its initial years, compared with the counterfactual of staying in the EU ETS. The analysis suggests a positive net present value (NPV) to society.
>
> 123. The main benefits of the UK ETS scenario, compared with the counterfactual, are the higher carbon benefit of additional abatement and the higher revenue that the government will receive due to higher expected carbon values (partly offset by lower estimated number of allowances purchased). There are also non-monetised benefits, such as an improvement in air quality and switching to a less carbon-intensive energy supply.
>
> 124. The main costs of the UK ETS scenario, compared with the counterfactual, are the additional admin costs for the government in setting up the UK ETS and one-off cost to businesses of complying with the new scheme, and additional costs to system participants due to them facing higher expected carbon values under the UK ETS scenario.
>
> 125. Our analysis shows that, despite an overall benefit to society of reduced emissions, the costs to businesses of delivering these emissions reductions are higher in the UK ETS scenario than the counterfactual.[17]

However, these conclusions were caveated with the warning that "the analysis are largely driven by our assumptions for how UK participants will behave in the early years, over which there is significant uncertainty".[18] The net cost to business was estimated to be between £5m to £11m a year, in 2019 prices.

The Government implemented the necessary legislation for the creation of a UK ETS through regulation in the *Finance Act 2020* . The *Greenhouse Gas Emissions Trading Scheme Order* 2020 was made on 11 November 2020.

Energy White Paper

The Government published the Energy White Paper: Powering our Net Zero future on 14 December 2020, confirming the decision to go forward with a UK ETS scheme. The paper set out proposals that go further than EU ETS scheme, with the UK ETS scheme expanding

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13 The future of UK carbon pricing UK: Government and Devolved Administrations' response, June 2020
14 The existing carbon floor price within the EU ETS was set as £18.08 until 2021
15 The future of UK carbon pricing UK: Government and Devolved Administrations' response, June 2020
16 The assessment considers the initial years of the UK ETS, based on the design set out in the government response: a cap on emissions set based on a 5% reduction on our notional share of the EU ETS, free allocation based on our notional share of the EU ETS, and a transitional auction reserve price starting at £15 per allowance.
17 BEIS, The Future of UK Carbon Pricing Impact Assessment, 1 June 2020
18 BEIS, The Future of UK Carbon Pricing Impact Assessment, 1 June 2020

to cover wider parts of the economy and aiming for net-zero emissions, as part of reaching the UK's net zero target for 2050. The accompanying Written Statement summarised the Government's approach as follows:

> To support businesses to decarbonise the Government is today confirming a new and ambitious UK Emissions Trading Scheme (UK ETS), will be in place from 1 January 2021. This new UK carbon market will be the foundation on which the UK achieves net zero emissions cost effectively.
>
> The scheme has been designed by the UK Government jointly with the Scottish Government, Welsh Government and Northern Ireland Executive and is a crucial step towards net zero, and will bring benefits for business, trade, and innovation.
>
> The UK ETS will replace the UK's participation in the EU Emissions Trading System (EU ETS) and will be a market-based measure which will provide continuity for participants. The UK ETS will initially apply to power stations, energy-intensive industries, and aviation.
>
> Our UK ETS is more ambitious than the EU system it replaces - from day one the cap on emissions allowed within the scheme will be reduced by 5 per cent, and we will consult in due course on aligning it with net zero.
>
> The UK ETS will also allow us to expand carbon pricing across the economy and encourage innovation in emerging decarbonisation technologies. We have committed to exploring expanding the UK ETS to the two thirds of uncovered emissions, and will set out our aspirations to continue to lead the world on carbon pricing in the run up to COP26. This will also include how the UK ETS could incentivise the deployment of greenhouse gas removal technologies. In addition to this, the UK is open to linking the UK ETS internationally in principle and we are considering a range of options, but no decision on our preferred linking partners has yet been made.[19]

Industrial Decarbonisation Strategy

The Government published its Industrial Decarbonisation Strategy on 17 March 2021. The summary set out the role the UK ETS would play in the UK achieving its 2050 Net Zero target:

> An ambitious UK Emissions Trading Scheme (UK ETS) cap will send a clear signal to the market that this government is committed to reaching net zero. While risks associated with low carbon investments remain high, or if the carbon price is low, targeted government funding mechanisms will pull through investment from the private sector for the deployment of technologies. A reformed approach to mitigating carbon leakage, adapting over time to reflect a tighter ETS cap alongside increased deployment of low carbon technologies, will ensure our global and domestic climate goals are met, while supporting the growth of low carbon manufacturing in the UK[20]

The Strategy also set out further details on the intention to align the EU ETS with the Net Zero target by 2024, and how the scheme will fit in with other UK carbon pricing mechanisms; together with plans to examine options on expanding it to cover further sectors:

> **Action 2.1: Use carbon pricing as a tool to send a clear market signal, providing certainty over our net zero ambition for industrial sectors**
>
> Carbon pricing is a cost-effective and technology-neutral tool for getting industry to take account of its emissions in business decisions. Pricing policies like the Carbon Price Support and EU Emissions Trading System (EU ETS) have helped drive a switch from coal to gas generation in the power sector, and the UK ETS will be a key part of the framework to reduce emissions from industry.
>
> In January 2021, we established a UK ETS to replace the UK's participation in the EU ETS. To reflect our ambition on carbon pricing, the cap on allowances – which

19 BEIS, Energy white paper: Powering our net zero future, 14 December 2020
20 BEIS, Industrial Decarbonisation Strategy, 17 March 2021 p28

> represents the overall limit of emissions allowed in the system – will be aligned with the UK's net zero ambition by January 2024. In 2021, we will carry out a review of the UK ETS. This will include consulting on a net zero consistent emissions cap; reviewing the long-term role of free allowances; exploring expanding the scope of the scheme to cover more sectors of the economy and linking with other schemes internationally; and considering the case for a supply adjustment mechanism.
>
> Some industrial businesses, or facilities within an installation, will remain out of scope of the UK ETS at this time. For those businesses, we expect the Climate Change Levy (CCL) and action agreed through the Climate Change Agreements (CCA) scheme to act as a driver for energy efficiency improvements and decarbonisation. The CCA scheme has recently been extended by two years, providing significantly reduced CCL rates until March 2025 for participants who meet their targets. We intend to undertake further assessment of the purpose and targeting of a long-term scheme following the extension, informed by the responses to last year's consultation.[21]

In addition, the Government set out its intention to examine options on how the UK ETS could "be developed to incentivise deployment of negative emissions through greenhouse gas removal (GGR).[22]

The Strategy also provided estimates of industry spending on the UK ETS of £390m per year (based on previous EU ETS costs for 2019) and a cost to Government of £1.05 billion per year (based on 2019) of free allowances for energy-intensive industries. Free allowances are the "main policy instrument through which carbon leakage risk and competitiveness impacts are addressed under the UK ETS".[23]

Commentary

The BEIS Select Committee held two evidence sessions on the UK ETS framework in October and November 2020, before the final announcement to go ahead with the scheme.

Ember, a climate change and energy think tank, published an article in December 2020 calling for the minimum allowance price to be set at £22 at least, as this was the average EU ETS allowance price in the last two years.

The Energy and Climate Information Unit, a climate think tank, published detailed analysis Brexit: moving from the EU Emissions Trading Scheme (ETS) to the UK-only ETS, following the announcement of a UK ETS being introduced.

Judicial review of UK ETS cap

Judicial review proceedings where initiated in 2020 following the publication of the consultation response and impact assessment, with the case to be heard on 14 April 2021. The argument, as set out by Leigh Day solicitors, is that the emissions cap for 2021 does not comply with existing legislation or targets:

> Represented by Leigh Day solicitors, as well as David Wolfe QC at Matrix chambers and Ben Mitchell at 11KBW chambers, Georgia argues that in setting up the UK Emissions Trading Scheme (UK ETS), the governments did not consider the short and medium-term aspects of the UK's obligations under the Paris Agreement which requires substantial and immediate emission reductions, not just net zero by 2050.
>
> Georgia's case is that the Climate Change Act 2008 grants the power to set up the UK ETS to limit greenhouse gas emissions, not to set an emissions cap to facilitate a smoother withdrawal from the EU.

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21 BEIS, Industrial Decarbonisation Strategy, 17 March 2021 p29
22 BEIS, Industrial Decarbonisation Strategy, 17 March 2021 p33
23 BEIS, Industrial Decarbonisation Strategy, 17 March 2021 p108

> The cap on the UK ETS in its first year will be 156 mtCO2e, substantially higher than the projected 'business-as-usual' emissions of 126-131 mtCO2e for 2021.[24]

The BEIS Impact Assessment states the following on the cap:

> In 2021 this notional minus 5% cap level equates to around 156 MtCO2e (based on the assumed scope of the policy set out earlier). This is higher than our BAU emissions projections in that year (ranging from around 126 to 131 MtCO2e). However, there is significant uncertainty over these projections and market participant behaviour in this initial period could lead to significant demand for allowances above BAU emissions. This in turn means there is uncertainty over the level of demand for allowances in these years relative to supply, and therefore risk of extreme high or low prices.
>
> Given these uncertainties we therefore believe it is appropriate to maintain sufficient headroom of allowances for a time-limited period at the start of the new system. However we believe that initially tightening the cap by 5% provides an appropriate balance between climate ambition in the context of the UK's net zero commitment and businesses competitiveness, which may be at risk due to early years' market behaviour.

It Impact Assessment also refers to the policy objective of establishing links with the EU ETS scheme:

> We assess the design of the UK ETS set out in the accompanying government response document, in its initial years of operation (from 2021 to 2024). This system is intended to fulfil the policy objectives outlined above as a standalone system, while also providing a platform to negotiate a linked system with the EU ETS, if it is in the best interests of both parties.

The case also challenges the decision to exclude energy from waste from the UK ETS, arguing that their emissions are "equivalent to approximately 5.4 per cent of the entire volume of greenhouse gas emissions covered by the UK Emissions Trading Scheme (UK ETS)."

4. UK ETS implementation

The Government published detailed guidance on participation in the UK ETS on 10 March 2021. This includes an implementation timetable, details of free allocations and, as for the EU ETS, exemptions for hospitals and small emitters. It also sets out that participants in the EU Emissions Trading System (EU ETS) must still comply with their obligations under that system for the 2020 compliance year which ended April 2021, provides further specific guidance on this. The guidance sets the UK ETS Auction Reserve Price (ARP) at £22, which is the minimum to be paid at auction, rather than the £15 announced in the consultation response.

As a comparison, EUA prices have risen sharply since the end of 2020 and were over €40 in April 2010 (around £35).[25] This is a historic high; EUAs cost less than €10 per tonne in 2011 although by 2018 the price started to rise and reached €28 in 2019.[26]

The Government announced on 17 December 2020 that it had appointed International Exchange Inc (ICE) to host UK emissions auctions for the UK Emissions Trading Scheme. It is also the host for the EU ETS. This was followed on 26 February 2021 by an announcement that the first auction for UK ETS allowances would be on 19 May 2021:

24 Leigh Day, Judicial review hearing over carbon emissions levels permitted under UK's new emissions trading scheme, 12 April 2021
25 ICE, ICE EUA futures [website visited 13 April 2021]
26 CarbonBrief, Q&A will the reformed EU ETS raise carbon prices? 6 December 2017 [accessed 3 September 2018]

> "The publication of our ambitious UK Emissions Trading Scheme's auction calendar is another crucial step towards our target of eliminating our contribution to climate change by 2050," said UK Energy Minister Anne-Marie Trevelyan. "Our scheme is even more ambitious than the EU system it replaces and today's publication will give businesses and operators clarity over this year's supply of emissions allowances, enabling them to plan ahead, build back greener and better prepare for the transition to a low-carbon economy".
>
> "We are excited about the addition of a new carbon market and believe the UK ETS will be pivotal in supporting the climate ambitions of the four governments of the UK", said Gordon Bennett, Managing Director of Utility Markets at ICE. "UK emissions have fallen 41% since 1990, more than any other major developed country and this has been driven by the UK's leadership in promoting market-based mechanisms to support climate goals. There is an enormous opportunity for cap and trade programs to take an even greater role in supporting the goals of the Paris Agreement, whether it is increasing their sector coverage or encouraging international linking.[27]

Free allocation review

On 17 March 2021, BEIS launched a call for evidence as part of its UK ETS free allocation review, including input on:

- key questions the review should consider, and the problems we should be looking at
- how we can make free allocations fairer and more targeted when reducing in line with the reduction in the overall cap
- examples and evidence of carbon leakage to help inform future free allocation policy.[28]

5. Linking to the EU ETS

The UK -EU Trade and Cooperation Agreement (TCA) refers to carbon pricing in the section dealing with the level playing field, under *Part 7.3: Carbon pricing*. This requires both the UK and EU to have an effective system of carbon pricing in place as of 1 January 2021 covering emissions from electricity generation, heat generation, industry and aviation. The TCA also commits to exploring options to link both schemes:

> The Parties shall cooperate on carbon pricing. They shall give serious consideration to linking their respective carbon pricing systems in a way that preserves the integrity of these systems and provides for the possibility to increase their effectiveness.[29]

The Industrial Decarbonisation Strategy does mention linking emissions trading systems under a heading on supporting industrial decarbonisation through trade policy, but does not mention the EU ETS specifically:

> Supporting greater collaboration on decarbonisation, such as exploring opportunities for practical cooperation on carbon pricing, including through possible linking of emissions trading systems, and committing to increased joint information exchanges and cooperative working in international forums.[30]

In June 2020 the industry trade body, Energy UK, welcomed the Government's aim of a linked UK ETS and the introduction of an auction reserve price:

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27 ICE, ICE publishes auction calendar for UK's new Emissions Trading Scheme, 26 February 2021
28 EUAs were at EUR 21.06 on 31 August 2018 and EUR 28.99 on 26 July 2019 according to ICE EUA futures via Sandbag and Quandl.
29 UK/EU Trade and Cooperation Agreement, 24 December 2020
30 BEIS, Industrial Decarbonisation Strategy, 17 March 2021

> We strongly support Government establishing a UK ETS linked to the EU ETS and back its efforts to agree this approach with the EU. This is the best long-term carbon pricing mechanism to continue driving decarbonisation at the lowest cost to consumers, which will allow us to benefit from the liquidity of the world's largest carbon market and help us meet our net zero target by 2050.
>
> In the event that a linking agreement cannot be secured in time for 1 January 2021, we welcome Government's decision to introduce stability measures such as an Auction Reserve Price (ARP) to protect a newly-established stand-alone UK ETS from market shocks and volatility due to its smaller size [31]

There is a precedent for a linked ETSs. Switzerland is not a participant in the EU ETS but in November 2017 it signed an agreement to link its emissions trading system with the EU ETS.[32] The agreement entered into force on 1 January 2020. Linking a UK ETS with the EU ETS would require agreement between both parties and be subject to negotiation.

The E3G report on Climate change in the Brexit negotiations , published May 2020, noted that although both the UK and EU seem to have significant alignment in their approach, linking trading systems can take years of negotiation:

> However, although many of the high-level objectives have significant alignment the pathway to achieving this is far from automatic. The experience of linking the Swiss emissions trading system to the EU-ETS required years of negotiation to work through all the detail. It is therefore vital that substantive negotiations on these issues begin as soon as possible.[33]

Overall, the process to link the Swiss ETS to the EU ETS took 10 years, partly because it was part of wider negotiations on trade.[34]

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31 Energy UK, Energy UK responds to UK Government's ETS proposal, 2 June 2020
32 EU, EU and Switzerland sign agreement to link emissions trading systems, 23 November 2017
33 E3G Briefing Paper, Climate change in the Brexit negotiations, Shane Tomlinson, May 2020 [accessed 16 June 2020]
34 Council of the EU press release, Linking of Switzerland to the EU emissions trading system - entry into force on 1 January 2020, 9 December 2019