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CC: Gillian Martin MSP, Acting Cabinet Secretary for Net Zero and Energy (Scottish Government); Huw Irranca-Davies MS, Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs (Welsh Government); Andrew Muir MLA, Minister for Agriculture, Environment and Rural Affairs (Northern Ireland Executive)

9 July 2025

Dear Minister,

We are writing in response to your request for our advice on your UK Emissions Trading Scheme (UK ETS) markets policy review.

The Committee welcomes the UK Government and EU commitment to work towards linking their ETSs. We understand that the Authority still wants advice on these requests, which precede that announcement. In the first instance, the UK ETS Authority should work towards market stabilisation which best aligns the UK and EU schemes, to maximise the benefits of linking. However, the right answer will inevitably depend on the terms of linking, which are not yet clear. In the meantime, we are setting out some broad principles. But these should not stand in the way of mechanisms that might be more consistent with the final terms.

The policy elements of the Auction Reserve Price (ARP), the Cost Containment Mechanism (CCM), and a Supply Adjustment Mechanism (SAM), if designed so that they work together effectively, could represent a good policy design to maintain stable and effective market conditions. That will help incentivise decarbonisation in the traded sectors. The Committee has several specific recommendations for how these policy elements can achieve this outcome.

- The ARP is a safety mechanism for the UK ETS to safeguard against price falls undermining its effectiveness if (for whatever reason) there are ever too many allowances in circulation. It is important, therefore, that the price be set at a level that is sufficiently close to the expected cost of decarbonisation to have this effect.
- The ARP should be increased and be linked to the expected cost of the marginal abatement action outlined in the Carbon Budget Delivery Plan for all emitters covered by the UK ETS. As the measures required during each time period will change, this price should not be fixed but should evolve in line with the expected evolution of this.

- When designing the ARP, CCM and SAM, the UK ETS Authority should seek to create a degree of 'bounded certainty' on the ETS price pathway: a price range within which future ETS prices can be expected to fall, whilst maintaining market-setting for the exact price at any time. That would help to build the confidence required for businesses to invest in low-carbon technologies, while still maintaining the efficiency benefits of a market mechanism given technological and other uncertainties.

The flexibility mechanisms should be broadly consistent with that of the EU ETS.

We would be happy to meet to discuss further.

Yours sincerely,



Professor Piers Forster
Interim Chair, Climate Change Committee