

Chris Gould

Energy Transition Lead

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

Fuels Industry UK

1 Castle Lane
London
SW1E 6DR

Direct telephone: 020 7269 7611

Switchboard: 020 7269 7600

Email: chris.gould@fuelsindustryuk.org

15th August 2024

By email to ukets.consultationresponses@energysecurity.gov.uk

Response to consultation on Integrating Greenhouse Gas Removals in the UK ETS

Dear Sir or Madam

Fuels Industry UK represents the eight main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, Petrolneos, Phillips 66, Prax Refining, Shell, and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for a third of total primary UK energy (based on the Department of Energy Security and Net Zero Digest of UK Energy Statistics 2022).

The refining and downstream oil sector is vital in supporting UK economic activity. It provides a secure supply of affordable energy for road and rail transport, aviation, and marine applications, as well as for commercial and domestic heating. It also supplies base fluids for use in lubricants, bitumen for use in road surfacing, and graphite for use in electric vehicle batteries and as electrodes in steel and aluminium manufacture.

The sector is poised to play a central role in enabling a Net Zero future by leading deployment of at-scale decarbonisation technologies to reduce our own emissions and those of others. It also brings expertise in delivery of large scale, complex and capital-intensive projects. Maintaining and accelerating such investment to support the Net Zero transition means the UK needs to be a globally competitive place to invest. However, the UK is now at risk of being left behind, due to domestic disadvantages and international incentives.

The UK has higher carbon and energy costs than most competitor countries, poorer incentives to develop low carbon technologies, and a policy environment that does not offer sufficient investor certainty. Consequently, the risks of carbon leakage and deindustrialisation are increasing steadily.

Fuels Industry UK believes strongly that the UK government should seek urgently to mitigate against future carbon leakage risk, acting on domestic policy measures alongside international and multilateral action. This includes a properly designed and effective UK Emissions Trading Scheme (ETS) that allows UK companies to compete with international competition, now and in the future. With that in mind, future policy should include the following:

- Certainty for significant investment by UK industry in the face of an evolving UK ETS with a potential number of concurrent changes, as discussed in the recent consultations on free allocations, future market policy and Cross Border Adjustment Mechanisms (CBAM).
- The implementation of a well-designed CBAM mechanism for sectors exposed to carbon leakage to prevent offshoring of production emissions.
- The integration of Greenhouse Gas Removals (GGRs) into the UK ETS in a manner which allows UK companies to continue to compete on an international basis.

Fuels Industry UK welcomes the opportunity to respond to the consultation on the integration of GGRs into the UK ETS. Our responses to the questions posed in the consultation document are given in Attachment 1.

Yours sincerely



Chris Gould

Energy Transition Lead, Fuels Industry UK

cc:	Michael Duggan	Department for Energy Security and Net Zero
	Simon Stoddart	Department for Energy Security and Net Zero
	Emilio Marin	Department for Energy Security and Net Zero

Attachment 1: Fuels Industry UK Response

1. Do you agree with the Authority's principles for policy design?

Fuels Industry UK agrees that the principles for policy design outlined in the consultation appear appropriate to support development of GGR deployment.

In particular we agree with the fiscal impact design principle, in that integration should be delivered in a way that maximises value for money for the taxpayer, considering the overarching objective of creating a self-sustaining market for GGRs and reducing government support over time.

In addition to the principles outlined, we believe an additional principle – that of consistency with international approaches – should be considered. This is important to ensure that support of UK GGR deployment and interaction with the UK ETS scheme avoids disadvantaging UK ETS installations, such that UK companies can compete on an international basis. UK policy must always consider industries ability to compete internationally and not just focus on territorial emissions.

In the absence of a UK carbon border adjustment mechanism (CBAM) for sectors at high risk of carbon leakage, free allowance allocation under the UK ETS remains critical to support international competitiveness. We do not believe it is possible to maintain an industrial presence in the UK whilst having a "strong price signal" (the 2nd principle in the table on Page 11 of the consultation document) without having robust carbon leakage protection provided by a well-designed CBAM mechanism that has been effectively implemented.

There should be regular reviews of the principles to ensure that they remain fit for purpose and incentivise ongoing development of the industry.

2. Do you agree the Authority should maintain the gross cap for initial integration of GGRs in the UK ETS (Option 2)? Please explain your answer.

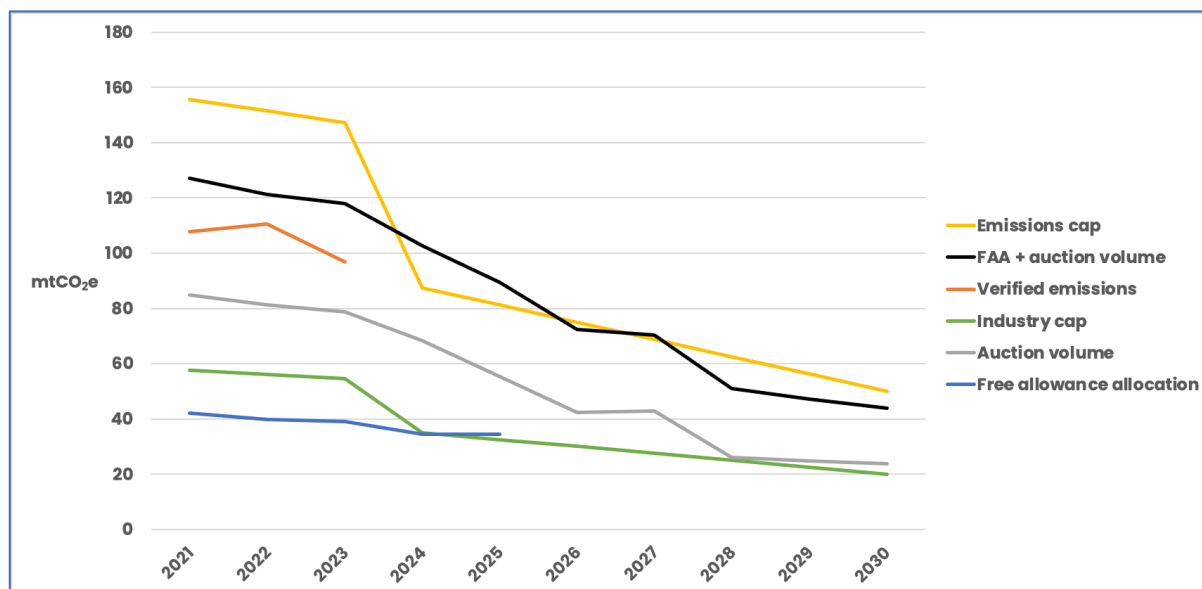
Fuels Industry UK **does not agree** with the "minded to" position of Option 2.

Following alignment of the UK ETS cap with the Net Zero trajectory in December 2022¹, there has been a steep reduction in the number of allowances available for auction and for free allocation to sectors exposed to high levels of carbon leakage risk (Diagram 1), despite smoothing of the transition through making available previously unallocated allowances. The proposal under Option 2 to allocate allowances available for auction undermines the position set out in the policy paper "The long-term pathway for the UK Emissions Trading Scheme" and

¹ See government [response to consultation "Developing the UK Emissions Trading Scheme"](#), July 2023 and DESNZ Policy paper, "[The long-term pathway for the UK Emissions Trading Scheme](#)", December 2023

increases the level of uncertainty regarding availability of allowances to cover emissions levels through to 2030.

Diagram 1. Availability of UK ETS allowances 2013–2030.



Data sources: UK Emissions Trading Registry, DESNZ¹

The policy announcements made in December 2023 identify the number of allowances available for auction, with the number of free allowances available set at 40% of the emissions cap. Together, when compared to the emissions reduction trajectory to end 2023, these are very close to the emissions cap, suggesting that allocation of GGR allowances as proposed under Option 2 would be ill-advised.

Although Fuels Industry UK agrees in principle that there should be some form of integration of GGRs into the ETS, this must be carefully considered and not be allowed to undermine policy announcements made in recent months. These have been clearly intended to provide a level of policy certainty, which is of critical importance for installations facing significant investment challenge to justify deep decarbonisation projects costing hundreds of millions of pounds with many having long lead times, typically 5 years or more.

Our preferred option is therefore Option 1, increasing the gross cap, at least for the initial integration phase of GGRs. We disagree with the analysis of the three options considered presented on Page 16 of the consultation document, in particular, the statement that Option 1 would lead to an “incentive to decarbonise provided by the UK ETS undermined by unconstrained allowance supply”. This fails to consider the significant GGR cost, at least in the initial deployment phase, with costs currently around £1500 per tonne based on scaling Direct Air Capture

(DAC)². Further work by the Oxford Institute for Energy Studies³ suggests these may fall slightly to 400–700 \$/tCO₂ by 2030 and 100–300 \$/tCO₂ by 2050. These costs are significantly higher than the current UK ETS allowance costs⁴ and long-term cost estimates made by previously by UK Government⁵, making it unlikely that there will be significant GGR influence unless their prices can be significantly reduced.

We also note the comment on Page 17 of the consultation document, that “an increase in the total supply of allowances via GGRs would provide UK participants with the opportunity to emit more than the limits set by the existing cap over the phase and disagree with this assertion. GGRs represent a reduction in emissions, so by allowing their use in addition to the cap **net** emissions remain the same.

Option 1 follows the fiscal impact policy design principle, allowing integration in a way that maximises value for money for the taxpayer, considering the overarching objective of creating a self-sustaining market for GGRs and reducing government support over time. It also provides the maximum support for investment in GGR technology at the scale required to provide meaningful decarbonisation in line with the UK’s planned trajectory.

As observed earlier, if Option 2 were to be implemented, this undermines the position set out in the policy paper “The long-term pathway for the UK Emissions Trading Scheme” and increases the level of uncertainty regarding availability of allowances to cover emissions levels through to 2030.

UK ETS participants can either purchase allowances at auction or via the secondary market to cover their emissions throughout the year or purchase any additional/balancing allowances required for compliance following the compliance year and prior to the surrender date of 30th April, based on their actual emissions. This post year pre surrender period covers large parts of the winter when increased market participation from gas-based power generators may be expected to meet prompt consumer demands. Under Option 2, we believe there is increased potential for auctions during this period to be oversubscribed, with increased non-compliance risks. Although the Cost Containment Mechanism could be used to mitigate against this risk, it is not currently intended for this purpose, nor sufficiently reactive over a short number of months to be effective.

² Climeworks subscription options, “[Support the scale-up of direct air capture](#)”.

³ Oxford Institute for Energy Studies, “[Scaling Direct Air Capture \(DAC\): A moonshot or the sky's the limit?](#)”, December 2023.

⁴ DESNZ, “[UK ETS: Carbon prices for use in civil penalties, 2023](#)”, November 2023.

⁵ DESNZ, “[Traded carbon values used for modelling purposes, 2023](#)”, November 2023.

As we discuss in our response to Q1, UK emitters need to compete on an international basis. There is no discussion in the consultation on how this will be achieved, and a failure to take this into account risks UK emitters becoming uncompetitive, leading to decarbonisation through deindustrialisation. We discuss these issues in detail in our response to the recent consultation “UK Emissions Trading Scheme: Free Allocation Review”⁶.

Free allowance allocation under the UK ETS currently provides critical mitigation against carbon leakage for the refining sector. The sector receives a significantly lower proportion of free allowances to other sectors exposed to lower carbon leakage risk and, as a consequence faces higher compliance costs than other energy intensive sectors.

Fuels Industry UK strongly supports introduction of a well-designed carbon border adjustment mechanism (CBAM) to address high compliance costs and loss of competitiveness against international competitors with no or significantly lower carbon costs, but this must continue to support exports and investment in UK manufacturing industries to avoid deindustrialisation. The interaction between the proposed UK CBAM and free allowance allocation under the UK ETS and with support available under the UK hydrogen and carbon capture business models must be carefully considered.

We suggest that with GGR allowances backing out auction allowances, there is likely to be a reduced income for HM Treasury due to the lower volume of auction allowances sold. Although not hypothecated, the reduced income could lead to some alternative carbon reduction support schemes such as the IETF receiving a lower level of financial support. This would mean that in practice, GGR schemes would receive more support than other schemes which may provide more effective results, and the potential impact of this needs to be carefully considered.

3. How can the UK ETS sustain demand for GGRs in the long-term, taking into account the consideration of setting a new cap (Option 3)?

There needs to be a sustainable UK industrial base, including emitters, on which to create long term demand for GGRs.

The needs of emitting companies to compete on an international level needs to be considered in the design of future schemes; the consultation does not appear to take these issues into account.

As we discuss in our response to Q1, UK emitters need to compete on an international basis. There is no discussion in the consultation on how this will be achieved, and a failure to take this into account risks UK emitters becoming

⁶ [Fuels Industry UK response to consultation “UK Emissions Trading Scheme: Free Allocation Review”](#), March 2024.

uncompetitive, leading to decarbonisation through deindustrialisation. We discuss these issues in detail in our response to the recent consultation "UK Emissions Trading Scheme: Free Allocation Review"⁶.

Free allowance allocation under the UK ETS currently provides critical mitigation against carbon leakage for the refining sector, although the sector receives a significantly lower proportion of free allowances and faces higher compliance costs than other energy intensive sectors at risk of carbon leakage.

Fuels Industry UK strongly supports introduction of a well-designed carbon border adjustment mechanism (CBAM) to address high compliance costs and loss of competitiveness against international competitors with no or significantly lower carbon costs, but this must continue to support exports and investment in UK manufacturing industries to avoid deindustrialisation. The interaction between the proposed UK CBAM and free allowance allocation under the UK ETS and with support available under the UK hydrogen and carbon capture business models must be carefully considered.

A failure to take this into account is liable to reduce demand for GGRs, against the policy objective of creating long term demand.

4. Do you agree that GGR allowances in the UK ETS should be issued ex-post (i.e. after the removal has taken place and been verified)? Please explain your answer.

We **agree** in principle that GGR allowances in the UK ETS should be issued ex-post (i.e. after the removal has taken place and been verified).

This approach significantly reduces potential fraud risk and ensures that GGR suppliers have completed the necessary checks prior to being rewarded by the appropriate allowances.

An ex-post approach is also consistent with the approach taken in other sectors such as the RTFO for transport decarbonisation, where renewable transport fuel certificates are only issued once the volume and sustainability of low carbon fuels has been appropriately verified by independent means. The use of ex-post is a simple approach for engineered solutions and credible for natural GGR schemes – where success of growth can then be seen and established. Such a scheme would also mitigate concerns of "unconstrained" supply, as GGRs would need to be appropriately demonstrated rather than assumed prior to ETS allowance awards.

The approach also aligns with the initial integration approach that GGR allowances back out UK ETS auction allowances on a one-for-one basis, without impacting the overall cap and total allowances available.

If an ex-ante approach is used, then the risk of fraud increase – this would significantly undermine confidence in the whole GGR approach. This lack of confidence makes significant purchase of GGR certificates much less likely. Ex-ante approach would seem to have considerable risks when considering natural GGR schemes, given the uncertainty of tree growth etc.

5. Does the Authority need to consider any additional measures for the UK ETS to ensure GGR operators are able to arrange offtake agreements? If yes, please provide specific details of which measures should be considered.

Fuels Industry UK does not see that the authority needs to consider any additional measures to arrange off-take agreements. These would be secured through a commercial agreement between companies which we believe would be straightforward to arrange.

Once policy certainty is established including the interaction of GGRs with the UK ETS and for the UK ETS scheme itself, then it is significantly more likely that companies will want to enter into off-take agreements.

6. Does the Authority need to consider any specific measures for smaller scale GGR operators, including smaller scale landowners if woodland is included in the scheme? If yes, please provide specific details of which measures should be considered.

Fuels Industry UK cannot comment on this question in detail.

However, there should be no favourable treatment for smaller GGR operators. We would expect a level playing field to be established for all GGR operators, regardless of scale. This would ensure that the GGR allowances can be freely traded, with equal confidence regardless of source. It also avoids unintended consequences such as operators sub-dividing their operations in order to take advantage of less onerous requirements for smaller operators.

7. Who should receive the GGR allowance? Please consider whether this would also apply for GGRs that involve multiple actors in the value chain and provide examples.

Fuels Industry UK cannot comment on this question in detail.

However, experience from other sectors with similar GHG reduction practices should be shared, for example the renewable power sector.

We would normally expect that commercial agreements between various companies in the GGR operator, such as the landowner, or technology provider, would be expected to cover the subject of GGR allowances, as these would be the main income stream for the project.

8. Should allowances from GGRs be differentiated from UKAs and, if so, how?

Fuels Industry UK **agrees** that GGR allowances should be differentiated from UKAs.

At this time, there appears to be a greater level of uncertainty regarding the performance and compliance of GGRs on a long-term basis, including a potentially higher level of fraudulent activity than “conventional” UKAs.

Differentiating GGRs allows purchasers greater clarity on the compliance risks that they are talking on, which can be adequately considered in the appropriate purchase contracts including a potentially higher risk of allowance revocation. The differentiation also allows for GGR based allowances to have a potentially greater value, due to increased (or even negative) carbon emissions.

If there is no differentiation, then purchasers may have no indication that they are potentially exposed to greater compliance risks. This risks exposing purchasers to unexpected compliance risks, or undermining confidence in the wider allowance market.

9. Do you think that differentiated GGR allowances would attract a higher price than existing emissions allowances and why? To what extent does this depend on the degree of differentiation (e.g. a generic GGR allowance versus a technology specific GGR allowance)?

Fuels Industry UK cannot comment on pricing in detail.

However, we are unclear on the reasons why emitters would be willing to pay more for a GGR allowance, which counts the same against their obligation as a UKA purchased through an auction process. However, differentiation allows for GGR based allowances to have a potentially greater value outside of the UK ETS scheme, due to increased (or even negative) carbon emissions.

10. Will differentiated GGR allowances encourage non-compliance or non-trading entities to purchase these allowances?

Fuels Industry UK has no experience on this area.

However, we note that significant speculative activity is already present in the UKA market and would see no reason why this would not extend to GGR allowances if financially attractive. There should be mechanisms in place to protect ETS installations from market distortions or constrictions created by non-compliance and non-trading organisations; in other words, a UK allowance-based market reserve.

Such speculative activity can cause market distortions, running risks that UK emitters face higher costs than international competitors making them less

competitive. These speculative risks need to be appropriately managed, for both UKAs and for GGR allowances in any event.

11. What should the Authority's role be in facilitating a route to market for allowances from GGRs?

Fuels Industry UK supports involvement of the Authority in the introduction of GGRs into the UK ETS market in provision of an auction platform and registry providing the same functionality as those provided for the UK ETS. However, we have no view on whether there should be combined or separate auctions including by different removal types.

Detailed monitoring, reporting and verification guidance will also be required, with market operation monitored carefully to avoid disruption of the UK ETS market, other unintended consequences (e.g. impacts on the CCUS and hydrogen business models) and to manage regulatory risks in the GGR market (including fraud).

12. Do you agree that allowances should only be awarded to UK-based GGRs?
We welcome views from all stakeholders including sector-specific considerations. Please explain your answer.

Fuels Industry UK cannot answer this question in detail.

However, we recognise that compliance risks may be greater for non-UK based GGRs with less visibility and confidence in the verification of GGRs.

There are also potential concerns about how the UK accepting non-UK based GGRs would work in practice; for example, the GGR may count as an emission reduction in the country of origin. Counting the GGR in the UK as well as the country of origin potentially creates a risk of double-counting emissions reductions on a global basis. This needs to be carefully considered and appropriate safeguards established to mitigate against overstating emission reductions.

Ultimately GGRs should be available on a level playing field regardless of origin, allowing reductions to take place at the lowest cost to emitters through an expanded pool of available options. There is also a risk that restricting allowances to UK only GGRs could be seen as protectionist as the market develops.

If these concerns can be overcome, then we would see no reason why allowances should only be awarded to UK-based GGRs and would encourage the Authority to work towards an expanded range of available GGR sources.

13. Do you agree with the proposed permanence framework of both a minimum storage period, a liability measure and a fungibility measure? Please explain your answer.

Fuels Industry UK **agrees** that the permanence framework is a reasonable starting point to ensure confidence in GGR allowances.

We would expect further details to be included in appropriate compliance guidance for GGR operators; for example, the methodology used to calculate end-to-end CO₂ emissions.

The framework should be regularly reviewed as the industry develops to ensure that it remains fit for purpose and that ongoing GGR compliance risks are appropriately managed.

14. What minimum storage period duration should the Authority set for GGRs entering the UK ETS? Please explain your answer.

There should be consistency in approach on storage period duration between the GGR allowance scheme and other carbon removal technologies, for example the CCUS business model.

This ensures a level playing field for all operators achieving the same objectives regardless of the technology used.

15. How should the Authority manage potential reversal events from GGRs? Please consider the liability options outlined above, whether any options exist that have not been considered, and how the potential liability options could be used together or in sequence.

Fuels Industry UK agrees that the risks outlined in the consultation are broadly in line with what we would expect.

On the issue of liability, there is no mention of GGR operators ceasing trading, or declaring some form of insolvency in the event of a large release event, which would prevent them from meeting their obligations under the GGR scheme.

With that in mind, we agree that the “buffer pool” concept could be useful in managing these risks, with the proportionality determined by the Authority using appropriate technical expertise and following discussions with the GGR operator.

We note that the consultation references that this approach is used in other sectors, such as the carbon credit registries; this would also seem appropriate under the proposed GGR policy.

As we note in our response to Q2, the impact of releases on the number of UK allowances needs to be carefully considered, to ensure that UK emitters are not

penalised, particularly for operations outside of their control. A failure to take this into account would expose UK emitters to unmanaged financial risk.

Finally, the liability options in the event of reversals must be reviewed as the GGR industry develops, particularly in the light of any future reversal events, to ensure that the actions taken are appropriate and in line with expected policy outcomes.

16. Where should the liability for any re-release of stored emissions apply if there are multiple actors in the GGR value chain?

Given that there are a number of potential GGR options available, and the nascent nature of the industry, it would seem difficult to establish a “one size fits all” approach for liability at this stage.

We agree that there should be a need for some form of liability for projects, and that this should form part of the verification process undertaken by the Authority before they issue the GGR allowances. However, the exact form of this liability may vary, and should be covered under the relevant commercial contracts. As we note in our response to Q15, there is no mention of GGR operators ceasing trading, or declaring some form of insolvency in the event of a large release event, and this needs to be addressed in the Authority verification process.

One approach to consider here is the approach taken to waste management compliance. In that regime, risks are managed through oversight, verification and auditing. Non-compliance could be managed through a standard fine approach for any ongoing or smaller releases (as in the current UK ETS). A large release should be followed by an incident investigation and prosecutions and/or fines if the party is found to be in breach of its obligations. We note the proposed approach of a “buffer pool” which recognises the different risks of various GGR technologies and would ask that this is carefully considered considering of the risks of accidental releases.

17. Should the liability measure differ if the GGR is also subject to a fungibility measure? For example, if the reversal event was avoidable (i.e. within the control of the GGR operator) or unavoidable (i.e. due to factors outside of control of GGR operator).

A level playing field for liability should be used as far as practically possible; these should be dealt with through the use of commercial contracts based on principles established by the administrator.

As we note in our response to Q16, there should be a need for some form of liability for projects, and that this should form part of the verification process undertaken by the Authority before they issue the GGR allowances. However, the exact form of this liability may vary, and should be covered under the relevant

commercial contracts. As we note in our response to Q15, there is no mention of GGR operators ceasing trading, or declaring some form of insolvency in the event of a large release event, and this needs to be addressed in the Authority verification process.

One approach to consider here is the approach taken to waste management compliance. In that regime, risks are managed through oversight, verification and auditing. Non-compliance could be managed through a standard fine approach for any ongoing or smaller releases (as in the current ETS). A large release should be followed by an incident investigation and prosecutions and/or fines if the party is found to be in breach of its obligations.

18. Should the Authority use a buffer pool or equivalence ratio?

Yes. Fuels Industry UK agrees that the Authority should use a buffer pool or equivalence ratio.

The “buffer pool” or equivalence ration concept could be useful in managing the liability risks, with the proportionality determined by the Authority using appropriate technical expertise and following discussions with the GGR operator.

We note that the consultation references that this approach is used in other sectors, such as the carbon credit registries; this would also seem appropriate funder the proposed GGR policy.

As we note in our response to Q2, the impact of releases on the number of UK allowances needs to be carefully considered, to ensure that UK emitters are not penalised, particularly for operations outside of their control. A failure to take this into account would expose UK emitters to unmanaged financial risk.

Finally, we note that the liability options in the event of reversals are reviewed as the GGR industry develops, particularly in the light of any future reversal events to ensure that the actions taken are appropriate and in line with expected policy outcomes.

19. How could the Authority set the contribution rate for a buffer pool? Should this be a flat rate contribution across all applicable projects, or should this vary per project?

Given the nascent nature of the GGR industry, and the number of potential options available, it would seem unlikely that a flat rate contribution across all projects would be appropriate, or fair to participants given that some are more established, or more reliable than others.

As such, we agree that the contribution rate should vary per project.

20. Which factors should be considered when determining the appropriate contribution rate for a buffer pool?

The factors should be determined by the Authority using appropriate technical expertise and following discussions with the GGR operator. We recognise that these may vary from project to project.

We note that the consultation references that this approach is used in other sectors, such as the carbon credit registries; this would also seem appropriate under the proposed GGR policy. In particular, we would encourage the Authority to determine if there are any best practices from these sectors which could be applied to the GGR sector, rather than creating additional bespoke requirements.

21. How should the Authority decide which GGRs would be required to contribute to a buffer pool and at what level any threshold should be set for contributions?

All projects should be required to contribute to a buffer pool, as all have some risk of a release event in some form. However, the degree of risk will vary from project to project, being dependant on the technologies concerned.

The factors should be determined by the Authority using appropriate technical expertise and following discussions with the GGR operator. We recognise that these may vary from project to project.

22. Should buffer pool contribution rates remain fixed over time or could they vary? If they vary how should this be assessed? For example, the Authority could require projects to contribute depending on an assessment of risk at each verification period, and this could change over time.

Given the nascent nature of the industry, it would seem prudent to set initial buffer pool contribution rates based on initial views and expertise to provide initial certainty to make financial investment decisions.

The rates can then be reviewed after a set period of time, in agreement with Authority, depending on the technical readiness level of the technology concerned and on an assessment of risk.

23. How could the Authority design equivalence ratios?

The equivalence ratios should be determined by the Authority using appropriate technical expertise and following discussions with the GGR operator. We recognise that these may vary from project to project.

The ratios could be set initially based on initial views and expertise to provide initial certainty to make financial investment decisions. The ratios can then be reviewed after a set period of time, in agreement with Authority, depending on the

technical readiness level of the technology concerned and on an assessment of risk.

24. Which inputs should be used in determining the appropriate equivalence ratios?

Fuels Industry UK cannot comment on this in detail. However, we would encourage the Authority to engage with potential GGR operators to develop the ratios based on an assessment of the release risks concerned, potentially considering the relevant technology readiness level.

25. Should these equivalence ratios be fixed over time or regularly reviewed and amended?

Given the nascent nature of the industry, it would seem prudent to set initial equivalence ratios based on initial views and expertise to provide initial certainty to make financial investment decisions. The ratios can then be reviewed after a set period of time, in agreement with Authority, depending on the technical readiness level of the technology concerned and on an assessment of risk.

26. Should new ex-post woodland units generated in line with UK Woodland Carbon Code standards be considered for inclusion in the UK ETS? Please base your response on the evidence outlined around permanence, costs and wider land management impacts, and on the policy options outlined in the rest of this consultation.

In a technology neutral approach, we think that ex-post woodland units generated in line with UK Woodland Carbon Code standards be considered for inclusion in the UK ETS.

The inclusion of these units should be reviewed under the buffer pool or equivalence ratios principle outlined in the consultation, considering the risks of a release event. The risks of a release event are outlined in the consultation and while they seem reasonable, would suggest that the release risks of woodland based solutions are higher than for other technologies.

27. If the Authority does include new ex-post woodland units generated under the UK Woodland Carbon Code in the UK ETS, should any changes be made to the Woodland Carbon Code? For example, this could include changing the 20% flat-rate buffer contribution, or changes to the MRV and measures to mitigate wider land management impacts. Details of the woodland carbon code can be found here: <https://woodlandcarboncode.org.uk/standard-and-guidance>.

Fuels Industry UK has no response to this question, other than to ask that the release risks of woodland are properly considered on a level playing field with other technologies.

28. If the Authority does include new ex-post woodland units generated under the UK Woodland Carbon Code in the UK ETS, should any measures be taken to mitigate potential social and cultural impacts? Please provide details of the impacts, including consideration of impacts on different land ownership models, and potential measures.

Fuels Industry UK has no comment on this question, other than to ask that the release risks of woodland are properly considered on a level playing field with other technologies.

29. Do you agree with the Authority's assessment of peatland restoration?

Fuels Industry UK has no comment on this question.

30. Do you agree with the Authority's assessment that, by maintaining the gross cap on emissions, additional controls could be used to target wider impacts but not mitigation deterrence?

Fuels Industry UK **does not agree** that the authority should maintain the gross cap for initial integration of GGRs in the UK ETS.

As we discuss in our response to Q1, UK emitters within global commodity markets need to compete on an international basis or the UK risks a loss of its industrial base. There is no discussion in the consultation on how this will be achieved, and a failure to take this into account risks UK emitters becoming uncompetitive, leading to decarbonisation through deindustrialisation. We discuss these issues in detail in our response to the recent consultation "UK Emissions Trading Scheme: Free Allocation Review".

Free allowance allocation under the UK ETS currently provides critical mitigation against carbon leakage for the refining sector, although the sector receives a significantly lower proportion of free allowances and faces higher compliance costs than other energy intensive sectors at risk of carbon leakage.

Fuels Industry UK strongly supports introduction of a well-designed carbon border adjustment mechanism (CBAM) to address high compliance costs and loss of competitiveness against international competitors with no or significantly lower carbon costs, but this must continue to support exports and investment in UK manufacturing industries to avoid deindustrialisation. The interaction between the proposed UK CBAM and free allowance allocation under the UK ETS and with support available under the UK hydrogen ⁷ and carbon capture ⁸ business models must be carefully considered.

31. To what extent will GGR operators seek to sell into voluntary markets and will this provide a control on GGR supply entering the UK ETS?

Fuels Industry UK cannot comment on the use of voluntary markets.

Our members are heavily regulated under the UK ETS, and we have significant concerns regarding the interaction of GGRs with the number of allowances in circulation, including the use of Option 2 in the consultation.

GGR based allowances should replace UK allowances issued through the auction process only. There should be no change to the number of UK allowances issued to emitting organisations exposed to carbon leakage through the free allowance mechanism as a result of the integration of GGRs into the UK ETS.

Option 2 should apply only in the event that the allowance is generated and enters the compliance market, backing out an auction allowance. If the GGR allowance does not enter the compliance market, then a GGR allowance should not back out a UK auction-based allowance.

32. Should the Authority consider the use of demand controls to target any impacts other than mitigation deterrence?

No. There should be a level playing field for the use of GGRs in the UK ETS, and the Authority should not seek to “pick winners” by determining which are “hard to abate”.

The Authority should concentrate on establishing policy certainty, providing guidance for GGR operators and issuing appropriate and verified GGR allowances.

It should also ensure that emitters can operate under the UK ETS and compete on an international basis, a fact which does not appear to have been adequately considered in the consultation. As we discuss in our response to Q1, UK emitters need to compete on an international basis. There is no discussion in the

⁷ DESNZ, “[Hydrogen production business model](#)”, August 2023.

⁸ DESNZ, “[Carbon capture, usage and storage \(CCUS\): business models](#)”, April 2024.

consultation on how this will be achieved, and a failure to take this into account risks UK emitters becoming uncompetitive, leading to decarbonisation through deindustrialisation. We discuss these issues in detail in our response to the recent consultation “UK Emissions Trading Scheme: Free Allocation Review”.

33. Do you agree with the Authority’s minded to position to adopt supply controls to target other objectives, such as phasing GGR integration or addressing market impacts? Please consider how supply controls can be used in a way that is compatible with providing a strong demand signal for GGRs.

No.

There should be a level playing field for the use of GGRs in the UK ETS, and the Authority should not seek to “pick winners” by adopting supply controls.

The Authority should concentrate on establishing policy certainty, providing guidance for GGR operators and issuing appropriate and verified GGR allowances.

It should also ensure that emitters can operate under the UK ETS and compete on an international basis, a fact which does not appear to have been adequately considered in the consultation. As we discuss in our response to Q1, UK emitters need to compete on an international basis. There is no discussion in the consultation on how this will be achieved, and a failure to take this into account risks UK emitters becoming uncompetitive, leading to decarbonisation through deindustrialisation. We discuss these issues in detail in our response to the recent consultation “UK Emissions Trading Scheme: Free Allocation Review”.

34. What would be the optimal timing for GGRs to be integrated into the UK ETS, taking into account the considerations set out above? Please explain your answer with reference to impacts on both the UK ETS and GGR deployment.

Fuels Industry UK does not have a firm view on this question.

The UK ETS is the primary policy driving CO₂ emissions reduction in the UK and is subject to a number of reviews including potential reductions in free allowances and the introduction of a CBAM to mitigate carbon leakage risk. The evolution of the UK ETS needs to be considered as a whole package, with GGRs being a part of this, rather than looking at each topic in isolation.

There should be no change to the number of free allowances issued to ETS installations through the free allowance mechanism as a result of the integration of GGRs into the UK ETS. Any reduction in the number of free allowances for carbon leakage exposed sectors should not be carried out until a well-designed CBAM has been implemented and become established.

The need of emitters to compete on an international basis is also integral to this evolution; a failure to take this into account is likely to lead to decarbonisation through deindustrialisation and a disorderly energy transition.

We would expect that GGRs would need to be integrated into the ETS before 2030 to incentivise development of GGR and achievement of the 2030 abatement target of 5 million tonnes CO₂e.