20 November 2017

Press Release

UK at risk of £600 Million Budget Black Hole as Brexit discussions on EU Emissions Trading System reach end game

In the event of a no-deal Brexit, the UK will leave the EU wide Emissions Trading System before the reporting of 2018 emissions is completed. Because of this, the European Commission has proposed legislation that prevents any allowances issued by the UK Government (after 1st January 2018) from being used for compliance.*

Andrew Large, CPI Director General

On average (2015-17) the UK has annually issued 151.7 million allowances (88.5 million sold by auction, 63.2 million distributed free of charge to energy intensive industry and aviation to protect their competitive position).**

Using these numbers as an indication of the allowances that the UK plans to issue in 2018, then (assuming a current market value of €7.40 per allowance***) these allowances would be worth around €1,123m or £1,010m (assuming an exchange rate of 0.9), of which £589m would be retained by Treasury and £421m used by regulated operators towards covering their 2018 emissions.

The UK Government has moved to defuse this issue by offering to bring forward compliance dates for 2018 reporting, so that everything would be completed by Brexit (so before 29 March – normally reporting is not completed until the end of April). A German compromise amendment to the Commission proposal would achieve largely the same ends.

Andrew Large (Director General of the Confederation of Paper Industries) said:

"This is a very unwelcome development in the context of the ongoing Brexit negotiations. The future relationship between the UK and EU27 will require flexibility and imagination on both sides and I call on both the UK Government and the European Commission to agree a mutually satisfactory compromise. EU ETS is a cornerstone of European policies to address climate change and politicians could easily get this issue resolved. The German amendment to the Commission proposal would be a good place to start.

"With a small amount of goodwill on both sides, a huge uncertainty over the future of EU ETS could be resolved and industry could at least plan with some certainly for 2018 compliance. If this issue remains unresolved our Members will be put in an impossible position from January next year. The UK also risks losing almost £600 million in revenue, a black hole in the Chancellor's forthcoming Budget."

CPI has consistently called for the UK to commit to staying in EU ETS until the completion of the current phase that ends 31/12/2020 – such an agreement would remove uncertainty and mean obligated companies could plan for compliance with confidence.

ENDS

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NOTES TO EDITORS

- BEIS are currently consulting on a proposed Statutory Instrument**** that (assuming Parliamentary approval) would be in place by the start of 2018; so meaning 2018 would be a normal reporting year and no need for any action to be taken.

- Notwithstanding this UK proposal, such is the delicate position in the Brexit negotiations, that the Commission and Parliament propose to restrict the use of UK allowances anyway, and only move to remove the restriction at the discretion of the Commission.

- From the perspective of UK based companies that have a legal requirement to comply with all legislation, these actions add considerable uncertainty to operations. The Commission could effectively cancel their share of allocations, yet the new UK SI would impose a 2018 reporting requirement irrespective of the actions of the Commission.

- For the perspective of the UK Government, the actions risk disrupting the normal flow of fortnightly auctions that raise revenue for Treasury – UK allowances could not be sold (certainly not at their normal market value) when it would not be certain if they could be used for compliance.

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising paper and board manufacturers and converters, corrugated packaging producers, makers of soft tissue papers, and collectors of paper for recycling.

- CPI represents an industry with an aggregate annual turnover of £6.5 billion, 25,000 direct and more than 100,000 indirect employees.

- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.

More background on EU ETS

EU ETS works as a cap and trade scheme to limit climate change linked emissions from heavy industry, aviation and the power sector by setting an annually declining cap on the total emissions allowed – the cap is fixed to act as a key part of EU emissions targets and deliver emission reduction targets at the lowest economic cost. Obligated companies are annually required to provide EU ETS allowances to cover their emissions. Numbers are rigorously checked by independent verifiers. For installations in danger of carbon leakage (so at risk of losing competitiveness to companies with lower carbon costs outside the EU) a certain number of free allocations are provided free of charge, with each Member State selling by auction their share of the remainder.

Free allocations for each year are distributed during February with the UK (and other Member States) also auctioning allowances periodically throughout the year.

Once allowances are distributed or auctioned, they can be used or traded without restriction. The European Parliament and the Commission have identified this as an issue because 2018 reporting is not completed until 30 April 2019 - so after Brexit. Post-Brexit, the Commission consider that EU ETS obligations cannot be imposed on UK regulated operators, and (because the overall scheme requires links into the Commission trading system) compliance cannot simply be copied across into UK law through the European Union (Withdrawal) Bill.

Accordingly, the Commission has proposed legislation (Amendment 47 to the ETS Directive) that effectively prevents 2018 issued UK allowances being used if obligations are lapsing. The UK (notably supported by Germany) has proposed an alternative approach that brings forward 2018 reporting dates so that everything is completed by the date of Brexit – thus removing a requirement to impose any restriction on 2018 allocations. The UK proposed Statutory Instrument is currently under consultation.

The issue will be resolved at a meeting of the Climate Change Committee on 30 November. The Committee comprises representatives from Member States, and is charged with setting the detail to impose the Commission proposals through an implementing amendment to the EU Registry Regulations. Because of this methodology, the Committee has the final say on how the proposals will be implemented. While the Commission, the UK and potentially other Member States can all propose how the changes should be implemented, the final decision will be made within the Committee meeting by qualified majority voting, so the position taken by other Member States will be critical to the outcome.

References

*See: https://ec.europa.eu/clima/sites/clima/files/news/20171024_regulation_en.pdf

**Quoted from: https://ec.europa.eu/clima/sites/clima/files/news/20171024_faq_en.pdf

***EU ETS allowance prices taken from: https://www.eex.com/en/market-data/environmental-markets/spot-market/european-emission-allowances#!/2017/11/17

****The BEIS consultation can be found at: https://beisgovuk.citizenspace.com/heat/eu-ets/user_uploads/eu-ets-consultation-bringing-forward-2018-compliance-deadlines-in-the-uk-6nov2017-final.pdf