

## **Carbon Market Watch response to the UK's Carbon Emissions Tax Consultation**

Carbon Market Watch supports the UK Government's proposal to continue to price GHG emissions from January 1st, 2021, following the UK's exit from the EU. We would like to highlight the importance of ensuring that coverage of such a pricing mechanism be at least as extensive as it is under the EU ETS, that prices should result in an effective incentive for covered entities to decarbonise, and that the overall policy should lead to a full decarbonisation of the UK economy by 2040.

The UK has been a leader in carbon pricing under the EU ETS, e.g. by implementing an additional levy which effectively acts as a carbon floor price, and we encourage the UK government to further increase this level of ambition to do its part in avoiding catastrophic climate change.

Below are answers to three specific questions asked in the consultation. In addition, we would like to encourage the UK government to measure the risk of carbon leakage resulting from the proposed pricing initiatives, before deciding to imitate protective measures adopted under the EU ETS. Such measures, in particular the free allocation of allowances, have led to the generation of significant windfall profits for companies under the EU ETS<sup>1</sup>, and have failed to implement the polluter pays principle. This will be particularly problematic if covered entities were to receive more allowances than they need, e.g. because distribution will be based on historical production while actual production is likely to be affected by the covid-19 crisis in the short term.

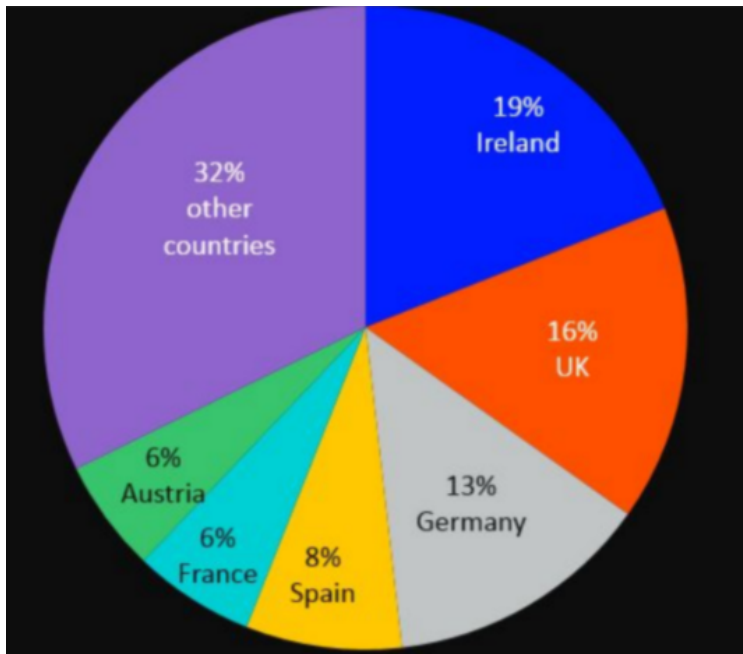
### **Q12: Do you have any views on how, in the years after 2021, a Carbon Emissions Tax could drive decarbonisation in sectors beyond those that would be subject to the tax at introduction?**

Carbon Market Watch strongly supports the inclusion of international aviation and shipping emissions under the UK's carbon pricing scheme.

First, we believe the UK should not exempt the aviation sector from a carbon price, as it is suggested under the proposed taxing system. According to analysis by Refinitiv, 31% of all airlines registered under the EU ETS are registered with a UK account, and will therefore no longer face a carbon price once the UK exits the EU ETS, unless an alternative scheme is adopted. These operators were responsible for 16% of all verified EU ETS aviation emissions in 2019.

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<sup>1</sup> <https://carbonmarketwatch.org/publications/mythbuster-reload/>



*“EU ETS verified emissions for aviation in 2019”*  
Refinitiv, 2020

Exempting airlines from paying a carbon price sends the wrong signal to an industry which is in urgent need to decarbonise. The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is unlikely to set any significant decarbonisation incentives given its very limited scope, projected low prices, and delayed start following the baseline change adopted at ICAO in 2020. Exempting the sector from a carbon price would be a significant step backwards, as current regulations are already insufficient (e.g. fuel tax and VAT exemptions, free allocation of allowances under the EU ETS, absence of regulatory measures to cover non-CO<sub>2</sub> effects). The aviation sector must hence be covered by the UK’s carbon pricing plan.

Furthermore, we support the inclusion of the international shipping sector under the taxation mechanism, as this could set a meaningful incentive for innovation in the sector. The shipping sector is a key source of global emissions (over 1 billion tonnes of CO<sub>2</sub>e in 2018 - 2,89% of global total GHG emissions) and its emissions are expected to increase the coming decades. Emissions from this sector are as yet not being tackled by any effective climate change measures at the international level, and there are no signs that the UN agency responsible (the International Maritime Organisation - IMO) will implement any real climate policies the coming years.

Furthermore, the 4th IMO GHG study indicates that up to 30% of all shipping emissions are actually domestic - tackling these emissions falls fully within the responsibility of national governments, and not any potential forthcoming international measure under the IMO.

The UK therefore has a need for climate policies tackling maritime emissions, and this tax scheme could set an impactful carbon price for this sector. This would not only incentivise fuel switching and investments in new zero-carbon ships, but would also be an effective tool for pushing climate-friendly operational measures such as slow steaming. Reducing the speed of ships by 20% would immediately cut pollution by 34%<sup>2</sup>, while saving costs for operators. In addition, revenues raised through the carbon tax could also be a powerful tool for pushing innovation and decarbonisation in this sector.

It is important to note that the argument that potential carbon leakage risks could harm UK ports and shipping industry has been significantly undermined by the envisaged inclusion of maritime transport in the EU ETS. Both European Parliament and European Commission have explicitly supported this expansion of the EU ETS. Therefore, we strongly support the inclusion of maritime emissions in this scheme.

**Q13: Do you agree that the government should explore the case for tax incentives to support negative emissions technologies?**

Tax incentives for negative emissions technologies could be a powerful tool for ensuring the development of the technologies needed the decades to come to reach net-zero emissions and compensate for any overshoot of the 1,5°C target.

However, the definition of negative emissions is key, and should encompass the following four principles:

1. Carbon dioxide is physically removed from the atmosphere. This implies that GHG polluting activities should not receive any incentives for so-called negative emission technologies that are actually climate mitigation tools (for example Carbon Capture and Storage - CCS)
2. The removed carbon dioxide is stored out of the atmosphere in a permanent manner
3. Upstream and downstream greenhouse gas emissions, associated with the removal and storage process, are comprehensively estimated and included in the emission balance. This is especially important for Bio-Energy with Carbon Capture and Storage (BECCS)
4. The total quantity of atmospheric carbon dioxide removed and permanently stored is significantly greater than the total quantity of carbon dioxide emitted to the atmosphere.

Furthermore, the tax incentives should not benefit GHG polluting activities. The first priority of the tax scheme should be to de-incentivize burning of fossil fuels, and only in the second degree supporting negative emission technologies. Combating climate change effectively means first phasing out all GHG emissions.

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<sup>2</sup> CE Delft (2017): "[Regulating speed: a short term measure to reduce GHG maritime emissions](#)"



There should not be any support for offsetting mechanisms, especially in the land-use sector (so-called nature based solutions). This entrenches polluting activities by providing an alternative to reducing emissions, and there is currently no negative emissions technology that is proven to provide permanent storage AND overall physical reductions of atmospheric GHG-levels over its entire supply line.

**Q14: In designing any tax incentive, what issues should the government consider regarding negative emissions technologies?**

The key issue is defining how a technology can be considered a negative emissions technology, and setting methodologies for monitoring, reporting and verification of any negative emissions technologies.

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**About Carbon Market Watch**

Carbon Market Watch is a not-for-profit association with unique expertise in carbon pricing and a track record of policy work in international organisations and the European Union. Our strengths lie in evidence-based advocacy to improve climate policies, turning complex issues into comprehensible messages, and helping people understand and influence those policies.

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Link to the consultation

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/902737/Carbon\\_Emissions\\_Tax\\_-\\_consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902737/Carbon_Emissions_Tax_-_consultation.pdf)