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Environment
Agency

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Consultation outcome

Consultation response document: Environment Agency charge proposals for repatriated duties: UK emissions trading scheme

Updated 1 April 2021

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Introduction

In December 2020 we published our consultation ‘Environment Agency charge proposals for repatriated duties: UK emissions trading scheme’ (<https://www.gov.uk/government/consultations/charge-proposals-for-repatriated-duties-uk-emissions-trading-scheme>). The proposals and the decisions reached following consultation will continue to ensure that:

- people only pay for the service they receive – this is the main basis of our changes to the costs we set for our charge payers
- we reduce reliance on taxpayer funds that might otherwise be needed to support this work

Purpose of this document

The purpose of this document is to:

- summarise the responses received during the consultation
- provide our reply to these responses
- confirm the final decisions

This document also describes how we carried out the consultation and who we consulted.

Background

A UK emissions trading scheme (UK ETS) replaced the UK’s participation in the EU ETS on 1 January 2021. The consultation set out proposals for the UK ETS charging scheme and the charges that will apply from April 2021.

At the time we launched our consultation a final decision had not been made on which carbon pricing scheme would replace the EU ETS – either a UK ETS or a carbon emissions tax (CET). On 14 December 2020, government published their decision to introduce a UK ETS (see point 5) (<https://www.gov.uk/government/news/government-sets-out-plans-for-clean-energy-system-and-green-jobs-boom-to-build-back-greener>). As such all the charges proposed in our consultation are applicable to a UK ETS.

The proposals were in accordance with HM Treasury’s ‘Managing public money’ handbook (<https://www.gov.uk/government/publications/managing-public-money>). This ensures we recover the costs of providing our services through charges to customers receiving those services. As a result, our approach is based on achieving full cost recovery.

How we ran this consultation

We opened the consultation on 7 December 2020. It ran for 8 weeks until 29 January 2021.

Consultees were able to respond online or by post and a contact number and address were provided for queries. We ran the consultation in accordance with the criteria set out in the Cabinet Office’s consultation principles guidelines (<https://www.gov.uk/government/publications/consultation-principles-guidance>).

Findings from consultees

Overview

This section explains the main themes raised during the consultation and the Environment Agency response to each.

We received 17 responses to the consultation, 13 responding on behalf of companies and 4 from individuals.

Most responses were in favour of our proposed charges. For all the questions asked, more respondents agreed with the proposals than disagreed with them. A breakdown of the ‘yes’, ‘no’ and ‘not applicable’ responses can be seen in the following chart. Responses to the individual questions are discussed in the following section.

Number of ‘yes’, ‘no’ and ‘not applicable’ responses for all questions

Question	Yes	No	Not applicable
Q1	14	2	1
Q2	14	1	2
Q3	14	1	2

Question	Yes	No	Not applicable
Q4	12	3	2
Q5	5	1	11
Q6	6	1	10
Q7	13	1	3
Q8	14	2	1

One respondent gave a general comment about the new charging scheme. They felt that it was difficult to see if there was a benefit of the new charges since some charges have been reduced yet others have increased. They also thought that with the introduction of a UK ETS there could have been an opportunity to introduce a simplified scheme which would have been less costly to their business.

When calculating the charges in our consultation we reviewed our current processes and anticipated where our activities would change due to the UK ETS. Some of our costs will remain unchanged from the EU ETS charging scheme. This is because most of our duties will remain the same and these new charges will continue to be set at a level to recover those costs. However, there are some areas where our activity will change and in most cases will be more efficient.

While the charging scheme was not reviewed specifically to confer a ‘benefit’ on any customer, merely to reflect and recover our regulatory costs, we do expect that overall the income collected will reduce, so overall our customers benefit from a reduction in cost.

Decisions about the future controls around emissions and the design of the UK ETS are for government and were beyond the scope of the charging consultation. UK government and the devolved administrations consulted on the future of carbon pricing in 2019 (<https://www.gov.uk/government/consultations/the-future-of-uk-carbon-pricing>). This consultation provided the opportunity to input and comment on the design and requirements of the UK ETS.

Question 1. Do you agree with our proposal to continue to use the structure of the EU ETS charging scheme in the new UK ETS charging scheme, and retain those charges listed above that will not change?

Summary of responses

The number of responses to question 1 were:

- yes – 14
- no – 2
- not applicable – 1

The majority of responses were in favour of continuing to use the structure of the EU ETS charging scheme for the UK ETS charging scheme. Three of these respondents provided favourable comments.

One respondent commented that reducing the cost for small emitters makes sense.

Another said that “We think this provides most clarity, foreseeability and consistency. As an airline, we need to comply with both EU ETS and UK ETS, hence it is so much easier to make use of the same structures.”

The other replied that “The structure of EU ETS is well known to the businesses that have been operating within it and keeping the same format for reporting purposes will ease the administrative burden of any new scheme.”

Only 2 responses said that they did not agree with keeping the same structure of the charging scheme. Both provided additional comments.

One said “Make the program very simple. Charge a fee for each gallon of gas that is used and that way it is fair to everyone. As a small emitter we spend considerable more money on the program administration than any fees that are collected. This would allow more money to be used to fight climate change rather than a large bureaucracy.”

The other said that “These charges should not apply to helicopters. The cost and effort to each operator in providing this data is not reasonable taking account of the rotary wing contribution to greenhouse gas emissions as a percentage of the UK aviation industry.”

Environment Agency response

How the UK ETS operates and the scope of who the scheme applies to is set out in The Greenhouse Gas Emissions Trading Scheme Order 2020 (<https://www.legislation.gov.uk/uksi/2020/1265/contents/made>).

UK government and the devolved administrations consulted on the future of carbon pricing in 2019 (<https://www.gov.uk/government/consultations/the-future-of-uk-carbon-pricing>). This consultation provided the opportunity to input and comment on the design and requirements of the UK ETS.

Our consultation addresses the charges that we need to apply to regulate customers who fall under the scope of that scheme. We intend to implement our proposal to keep the structure of the EU ETS charging scheme and the listed charges will remain unchanged. However, some of the listed charges will not be applied until relevant legislation is in place for the activity. These include charges for installation applications to increase emissions target and for aviation applications for benchmarking plan. We will update the charging scheme with the charges as consulted here as soon as legislation is in place.

Question 2. Do you agree with the proposal to have these 3 subsistence charge categories and charge rates for UK ETS installations?

Summary of responses

The number of responses to question 2 were:

- yes – 14
- no – 1
- not applicable – 2

Of the 14 respondents who replied yes, 3 provided further comments. They thought that charging for the work required due to the complexity of the permit is fair. And that having 3 categories of subsistence charge would benefit those customers in the opt-out scheme. One of these respondents said they welcomed the reduced charge, but would like to see improved resourcing efficiency to deliver a system with faster response times under the UK ETS.

The one respondent who disagreed with this proposal thought that the fees proposed were too high.

Environment Agency response

The charges are based on our assessment of the effort necessary to carry out this regulatory activity and, in accordance with HM Treasury's 'Managing public money' handbook, we recover the costs of providing this service through the charge. We intend to implement our proposal to introduce 3 subsistence categories for UK ETS installations.

Question 3. Do you agree with the proposal to have this one permit application charge for UK ETS installations?

Summary of consultee responses

The number of responses to question 3 were:

- yes – 14
- no – 1
- not applicable – 2

Of the 14 respondents who replied yes, 4 provided further comments. They agreed that this was a simplified approach, and that larger emitters should not have to pay more to apply for a permit. One comment was generally supportive of our approach but raised a point around whether some applications would require more consideration due to being more complex.

The one respondent who replied no, commented that charging in a different way would reduce bureaucracy.

Environment Agency response

The charges are based on our assessment of the effort necessary to carry out this regulatory activity and, in accordance with HM Treasury's 'Managing public money' handbook, we recover the costs of providing this service through the charge. In setting one application charge it represents the typical average effort needed to process an application. We didn't find significant variation in the effort needed to process applications which could be considered more complex. We intend to implement our proposal to have one permit application charge for UK ETS installations.

Question 4. Do you agree with the proposed changes to transfer, surrender and revocation of permits charges for UK ETS installations?

Summary of consultee responses

The number of responses to question 4 were:

- yes – 12
- no – 3
- not applicable – 2

One respondent who agreed with the proposal said that “although some of these increases are significant, they are generally one-off costs for installations and they do not happen often. Given that other annual charges are reducing, on balance we agree with these charges increasing.”

Two of the respondents who disagreed with the proposal provided additional comments. One was disappointed that the reduction in permit fees would be offset by these increases. They also felt that the charges seemed high for administrative tasks.

Environment Agency response

The increases may seem large partly because the original charges were set in 2010. In intermediate charge reviews under the EU ETS, we did not change these charges so that changes for customers were minimised. However the charges have not changed since 2010 and no longer reflect the true cost of these activities. We intend to implement our proposal to increase these 3 charges.

Question 5. Do you agree with the proposal to have these 2 aviation subsistence charge categories and charge rates?

Summary of consultee responses

The number of responses to question 5 were:

- yes – 5
- no – 1
- not applicable – 11

The majority of the 6 respondents who believed this was applicable to them agreed with this proposal. One respondent thought that this approach provided clarity, foreseeability and consistency.

One respondent who disagreed with the proposal suggested that an alternative way of charging for each gallon of gas would eliminate the issue, while allowing a multinational program like CORSIA to further help with climate change.

Environment Agency response

UK government and the devolved administrations consulted on the future of carbon pricing in 2019 (<https://www.gov.uk/government/consultations/the-future-of-uk-carbon-pricing>). This consultation provided the opportunity to input and comment on the design and requirements of the UK ETS. Our consultation addresses the charges that we need to apply to regulate customers who fall under the scope of that scheme. We intend to implement our proposal to have 2 aviation subsistence categories and charge rates.

Question 6. Do you agree with the proposed change to the charge for an application for an emissions plan?

Summary of consultee responses

The number of responses to question 6 were:

- yes – 6
- no – 1
- not applicable – 10

One respondent “fully agrees with the proposed changes”, whilst the remaining respondents had no further comments.

The respondent who replied no, again suggested an alternative way of legislating.

Environment Agency response

We intend to implement our proposed charge for an application for an emissions plan.

Question 7. Do you agree with our proposed changes for UK ETS charges for the registry?

Summary of consultee responses

The number of responses to question 7 were:

- yes – 13
- no – 1
- not applicable – 3

The consultee that disagreed with the proposal did not provide any additional comment. All other comments were in favour of the proposed charges. Those that commented said they support efforts to reduce administration, especially where repeated work can be removed. They were pleased to see the charges reducing.

Environment Agency response

We intend to implement our proposed charges for the UK ETS registry.

Question 8. Do you agree with our proposal to increase charges annually in line with inflation (consumer price index (CPI))?

Summary of consultee responses

The number of responses to question 8 were:

- yes – 14
- no – 2
- not applicable – 1

There were 3 additional comments to this question. A respondent said that “no business likes to see charges increasing but use of CPI is a fair and transparent method”. Another said “they agreed with the proposal providing this will ensure the level of service is maintained and, where possible, improved”.

The other respondent agreed that the principle of increasing charges annually in line with inflation makes sense. They also suggested that they would prefer to know the charges for the next year upfront. This would allow them to budget accordingly.

Environment Agency response

We understand the need for businesses to know their costs upfront so we will give them timely notice when we amend our charges in line with CPI each year. We will look to publish updated charges and notify customers as soon as possible after the yearly CPI announcement on 30 September. We intend to implement annual inflationary increases to all our UK ETS charges as detailed in our consultation.

Decisions reached

The majority of the responses to the consultation were in favour of the proposed charges. No consultee responses made any alternative proposals that we feel we could implement to improve the charging scheme. We intend to implement the charges set out in our consultation, and to increase charges annually in line with inflation (CPI) on all our UK ETS charges.

Next steps

The new charging scheme will come into force on 1 April 2021, subject to approval by the Secretary of State, Department for Business Energy and Industrial Strategy, the Secretary of State, Department for Transport, and HM Treasury. We will implement the changes under existing legislation in Part 5 of the Greenhouse Gas Emissions Trading Scheme Order 2020 and the Air Navigation Order 2020.

See the Environment Agency UK emissions trading scheme (UK ETS) charging scheme 2021 (<https://www.gov.uk/government/publications/environment-agency-uk-emissions-trading-scheme-uk-ets-charging-scheme-2021>).

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