

T: 0300 244 4000
E: scottish.ministers@gov.scot

Edward Mountain MSP
Convener of the Net Zero, Energy and Transport
Committee
By Email: netzero.committee@parliament.scot

4 December 2023

Dear Convener,

The Greenhouse Gas Emissions Trading Scheme Order (Amendment) (No 2) Order 2023

As requested by the NZET Committee during the evidence session held on 31 October 2023, I am providing further information on the above-mentioned affirmative instrument. Please accept my apologies for the late response.

The Committee requested further information on whether any aircraft operators could have benefitted financially through receiving free allowances covering more than 100% of their verified emissions in previous scheme years.

The information on UK ETS participants' emissions and allocation of free allowances is publicly available. This information for the aviation sector is available in the following links:

- [UK ETS Aviation Free Allocation Table](#)
- [UK ETS Operators Emissions](#)

In some instances, as discussed, some recipients received more free allowances than their actual verified emissions in previous years. An example of this is the 2021 scheme year, when the aviation free allocation represented around 125% of the sector's verified emissions, representing an overallocation of around 900,000 free allowances.

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These were distributed to 42 operators, including EasyJet, British Airways, Tui, Ryanair and Lufthansa. This overallocation was worth around £45 million based on the average 2021 allowances price (approximately £52)¹. Operators may have sold the excess allowances on the secondary market and therefore gained financially, however, they may have saved these allowances for use in future years of the scheme.

This type of overallocation does not occur each year. For example, for the 2022 scheme year, the total aviation free allocations did not exceed the total verified emissions. Instead, free allocations represented around 55% of the total emissions.

Overallocation can occur due to the methodology that is currently used to calculate free allocation entitlement. The methodology, which mirrors that of the EU ETS, relies on historical values that do not reflect current emissions. Therefore, if there are substantial changes to operators' activity levels (such as in 2021 when the industry was significantly impacted by the pandemic) verified emissions can fall below the level of free allocations.

It is right that we take steps to prevent this overallocation happening again in future. The statutory instrument that we discussed on 31 October will enable this by capping the total level of free allocations for the remaining years before aviation free allocations are completely withdrawn in 2026.

Though several airlines subject to the UK ETS operate in Scotland, only one (Loganair) is headquartered here and regulated by SEPA. We are not aware of any years in which Loganair received allowances that exceeded their verified emissions.

Yours sincerely,

MAIRI MCALLAN MSP

¹ These calculations were based on publicly available data.

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