Barclays Response to UK ETS Authority Consultation on Integrating Greenhouse Gas Removals in the UK Emissions Trading Scheme

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Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in 38 countries and employs approximately 90,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Addressing climate change is an urgent and complex challenge. The financial sector has an important role to play in helping to address climate change. Low-carbon technologies, infrastructure and capacity must be scaled up to meet growing energy demands and for the world to reach net zero – a global transformation to a low-carbon economy is expected to require investment of at least $4.3trn per year by 2030.[1]

At Barclays, we are determined to play our part. We believe that we can, and should, make a positive difference for society - globally and locally. In March 2020, we announced our ambition to be a net zero bank by 2050, becoming one of the first banks to do so. In December 2022 we announced our target to facilitate $1 trillion of Sustainable and Transition Financing between 2023 and the end of 2030.[2] In 2023 we financed $67.8bn of Sustainable and Transition Finance, demonstrating good momentum towards this target. In addition, Barclays' Sustainable Impact Capital portfolio has a mandate to invest up to £500m of the bank's own capital in sustainability-focused start-ups by 2027, helping accelerate the transition towards a low-carbon economy. At year-end 2023, 21 investments had been made, deploying over £138m since 2020. Simultaneously we have been working to reduce our financed emissions, for which we have now set 2030 reduction targets for eight of the highest-emitting sectors in our portfolio. For instance, at year end 2023, the absolute financed emissions from our upstream Energy portfolio were down 44% from our 2020 baseline – an additional 12% reduction from our 2022 level. More information about reduction of our financed emissions and sector targets can be found in our Annual Report.[3]

Executive Summary

We welcome the opportunity to respond to the UK ETS Authority Integrating Greenhouse Gas Removals in the UK Emissions Trading Scheme Consultation (the Consultation).

It is important to recognise that engineered GGR projects in particular are generally capex-intensive, large scale infrastructure projects, that require many years of project development, planning and construction prior to becoming operational. For the UK to have sufficient GGR capacity to achieve its net zero ambitions, timely investments in these projects are imperative, considering the lead time required for capacity to become operational.

As part of this, and whilst not the focus of this consultation, it is imperative to maintain a strong focus on Contracts for Difference (CfD). CfDs are crucial as they provide the financial security and stability that GGR projects require to transition from conceptual frameworks to market-ready solutions. Without the assurance of CfDs, the economic viability of these projects remains in jeopardy, deterring investment and hindering their development. It is the certainty of a fixed revenue stream through CfDs that underpins the business case for GGR initiatives, enabling them to attract the necessary capital, scale up operations, and ultimately, contribute meaningfully to the UK's carbon reduction targets.

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[1] https://www.climatepolicyinitiative.org/wp-content/uploads/2022/10/Global-Landscape-of-Climate-Finance-A-Decade-of-Data.pdf
[2] https://home.barclays/news/press-releases/2022/12/barclays-significantly-increases-sustainable-finance/
[3] https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2023/Barclays-PLC-Annual-Report-2023.pdf

More broadly, the UK's carbon market policy framework, encompassing the UK ETS, the forthcoming Carbon Border Adjustment Mechanism (CBAM), and Voluntary Carbon Markets (VCM), must be independently robust and, where relevant, interoperable with other pricing or market regimes. This is essential to facilitate market liquidity and effective price discovery, particularly for in-region removals.

It is equally critical that the overarching policy framework remains coherent and simplistic. Policy serves as a vital tool to guide market participants and foster a conducive environment for carbon reduction initiatives. The introduction of overly complex or inconsistent policy changes by contrast can create inertia and uncertainty, stifling innovation and progress. Effective policy analogues can be drawn from the Renewable Energy Directive (RED II) and ReFuelEU initiatives, with both seeking to ensure a level playing field for sustainable road and air transport by recognising, enabling and incentivising pathways for multiple clean fuel technologies.[4] However, some market participants have pointed out that the complexity of implementation has undermined the intended policy objectives.

Considering the wider context, industry has also expressed concerns about the potential for policy reversals (e.g. the delay or cancellation of targets), which can create a sense of uncertainty and deter long-term investment decisions. Consequently, it is crucial for policymakers to maintain a steady and predictable course to ensure the stability and reliability that market participants depend on for planning, development and growth in the sector.

To avoid such stagnation, clear guidelines via policy must be established, ensuring that each component of the carbon pricing regime not only stands strong on its own but also aligns seamlessly with the broader market mechanisms. This coherence will prevent confusion, reduce administrative burdens, and promote a more streamlined approach to carbon pricing, ultimately driving forward the UK's climate objectives with greater efficiency and impact.

By prioritising simplicity and clarity in policy design, the UK can ensure that its carbon market framework not only supports current initiatives like GGR projects but also adapts flexibly to future developments, maintaining the momentum needed to achieve its ambitious environmental goals.

Finally, we note the recent announcement of Great British Energy, which presents a significant opportunity to catalyse the growth of the GGR market. GB Energy can aid in scaling up GGR projects, providing the necessary support to overcome technical and financial challenges. Furthermore, GB Energy's involvement can enhance public and private sector confidence in GGR, attracting investment and fostering partnerships that are essential for the market's expansion.

With respect to the consultation questions, our key recommendations are as follows:

- **Maintaining a gross cap for the initial integration of GGRs, at least for the period until 2030, is the simplest methodology to integrate GGRs into ETS** while preserving robust emissions cap commensurate with net zero decarbonisation pathway.
- **It is imperative to be able to recognise the differences in GGR pathways in their technology readiness, systems impact and co-benefits**. To take Enhanced Weathering as an example, the market recognises its agricultural advantages, including improvements in soil carbon and the gradual nutrient release that boosts soil microbial health, unlike commercial fertilizers. These benefits could result in a differentiated pricing structure when compared to other pathways with equivalent GGR permanence, durability, and measurability, but lacking these co-benefits. Therefore, we consider that there should be a provision for a methodology that acknowledges these differentiated environmental attributes.

[4] https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en; https://www.consilium.europa.eu/en/press/press-releases/2023/10/09/refueleu-aviation-initiative-council-adopts-new-law-to-decarbonise-the-aviation-sector/

- **GGR allowances and UKAs should not be differentiated** to ensure that there is a transparent, robust and liquid market for carbon. A fractionated market for carbon would result in significantly higher transaction costs in underwriting and portfolio management activities, and result in illiquidity in both primary and secondary markets which would impact volumes and bid-ask.
- **The UK should look to capitalise on creating 'world scale' leaders in GGRs** by allowing them to operate in multiple jurisdictions while maintaining high value-add services and operations in the UK – such as research and development, sales and head office functions. This is similar to the operation model of many UK champions today, and we strongly believe that should be the approach for developing GGR leaders going forward as well.
- **There is a need to integrate GGRs into the UK ETS sooner rather than later, and no later than 2026** to give project developers of GGR projects and supporting infrastructure sufficient time to take investment decisions on key projects.