

Climate Capital Carbon trading

UK carbon price trades at £50 as market opens for first time

Early pricing levels suggest big UK polluters may face higher costs than groups in the EU



Many EU companies have warned that the pace of carbon price increases in recent months has been too high, putting them at a competitive disadvantage © Bartek Sadowski/Bloomberg

David Sheppard and **Camilla Hodgson** in London YESTERDAY

The UK carbon price hit £50 before slipping almost 10 per cent in a choppy first day of trading for Britain's post-Brexit emissions scheme, with early prices suggesting big polluters may face higher costs than companies in the EU.

The long-awaited start of trading in UK carbon allowances — which are designed by the government to put a cost per unit on CO₂ emissions and to replace UK companies' participation in the well-established EU carbon trading system — saw prices for future contracts trade as high as £50.23 a tonne, before paring back to £45.75 after the first auction of allowances.

The inaugural auction saw all of the more than 6m credits available sold to 14 bidders, at a price of £43.99, or about €51. The EU emissions trading scheme hit a record high above €55 last week, but has tumbled this week to below €49 a tonne.

Trading at close to EU prices “is going to make a lot of people pretty happy”, said Jonathan Marshall, head of analysis at the Energy and Climate Intelligence Unit, the research group.

Market participants had warned that prices could rise significantly higher, creating the potential for arbitrage between the UK and EU systems, and that the smaller UK market could be more volatile than its European equivalent.

Early futures prices were significantly higher than the EU price on Wednesday morning, and above the threshold of £44.74 that the UK government had set for intervention to cool prices, should it trade above that level consistently. The so-called Cost Containment Mechanism is set around double the average price of the EU ETS over the past two years.

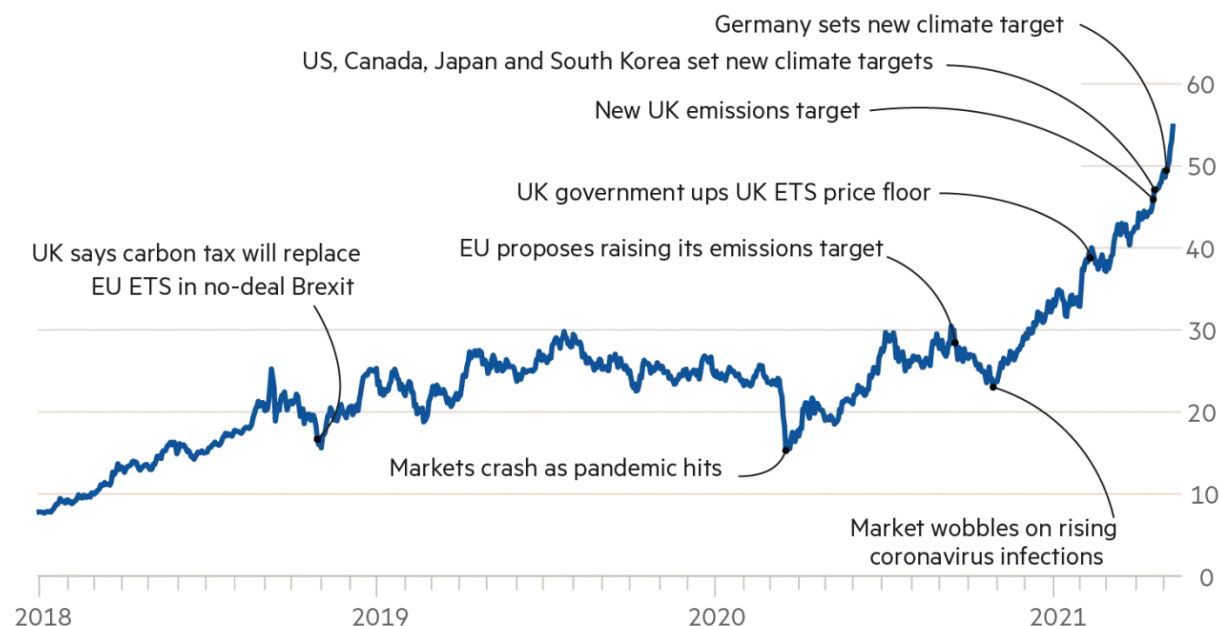
But prices ticked down as trading picked up in the afternoon, and slipped further when the first auction of allowances settled below £44 a tonne.

Ingvild Sorhus, lead analyst at Refinitiv Carbon Research, said that the early “high prices” had showed confidence in UK carbon allowances as “an attractive asset”. She added that interest in the first auction had been “really high”, with more bidders than successful buyers.

Sebastian Rilling, EU power & carbon markets analyst at ICIS, said he expected UK prices to “trade in line” with EU prices following “an initial period of volatility”. Higher prices on Wednesday morning had been driven by a small handful of trades, he added.

The EU carbon price has soared this year as governments have upped their climate pledges

Closing price of allowances traded under the EU ETS



Source: Refinitiv
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Carbon prices have soared in recent months as governments have stepped up their targets for cutting emissions, with the EU Emissions Trading Scheme rallying from near €30 a tonne in December to €55 a tonne last week.

The sharp gains have complicated the launch of the UK's own carbon scheme after it left the EU in December.

The UK has put in place tighter limits for when the government must consider intervention should prices rise too fast compared with the European market, leading to fears they may need to step in within weeks of its launch.

Under the so-called UK ETS, which is closely modelled on its European counterpart, big polluters such as power plants and manufacturers are given a set allowance to cover their emissions of CO₂ and other greenhouse gases. If they pollute above this level they need to buy more, or if they cut pollution they can sell them for profit.

Many companies, such as steel producers in the EU, have warned that the pace of carbon price increases in recent months has been too high, putting them at a competitive disadvantage against companies outside the scheme.

The EU is considering a carbon border tax that would make sure imported goods from countries without an equivalent carbon price would not put their own manufacturers at a disadvantage.

The EU ETS has played a substantial role in pushing coal off the electricity grid as prices have risen in recent years, as it makes lower carbon fuels and renewables more attractive.

Climate Capital



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