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**B I L L**

TO

Introduce a domestic trading scheme for carbon emissions; to set a national ceiling for carbon emissions; and for connected purposes.

**B**E IT ENACTED by the Queen’s most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

**1 Interpretation**

In this Act—

“budget period” means a five year period for which carbon budgets are set;

“carbon budget” means the maximum quantity of greenhouse gas from energy use that may be emitted in a one year period; 5

“carbon dioxide equivalent” means the mass of a greenhouse gas multiplied by its global warming potential;

“carbon unit” means an emissions right of one kilogramme of carbon dioxide equivalent; 10

“eligible individual” means a person of 18 years or over who is permanently resident in the United Kingdom;

“eligible organisation” means an organisation specified in regulations by the Secretary of State as eligible to participate in the scheme;

“global warming potential” means a prescribed index which expresses the warming effect of a given mass of greenhouse gas in the atmosphere relative to that of carbon dioxide; 15

“greenhouse gases” means carbon dioxide, methane and nitrous oxide;

“prescribed” means prescribed in regulations made by the Secretary of State; and 20

“primary fuels” means fuels obtained directly from natural sources, for instance, coal, gas and oil.

**2 The Domestic Tradable Quotas Scheme**

- (1) The Secretary of State shall establish by regulations a scheme to be known as the Domestic Tradable Quotas Scheme. 25

- (2) Regulations under subsection (1) shall make provision—
- (a) in respect of a code of practice governing participants in the scheme;
  - (b) for the preparation and publication of an annual report about the operation of the scheme; and
  - (c) for the commencement date of the scheme. 5

### 3 Setting the carbon budget

- (1) Within a year of the date of commencement of the scheme the Secretary of State shall by regulations specify the carbon budget for each year of the first budget period.
- (2) The first budget period shall begin one year after the date of commencement of the scheme. 10
- (3) In year three of each budget period the Secretary of State shall consult on the level at which carbon budgets should be set for the subsequent budget period.
- (4) In year four of each budget period the Secretary of State shall specify by regulations the carbon budget for each year of the subsequent budget period. 15
- (5) In specifying carbon budgets under this section the Secretary of State shall take into account such greenhouse gas emission targets as are—
- (a) specified in the document entitled “Our energy future: creating a low energy economy” published by the Department of Trade and Industry in February 2003 (Cm 6168), 20
  - (b) agreed to by a resolution of each House of Parliament, or
  - (c) specified in the text of any International Treaty signed by the United Kingdom Government.

### 4 Allocation of carbon units

- (1) The Secretary of State shall by regulations allocate the carbon budget to eligible individuals and eligible organisations. 25
- (2) The proportion of the carbon budget allocated to eligible individuals in each budget year shall be equal to the proportion of total greenhouse gas emissions from energy use arising from the prescribed fuels and electricity purchased by eligible individuals in year one of the scheme. 30
- (3) The remainder of the carbon budget shall be allocated to eligible organisations.
- (4) The carbon budget shall be allocated in the form of carbon units.
- (5) The same number of carbon units shall be allocated to each eligible individual without charge.
- (6) No eligible individual shall be denied his personal allocation for any reason. 35
- (7) The Secretary of State shall by regulations make provision for allocating carbon units to eligible organisations by means of an auction.
- (8) In respect of any auction under subsection (7) the regulations shall—
- (a) *require those organisations taking part to specify the amount in cash that they are willing to pay the Secretary of State, and* 40
  - (b) specify the method of operation of the auction.

- (9) The Secretary of State shall by regulations make provision in respect of carbon unit accounts.
- (10) Regulations under subsection (9) shall make provision for –
- (a) the operation of carbon unit accounts;
  - (b) each eligible individual and each eligible organisation to have a carbon unit account; and
  - (c) each carbon unit account to be accessible by telephone and by the internet, including through terminals located in post offices and at other prescribed sites.
- (11) *Any sums paid to the Secretary of State in pursuance of an auction shall be payable to the Consolidated Fund.*
- 5 Surrender of carbon units**
- (1) The Secretary of State shall by regulations specify the method of surrendering carbon units.
- (2) Regulations under subsection (1) shall provide that –
- (a) whenever prescribed fuel or electricity is purchased by an eligible individual or an eligible organisation, the purchaser shall surrender to the vendor the number of carbon units corresponding to the carbon dioxide equivalent of the purchase;
  - (b) vendors of primary fuels shall surrender all carbon units which they receive to the Secretary of State; and
  - (c) all eligible individuals and eligible organisations shall be provided with a prescribed smart card for the purpose of surrendering carbon units.
- 6 Trading of carbon units**
- (1) The Secretary of State shall by regulations make provision for eligible individuals and eligible organisations to transfer carbon units by way of trade or otherwise.
- (2) Regulations under subsection (1) may –
- (a) *make provision for the establishment of a commission to facilitate the transfer of carbon units, including –*
    - (i) the appointment of its members,
    - (ii) *their payment and allowances,*
    - (iii) arrangements for an annual report by the commission to be laid before each House of Parliament, and
    - (iv) a code of practice for the commission;
  - (b) make provision for licensing and regulating persons engaged as brokers in the transfer of carbon units;
  - (c) make provision for the electronic transfer of carbon units by telephone and by the internet, including through terminals located in post offices and at other prescribed sites;
  - (d) make provision for the establishment of offences and penalties in respect of the transfer of carbon units; and
  - (e) make such other provisions as the Secretary of State considers necessary for the efficient transfer of carbon units.

**7 Expenditure**

*There shall be paid out of money provided by Parliament –*

- (a) any expenditure of the Secretary of State in consequence of this Act; and*
- (b) any increase attributable to this Act in the sums which under any other Act are payable out of money so provided.*

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**8 Regulations**

The Secretary of State may not make any regulations under this Act unless a draft of the regulations has been laid before, and approved by a resolution of, each House of Parliament.

**9 Short title and extent**

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- (1) This Act may be cited as the Domestic Tradable Quotas (Carbon Emissions) Act 2004.
- (2) This Act extends to England and Wales, Northern Ireland and Scotland.

# Domestic Tradable Quotas (Carbon Emissions) Bill

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To introduce a domestic trading scheme for carbon emissions; to set a national ceiling for carbon emissions; and for connected purposes.

*Ordered to be brought in by Mr Colin Challen,  
Mr Peter Ainsworth, Mr David Chaytor,  
Joan Walley, Mr Tony McWalter, Brian White,  
Mr John Battle, Mr Andrew Stunell,  
Mr Simon Thomas, Sue Doughty  
and Mr Gordon Prentice.*

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*Ordered, by The House of Commons,  
to be Printed, 7th July 2004.*

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