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CC: Gillian Martin MSP, Acting Cabinet Secretary for Net Zero and Energy (Scottish Government); Huw Irranca-Davies MS, Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs (Welsh Government); Andrew Muir MLA, Minister for Agriculture, Environment and Rural Affairs (Northern Ireland Executive)

9 April 2025

Dear Minister,

We are writing in response to your request for our advice on implementing the expansion of the UK Emissions Trading Scheme (UK ETS) to include some maritime emissions from 2026.

The Committee is supportive of the inclusion of maritime emissions in the UK ETS, which would maintain alignment with the EU Emissions Trading Scheme (EU ETS) and so enable the option of linking the UK and EU schemes in the future. However, we recommend that the ETS Authority does not increase the overall cap on emission allowances when maritime emissions are added. The reasons for this, in short, are that the UK ETS price is too low and there are excess allowances that could be partially reduced by not increasing the cap when maritime emissions are added to the scheme.

- The average UK ETS auction price for 2024 was £37 per tonne of CO_2 emitted. This is far lower than the cost of many decarbonisation measures in the traded sectors, such as carbon capture and storage, which are required for the UK to achieve its climate targets. It is also significantly lower than the UK Government's carbon values used outside the traded sector, and the equivalent EU ETS price. Therefore, the UK ETS alone does not provide sufficient incentive for these measures to be deployed. This indicates that the cap on emission allowances is currently too loose.

- The current UK ETS cap was set at 936 million allowances (where one allowance allows for the emission of 1 tCO_2e) for the period 2021 to 2030. This is 49 million allowances higher than the cap which would reflect the central assumptions of the previous UK Government's 2021 Net Zero Strategy (NZS), which would be 887 million allowances. The current UK Government will of course wish to set out its own strategy. However, as things stand with the current UK ETS cap, the non-traded sectors would need to reduce emissions by 49 $MtCO_2$ more than in the non-traded 'central' NZS trajectory in order for total emissions to follow the 'central' NZS trajectory.

- In the 2022 Developing the UK Emissions Trading Scheme consultation document, the choice to set the cap at the high end of the NZS uncertainty range was described as factoring in the 'possibility that emissions reductions could exceed what is necessary to meet the Fourth Carbon Budget'. As the Fourth Carbon Budget was not set on a path to reach Net Zero, this increases the risk of falling behind the necessary emissions reductions in the traded sectors for the 2030 Nationally Determined Contribution, the Sixth Carbon Budget, and Net Zero. As we noted in our 2024 Progress Report to the UK Parliament, the Government is not delivering on these. The consultation acknowledged that this decision to not align the cap with the central Net Zero Strategy pathway 'could result in the need to find additional emissions reductions in other sectors, should policies not deliver their full decarbonisation potential.' Climate Change Committee assessments of policy progress published since the release of the NZS have consistently concluded that the UK Government needs to speed up emissions reductions in both the non-traded and traded sectors.

- The UK Government has estimated that to be consistent with its Maritime Decarbonisation Strategy, emissions in the parts of the maritime sector to be incorporated into the UK ETS should be around 13 $MtCO_2$ for the period 2026 to 2030. This is small compared to the excess allowances described above, so could easily be absorbed within this excess. This is also the approach we have advised for the expansion to parts of the waste sector. Even when adding together the emissions from the parts of the waste and shipping sectors to be included, the additional emissions are still below the excess allowances (compared to the central Net Zero Strategy pathway) within the system.

Not increasing the cap while including maritime emissions in the UK ETS offers an opportunity to tighten the ETS, increasing its effectiveness in driving decarbonisation and reducing the burden placed on the non-traded sectors. The alternative of increasing the supply of allowances could result in non-traded sectors having to decarbonise faster than their shares of the 'central' NZS trajectory. However, delivery in many of these sectors is already behind.

We are supportive of the proposal to extend the UK ETS to also include 50% of emissions from in-scope ships both arriving in or departing from the UK to the European Economic Area (EEA). A significant proportion of emissions from UK shipping is from voyages to and from countries in the European Economic Area. If the UK ETS is extended to also include 50% of emissions from in-scope ships on voyages between the UK and the European Economic Area (EEA), it is important that this does not create substantial additional administrative burdens on shipping operators. Additionally, this inclusion would need to be subject for review when the economic element of the International Maritime Organization's mid-term greenhouse gas reduction measures is approved. Further alignment with the EU ETS on including emissions from other international voyages might create a more effective emission pricing scheme if designed correctly, and we would welcome exploration of such potential future expansion.

We would be happy to meet to discuss further.

Yours sincerely,

Professor Piers Forster
Interim Chair, Climate Change Committee