Public Consultation - January 2026

UK ETS scope expansion: emissions from international maritime voyages

T&E UK’s response to the UK Government's consultation on the expansion of the UK ETS to international maritime voyages

Summary

The UK Government must take responsibility for its fair share of international emissions, the extension of the Emissions Trading Scheme is the first step

The UK Government released the Maritime Decarbonisation Strategy and confirmed the expansion of the UK Emissions Trading Scheme (ETS) to domestic and at-berth emissions for vessels above 5000 GT in 2025. This is a great first step, but more action is needed to ensure ambition turns into action.

T&E welcomes the UK Government's consultation, aligning the UK ETS to the EU ETS by extending the scope to international maritime voyages is an essential step to ensure that the UK is fairly taxing and taking responsibility for its fair share of maritime emissions. In light of the delay in voting on the Net Zero Framework (NZF) at the International Maritime Organization (IMO), it is more important than ever that the UK take responsibility for its fair share of emissions.

In response to the consultation, T&E UK recommends that the UK Government:

- Implement this expansion from 2027, rather than waiting until 2028, following the same lead time of 1 year as for the introduction of the ETS for domestic maritime and port emissions. Every year that the scheme is delayed costs the UK exchequer ~£574 million.
- Extend the scope of the ETS to vessels of and above 400 GT, resulting in the ETS covering 99% of maritime emissions instead of 85% under the current proposal, increasing revenues by ~£184 million a year.

The expansion of the UK ETS is necessary, however, the Government should also bring forward regulations that would drive technological changes in the sector, including:

- Mandating the rollout and use of onshore power supply infrastructure at major ports in the UK to allow ships to plug into power while docked. Allowing ships to run on clean, home-grown renewables rather than burning fossil fuels at berth.
- Mandating the uptake of green hydrogen-based fuels (e-fuels) for the shipping sector to reduce climate emissions and set the sector on a path to decarbonisation. This should include both international and domestic voyages.
- Introducing a GHG Intensity Standard for shipping to drive the use of green fuels and the rollout of efficiency measures for both domestic and international shipping.

1. Expansion to International Maritime Voyages

T&E supports the UK Government's proposal to include 50% of emissions from international voyages within the UK ETS. However, the UK Government should:

1) Implement this expansion from 2027, rather than waiting until 2028, following the same lead time of 1 year as for the introduction of the ETS for domestic maritime and port emissions. Every year that the scheme is delayed costs the UK exchequer ~£574 million[1].

2) Extend the scope of the ETS to vessels of and above 400 GT, resulting in the ETS covering 99% of maritime emissions instead of 85% under the current proposal, increasing revenues by ~£184 million a year[2].

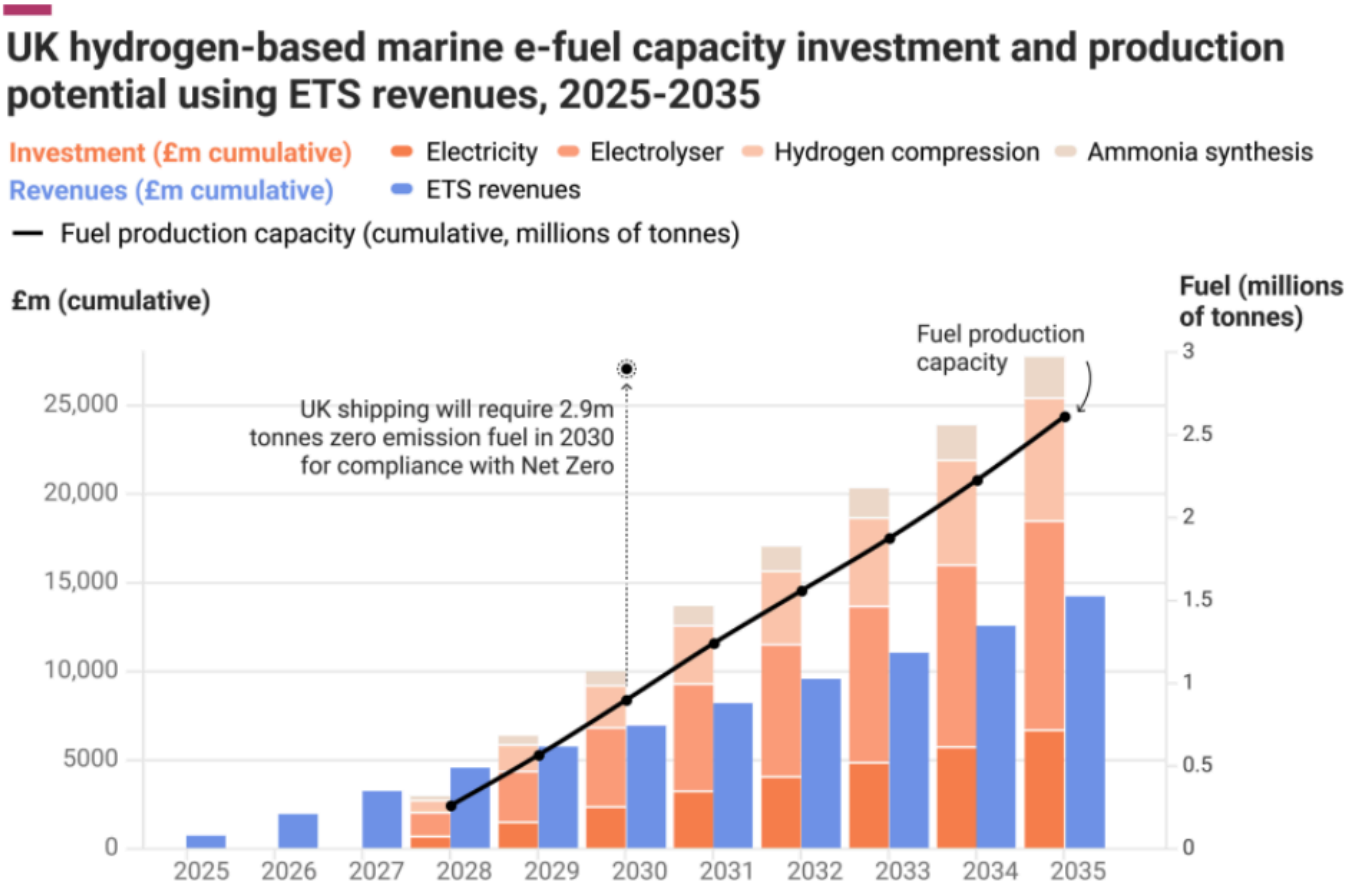
A UK ETS that covers the UK's fair share of maritime emissions, both domestic and international, for vessels of and above 400 GT, has the potential to generate revenue of ~£1 billion a year for the Exchequer, compared to ~£250 million under the current scope, covering only domestic maritime and port emissions. As the inclusion of international voyages would increase revenues by ~£574 million, and the extension to vessels of and above 400 GT would further increase revenues by ~184 million.

This broader scope, including international voyages and vessels of and above 400 GT, would therefore deliver a substantial increase in annual revenue with only minimal impact on consumers. For example, the cost of importing a refrigerator from Singapore would rise by just 45 pence and a television by just 6 pence.

If a share of the revenues generated were directed through the National Wealth Fund, they could support the transition of the maritime sector through investment in clean maritime infrastructure, delivering clear and immediate benefits for coastal communities. Deploying onshore power supply at ports would cut harmful air pollution in portside neighbourhoods, improving health outcomes and quality of life for those living closest to major shipping routes. The health costs associated with shipping's contribution to just one type of harmful air pollution, toxic particulate matter (PM2.5), are estimated at £1.5 billion per year[3]. Ships also produce toxic nitrous oxides (NOx) and sulphur oxides (SOx). SOx, NOx and PM2.5 all have a damaging impact on humans. SOx and NOx can contribute to respiratory diseases. PM2.5 are particulates made of fine dust, soot and smoke which can be inhaled and contribute to cancer and cardiovascular diseases, leading to premature death.

[1] Assuming a carbon price of £80/tonne CO2e, which is used as the reference value throughout our ETS analysis. DESNZ Traded Carbon Value market scenario indicates a carbon price of £75-£88/tonne for the years 2027-8, which is when we anticipate the ETS will be fully operational if a phase-in similar to that used by the EU ETS is observed. We therefore consider that £80/tonne is a reasonable value, and is also consistent with other T&E modelling to date.
[2] Noting that under the proposed scope allowances would only need to be surrendered for 50% of emissions from international voyages.
[3] In 2017 prices.

At the same time, investing through the National Wealth Fund into expanding UK-based production of green fuels would stimulate new supply chains, bringing skilled jobs and industrial regeneration to coastal communities. T&E estimated that using funds raised via the ETS could result in sufficient capacity in the UK by 2035 for ~2.6 million tonnes per year of zero-emission fuel, either under construction or operating. This would contribute significantly to meeting the future demand for zero-emission fuel needed to be compliant with net zero. However, this analysis assumes an ETS that covers international emissions and vessels of and above 400 GT from 2025. If this expansion does not occur until 2028, the ability to meet future demand would be delayed. Therefore, it is crucial that the UK ETS be expanded to include international emissions as soon as possible to maximise the investment opportunity of the policy.

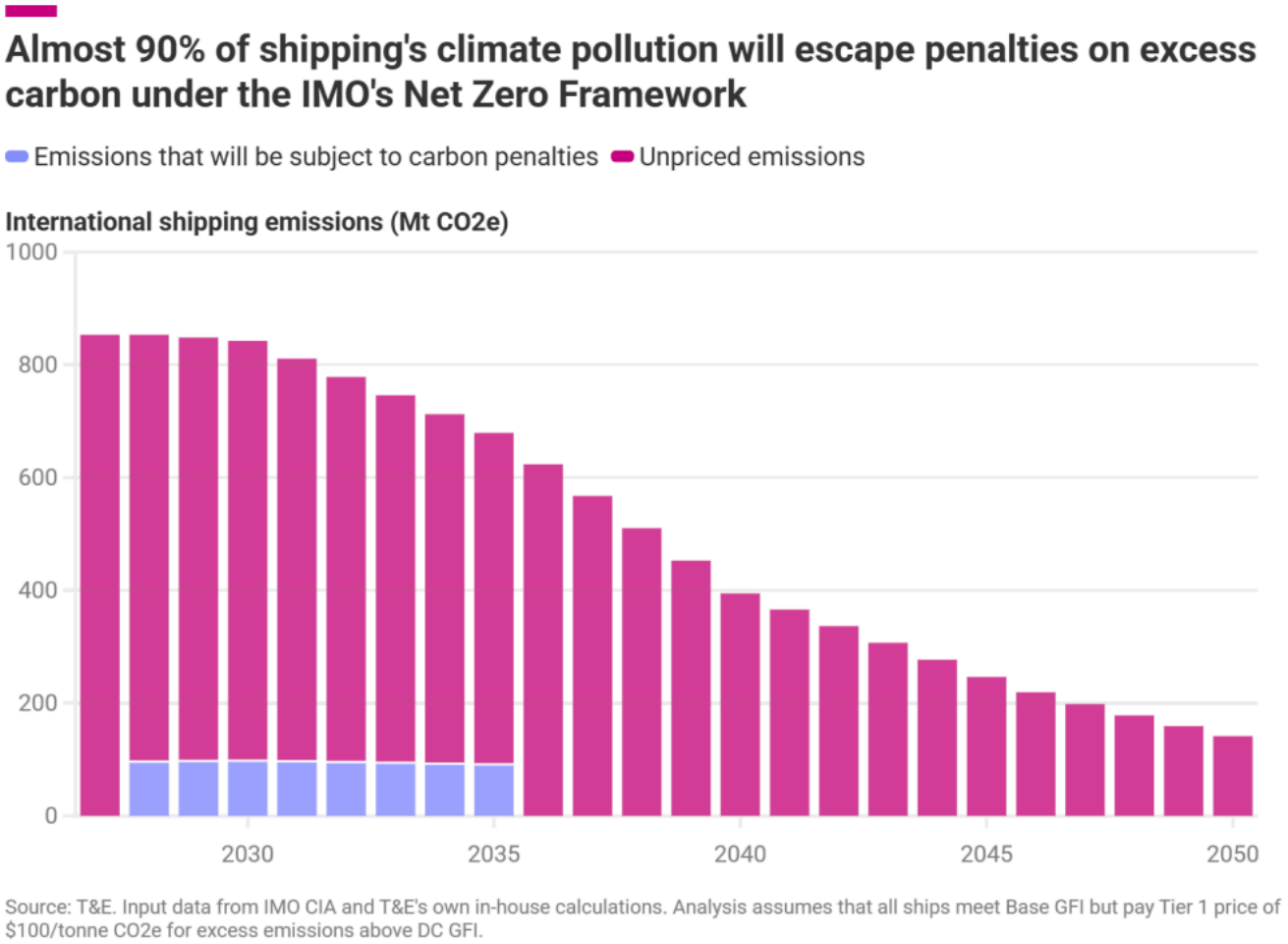


Source: T&E (2025)

2. Future alignment of the UK ETS with the IMO's Net Zero Framework

The UK ETS should only be altered in preparation for or as a response to the adoption of the IMO Net Zero Framework (NZF), as there is no guarantee if or when it will be adopted and what the final agreed level of ambition will be. With opposition led by the U.S. Administration, it is highly unlikely that an agreement will be reached until after the next U.S. election, so not before 2029 at the earliest.

If adopted, the NZF is likely to have a minimal effect on the impacts of the proposed UK ETS expansion to international maritime voyages due to the limited coverage of the IMO NZF. Nearly 90% of the international shipping emissions are unpriced under the current version of the IMO's NZF and, as such, would have a limited effect on the impacts of the UK ETS expansion to international emissions. The IMO NZF, if adopted, and the UK ETS can work in conjunction, as the IMO NZF would only overlap with a fraction of the UK's total maritime emissions. If the NZF is adopted, it is completely feasible for the UK ETS to function alongside the framework.



With the NZF unlikely to be adopted until 2029 it is crucial that the UK progresses on legislation to cut emissions from the sector beyond the expansion of the ETS

The current policy uncertainty in the sector, as seen with the delay in voting on an NZF at the International Maritime Organization (IMO), risks delaying the transition. So far, the UK has relied on the IMO to regulate international shipping emissions. However, the failure to reach an agreement on the NZF in October 2025 has stalled progress on decarbonising the UK's share of international shipping emissions. The UK's shipping industry as a whole cannot wait until 2029 for clarity on the pace of decarbonisation of the sector. Certainty is crucial for the shipping sector due to the long lifespan of its assets. The average life of a ship is around 25-30 years, meaning ships built in 2026 could still be in service in 2050. With the use of LNG ships as a way to comply with EU Regulation in the early years, this risks locking in emissions for decades.

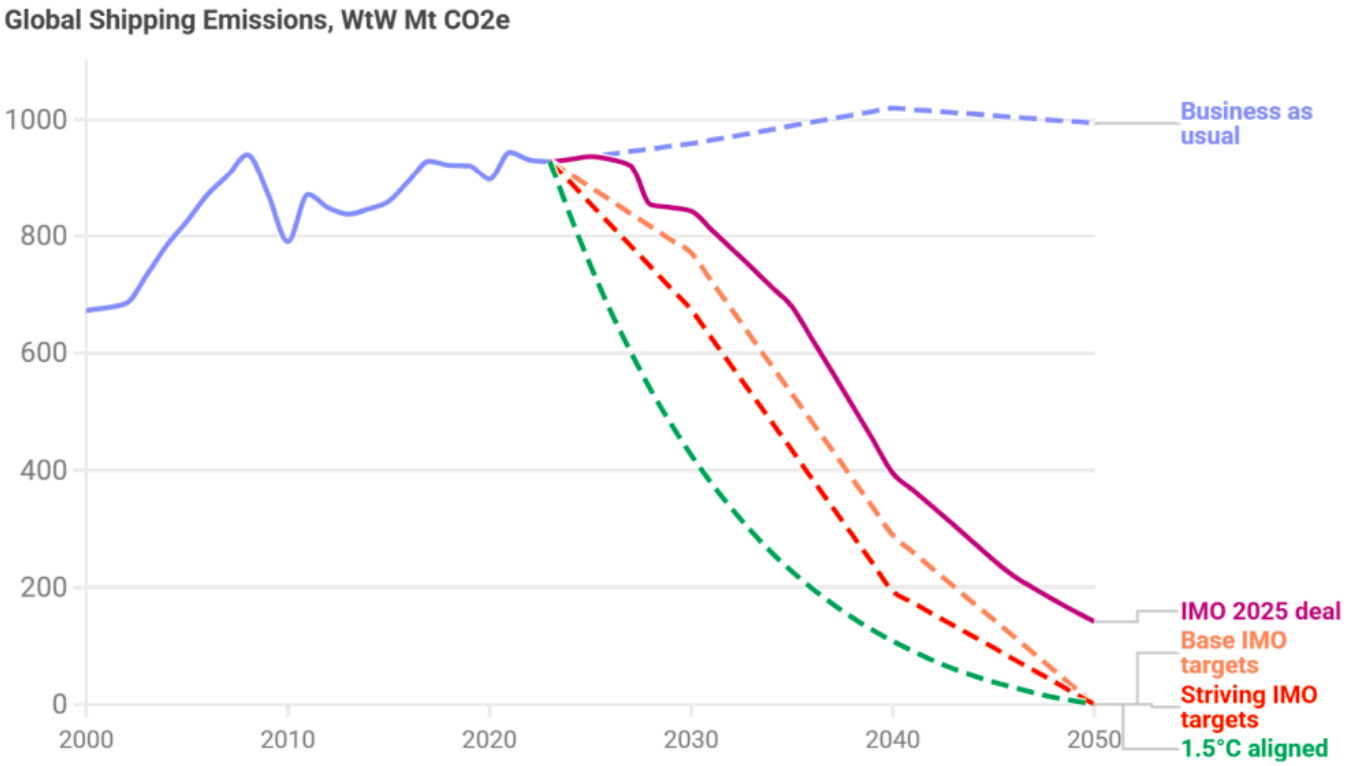
Furthermore, long lead times for onshore power supply of five or more years mean that if the sector waits until 2029 for certainty to invest, the rollout of onshore power supply could also be delayed.

The longer the UK delays regulation to slash international emissions, the more green jobs and growth are captured by first movers outside of the UK, including the EU, which has a robust regulatory framework, including the EU ETS, FuelEU Maritime and Alternative Fuels Infrastructure Regulation to decarbonise the sector. Therefore, it is crucial that the UK Government progresses policy measures beyond the expansion of the ETS to give policy certainty to the sector, driving investment and growth into the UK. It is crucial that this covers both domestic and international maritime emissions. As the UK Government stated in the Maritime Decarbonisation Strategy, "should multilateral action through the IMO be delayed or prove insufficient, the UK will develop bespoke domestic measures to address our share of these international emissions, in line with our legal commitment to net zero." Now is the time to take that action.

Even if the NZF is adopted, it is insufficient to meet UK Climate Targets which means UK policy must go further

In the unlikely scenario that the IMO NZF is adopted this year, its current ambition is insufficient to meet the UK's climate targets. The IMO's NZF will not reach net zero by 2050, or meet the base or striving targets of the IMO. The UK's Maritime Decarbonisation Strategy targets are aligned with those of the IMO's striving targets, meaning the IMO NZF alone will not be able to reach those targets. The UK cannot rely on the IMO to regulate its share of international emissions; the UK needs a strong ETS that can effectively support the decarbonisation of the sector and enable the UK to meet its emissions targets.

The new measure will fail to deliver IMO's own emission targets



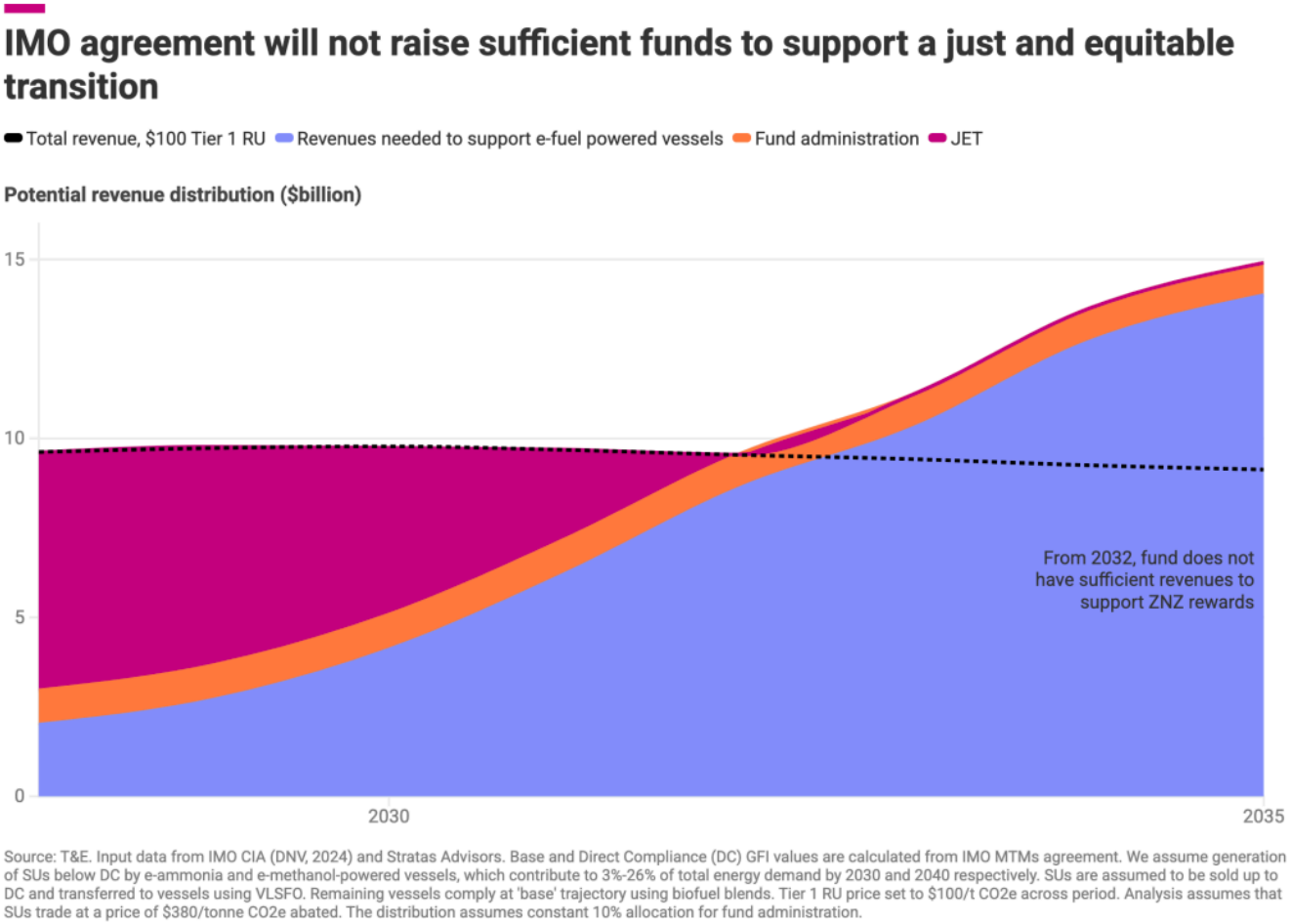
Source: T&E. Pre-2018 data are based on the 2nd, 3rd and 4th IMO GHG studies. Post-2018 data are based on DNV (2024) and T&E calculations, 'low growth' scenario. 1.5°C aligned trajectory is based on SBTI 1.5°C pathway. Values are for international shipping.

While the framework should be in a position to generate approximate revenues of £7.5 billion[4] per year globally until 2035, it is not clear how much or if any funds would be directed towards emissions reduction in the UK. In comparison, the EU ETS is estimated to raise ~£8.7 billion per year[5] from the maritime sector and the UK ETS ~£1 billion per year. The EU is planning to mobilise £2.5 billion[6] to unlock investments and scale up production of renewable low-carbon fuels by the end of 2027. EU Member States are also investing. France is directing £77 million[7] of revenues from the EU ETS towards the decarbonization of the maritime sector.

It is therefore crucial that the UK has funds available to invest in becoming a leader in maritime decarbonisation and ensuring the UK benefits from first-mover advantages of green jobs, economic growth, and technological leadership. Doing so would aid in achieving the UK's mission of becoming a Clean Energy Superpower and Kickstarting Economic Growth by weaning the maritime sector off imported fossil fuels and onto home-grown renewables.

[4] $10 billion USD, at a rate of 1.00 USD = 0.746 GBP on 16 January 2026, Xe currency converter
[5] €10 billion EUR, at a rate of 1.00 EUR = 0.866 GBP on 16 January 2026, Xe currency converter
[6] €2.9 billion EUR, Ibid
[7] €90 billion EUR, Ibid

T&E analysis has also found that the projected revenues of the IMO NZF will not be sufficient to support the uptake of zero- and near-zero GHG fuels, nor enable a just and equitable transition. Even if funds are prioritised for zero and near zero (ZNZ) fuel rewards, in the absence of additional incentives, the estimated revenues needed to support the uptake of scalable ZNZs will run out by 2032.



Source: T&E. Input data from IMO CIA (DNV, 2024) and Stratas Advisors. Base and Direct Compliance (DC) GFI values are calculated from IMO MTMs agreement. We assume generation of SUs below DC by e-ammonia and e-methanol-powered vessels, which contribute to 3%-26% of total energy demand by 2030 and 2040 respectively. SUs are assumed to be sold up to DC and transferred to vessels using VLSFO. Remaining vessels comply at 'base' trajectory using biofuel blends. Tier 1 RU price set to $100/t CO2e across period. Analysis assumes that SUs trade at a price of $380/tonne CO2e abated. The distribution assumes constant 10% allocation for fund administration.

Extending the UK ETS to cover international emissions is just the first step. The rollout of emissions-reducing technology is slow, including onshore power supply, which is one of the easiest measures to reduce emissions from the sector. Long lead times for ports to obtain grid connections of five or more years and significant capital costs mean that a large-scale rollout of onshore power supply is unlikely before 2030. Significant investment is also needed in growing the nascent green e-fuels sector. While the UK ETS can generate funds to invest in its scale-up, stronger demand-side signals are necessary. This is why the UK Government should, with urgency, bring forward regulations that would drive technological changes in the sector, including:

- Mandating the rollout and use of onshore power supply infrastructure at major ports in the UK to allow ships to plug into power while docked. Allowing ships to run on clean, home-grown renewables rather than burning fossil fuels at berth.

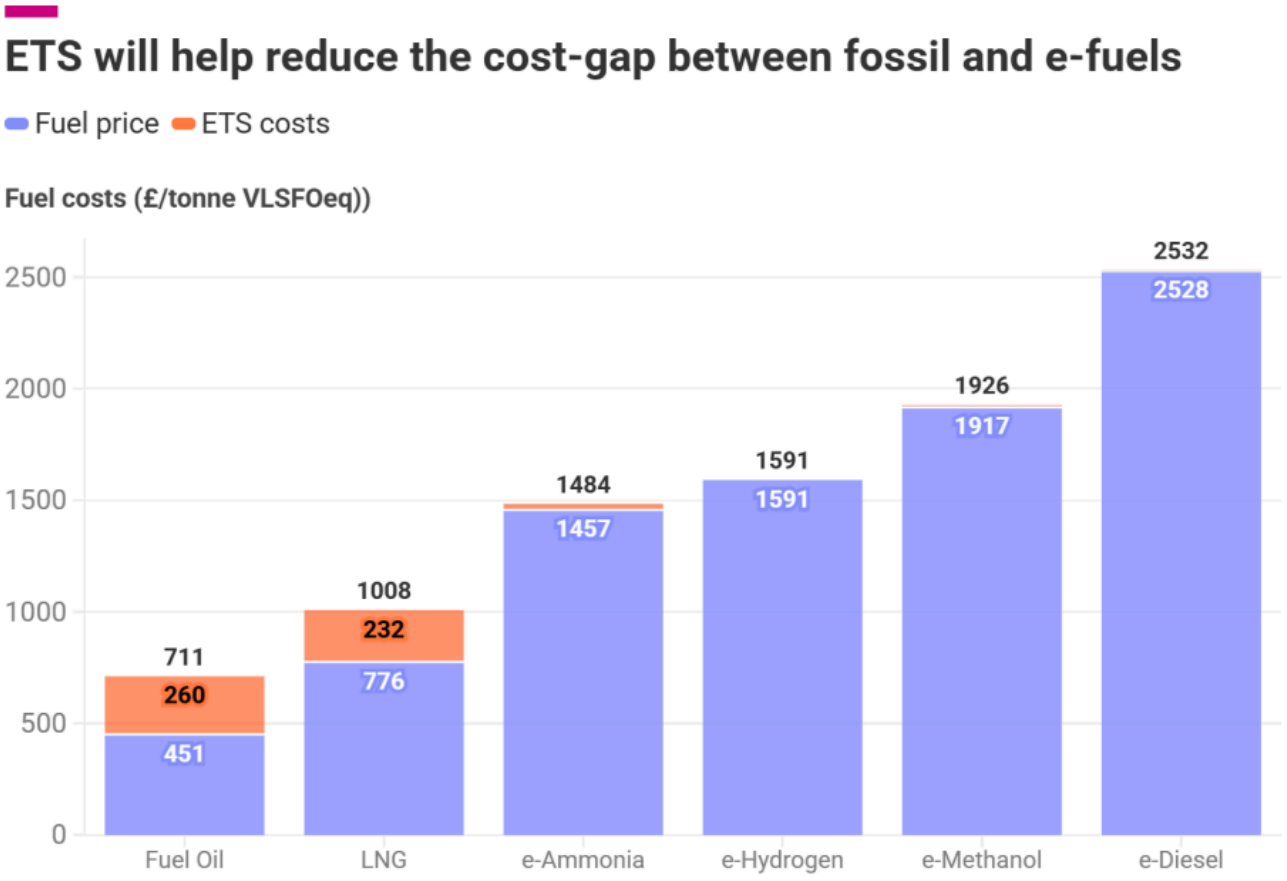
- Mandating the uptake of green hydrogen-based fuels (e-fuels) for the shipping sector to reduce climate emissions and set the sector on a path to decarbonisation. This should include both international and domestic voyages.
- Introducing a GHG Intensity Standard for shipping to drive the use of green fuels and the rollout of efficiency measures for both domestic and international shipping.

3. Impacts of the UK ETS

T&E sees the most significant impact from the UK ETS being its revenue-generating potential, and it starting to bridge the price gap between fossil fuel incumbents and lower emissions alternatives.

A UK ETS that covers the UK's fair share of maritime emissions, both domestic and international, for vessels of and above 400 GT, has the potential to generate revenue of £1 billion a year for the Exchequer, compared to the estimated £250 million under the current scope covering only domestic and port emissions. Further, as discussed above, if invested strategically through the National Wealth Fund, the revenues generated could be used to crowd in investment into the scale-up of green fuels production, helping to meet the expected demand for e-fuels required to meet emissions reduction targets.

The UK ETS will also help with reducing the price gap between the fossil fuels currently used by the shipping sector and the e-fuels that will be needed to meet emission reduction targets. This is an important first step to achieving emissions reduction, but as mentioned, regulation to incentivise demand is also needed to close the gap that remains.



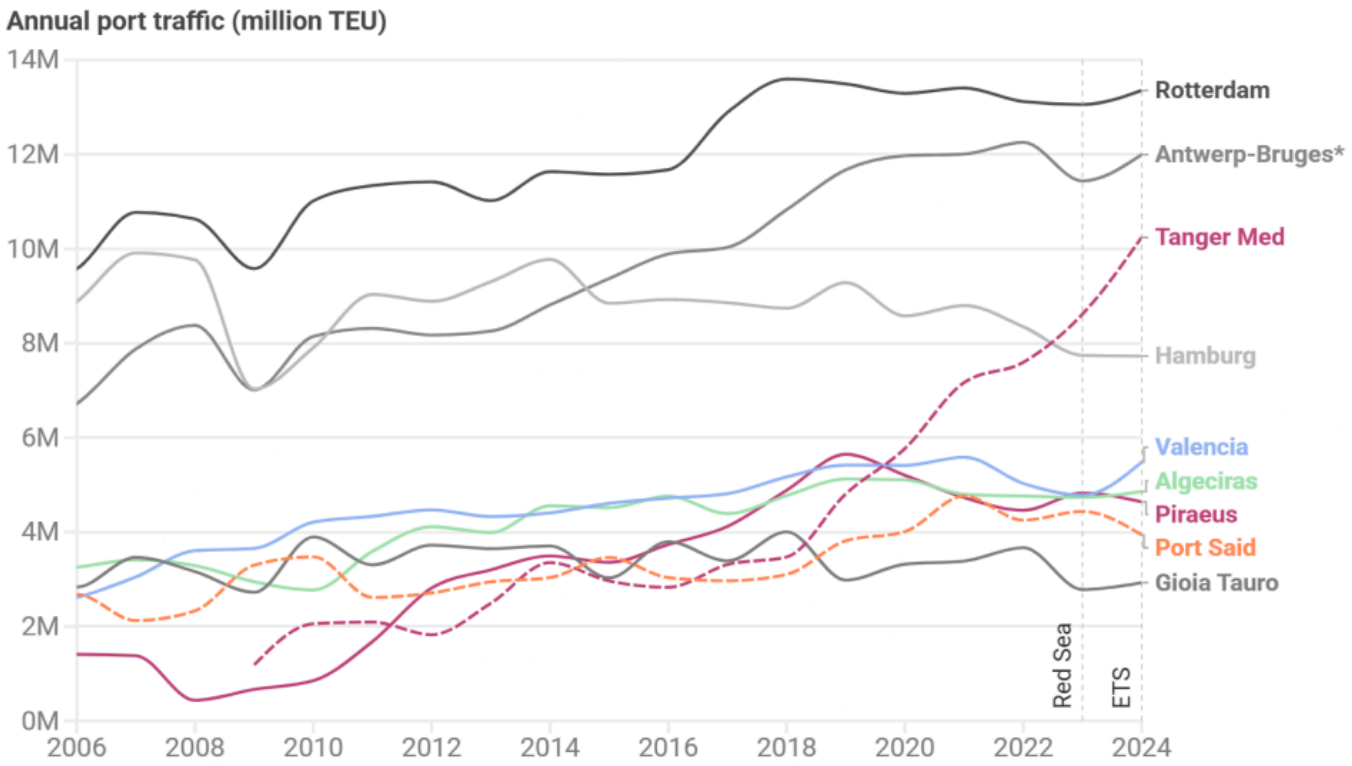
Source: T&E (2025). Assumes carbon price of £80/tonne. E-fuel costs based on T&E price modelling for 2030.

4. Adverse impacts of the UK ETS

The proposal to expand the UK ETS to international maritime voyages would have minimal adverse impacts on consumers. T&E found that the inclusion of international maritime voyages in the UK ETS would have a minimal impact on the cost of goods, adding just 6 pence to the cost of a television and 45 pence to the cost of a refrigerator imported from Singapore.

It is also unlikely that there would be a significant impact on competitiveness in UK ports. In the EU, we see the greatest impact in the growth in container traffic at non-EU ports predating the introduction of the EU ETS, with the growth more likely attributed to effective national policies, domestic and international investment, high terminal automation and efficiency and lower labour costs. The dip in container port traffic in the EU is better explained by geopolitical tensions in the Red Sea since 2023, with port traffic bouncing back in most ports in 2024 despite the introduction of the EU ETS. The inclusion of international emissions in the UK ETS would likely have a low overall carbon leakage risk, as the primary competition is with EU ports, which would have the same regulation. The UK is also located further geographically from ports without international emissions coverage within the ETS than some EU ports, such as the Port of Algeciras in Spain and the Port of Piraeus in Greece.

Port traffic growth in key EU and non-EU ports



Source: Eurostat, AAPA and Tanger Med annual reports (Tanger Med data unavailable for 2007 and 2008). The remainder are from annual press releases. *The Port of Antwerp merged with the Port of Bruges in 2022.

T&E expects the risk of gaming, transshipment and evasion to be low; competition from ports is most likely from EU ports, which already price international shipping emissions. If evidence of gaming, transhipment or evasion is identified in the future, then mechanisms could be introduced to overcome this, such as introducing a Carbon Border Adjustment Mechanism approach (section 3) in which ETS costs are calculated on a container rather than a ship basis for high-risk ports.

4. Conclusion

T&E welcomes the UK Government's consultation, aligning the UK ETS to the EU ETS by extending the scope to international maritime voyages is an essential step to ensure that the UK is fairly taxing and taking responsibility for its fair share of maritime emissions. In light of the delay in voting on the Net Zero Framework (NZF) at the International Maritime Organization (IMO), it is more important than ever that the UK take responsibility for its fair share of emissions.

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Further information

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