CARBON MARKET WATCH

23/01/2025

UK Emissions Trading Scheme Scope Expansion: Maritime

Answer from Carbon Market Watch to the joint consultation of the UK Government, the Scottish Government, the Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland

CMW welcomes the proposed integration of the maritime sector into the UK Emissions Trading Scheme as of 2026. We confirm the government's approach of pricing emissions of greenhouse gases beyond CO2 because this is very relevant in maritime transport's climate footprint. However, the UK administration should ensure that the cap is based on realistic assumptions that are aligned with the urgency of addressing climate change. A flat cap until the end of the decade simply cannot be considered a serious option. Moreover, the UK should price 50% of emissions arising from international voyages, whether to and from the Republic of Ireland, the European Economic Area or the rest of the world. This will solve the issue of a fair level playing field between the Republic of Ireland and Northern Ireland, align with the EU's approach, increase overall ambition and generate revenue. Finally, the scheme should already apply to smaller ships.

Questions

1. Do you agree with the proposed definition of a domestic voyage? (Y/N) Please explain your response, providing evidence where possible.

N - CMW questions the proposed exclusion of UK Crown Dependencies and Overseas Territories. Under Intergovernmental Panel on Climate Change (IPCC) rules, "domestic navigation" is defined as a journey that departs or arrives in the same country. This could mean that under IPCC rules, voyages (including fuel consumption and therefore emissions) between the UK mainland and Crown Dependencies / Overseas Territories fall under the IPCC definition of domestic navigation. If this is the case, there is no justification for excluding these emissions from the definition of a domestic voyage.

2. Do you agree that the proposed definition will capture all relevant domestic emissions? (Y/N) Please explain your response, providing evidence where possible.
N - Capturing all relevant domestic emissions would require covering small ships (400-5,000 GT) too. These ships' emissions should also be subject to carbon pricing under the UK ETS.

3. Do you envisage this definition leading to any loopholes or perverse incentives? (Y/N) Please explain your response, providing evidence where possible.
Y - Excluding the UK Crown Dependencies from the definition of a domestic voyage could lead to carbon leakage if vessels re-route to avoid ETS charges. The Isle of Man, for example, is a Crown Dependency located near a busy shipping lane between Great Britain and Northern Ireland.

4. Do you agree with the inclusion of emissions at berth in a UK port from ships performing both domestic and international voyages? (Y/N) Please explain your response, providing evidence where possible.
Y - These emissions are part of domestic emissions, taking place on the domestic territory of the UK and that would not have occurred if the ship would not be operating voyages. They should be covered under the UK ETS. But again, small ships (400-5,000 GT) should be covered too. Covering these emissions will provide various advantages: 1) more climate ambition (in Mt of GHG emission reduction), 2) reduced air pollution (in the quantity of SOx, NOx, PM, VOCs, etc.) - particularly relevant when it comes to emissions from ships at berth, 3) additional revenue benefits from carbon pricing (T&E estimates them at £207m/year at a carbon price of £80/tonne), and 4) further incentives for clean innovation (in reducing the cost gap between incumbent technologies and new clean technologies - here, particularly for onshore power supply (OPS)).

5. Do you agree with our position that routes between Northern Ireland and Great Britain should face equivalent carbon pricing obligations to that between the Republic of Ireland and Great Britain? (Y/N) Please explain your response, providing evidence where possible.
Y - Voyages between Ireland and Great Britain and voyages between Northern Ireland and Great Britain should face the same carbon pricing obligations. The opposite situation would be unfair to either Northern Ireland or Ireland and could create situations of carbon leakage.

6. Do you agree that subjecting in-scope ships on voyages between Northern Ireland and Great Britain to 50% (as opposed to 100%) of their carbon pricing obligation under the UK ETS would be suitable for ensuring carbon pricing obligation equivalence and emissions coverage equivalence between Northern Ireland and Republic of Ireland? (Y/N)

a. Should this option be time limited or exist for as long as there remains a disparity in the carbon pricing obligation on these routes?

N - This option would not be suitable for ensuring effective carbon pricing of the UK's maritime emissions. It would be a 'race to the bottom' solution whereby climate ambition, revenue benefits, and incentives for clean innovation are all cut, whereas pricing voyages between the Republic of Ireland and Great Britain at 50% of emissions instead - complementing the other half already priced under the EU ETS - would match the legitimate 100% pricing of voyages between Northern Ireland and Great Britain which are intra-UK voyages.

7. Do you believe expanding the scope of the UK ETS to include 50% emissions coverage on UK-EEA routes could a) lead to better decarbonisation outcomes for the sector and b) be a suitable alternative approach to ensuing equivalence in carbon pricing obligations to that outlined in Question 6 above? (Y/N) Please explain your response, providing evidence where possible.

Y - This option would be suitable for ensuring effective carbon pricing of the UK's maritime emissions. Contrary to the option presented in 6), it would be a 'race to the top' solution whereby climate ambition, revenue benefits, and incentives for clean innovation are all raised, legitimately covering 100% of emissions from voyages between Northern Ireland and Great Britain which are intra-UK voyages and 50% of emissions from voyages between Great Britain and EEA countries (including to and from the Republic of Ireland, solving the issue of carbon leakage with Northern Ireland). Just like under the EU ETS applying to EEA countries, the UK ETS should start pricing 50% of emissions from UK-EEA routes as soon as 2026. According to T&E, ~75% of total UK shipping emissions (15.5Mt out of 21Mt CO2e in 2023) resulted from UK international voyages, with ~37% (7.7Mt) resulting from UK-EEA voyages. CMW recommends that the UK include all domestic, all port and 50% international emissions from all vessels above 400GT within its ETS.

8. Are there any other alternative approaches we should consider? Please explain your response, providing evidence where possible.

No, all UK emissions should be subject to carbon pricing, with all domestic, all port and 50% international emissions from all vessels above 400GT covered within its ETS (cf answer to question 7).

9. Do you consider that there are differing impacts of these two approaches which we should consider when making a final decision? (Y/N) Please explain your response, providing evidence where possible.

Y - The following impacts should be taken into account when making a final decision: 1) climate ambition (in Mt of GHG emission reduction), 2) air pollution (in the quantity of SOx, NOx, PM, VOCs, etc.), 3) revenue benefits from carbon pricing, and 4) incentives for clean innovation (in reducing the cost gap between incumbent technologies and new clean technologies). The 'polluter-pays' principle must be upheld and applied. Limiting the ETS scope to domestic and port emissions from vessels above 5000GT would mean not applying this principle and excluding ~70% of UK shipping emissions from any pricing obligation (source: T&E).

10. Do you foresee any additional consequences of this policy intervention that we should be aware of? (Y/N) Please explain your response, providing evidence where possible.

Y - We caution that any exclusion of UK international emissions leaves these unregulated. As such they represent a liability, a) because they will be included in the UK carbon budgets from 2033, and b) because the UK is legally obliged under international climate law to regulate these emissions.

The UK has not published a decarbonisation pathway for shipping, and the Carbon Budget Delivery Plan (CBDP) is based on flawed assumptions and should not be used to set an emissions cap under the ETS. The Government cannot rely on the International Maritime Organization (IMO) to effectively regulate and reduce these emissions in line with the 1.5 degree temperature objective of the Paris Agreement.

11. Should we consider a de minimis threshold for operators with very low emissions to avoid a compliance burden? (Y/N) If so, what should this de minimis threshold be? Please explain your response, providing evidence where possible.

Y - For now, it would be reasonable to apply a de minimis threshold of 400 GT, ie not covering ships below 400 GT under the UK ETS. The MRV legislation should be adapted as soon as possible, though, to include MRV obligations for ships between 400 GT and 5,000 GT and start pricing their emissions in 2026. The 'polluter-pays' principle must be

upheld and applied across all sectors, ie including across all UK shipping. An alternative measure to apply while reducing the administrative burden could be a marine fuel levy or tax, thus eliminating the reporting requirement.

12. If you support a de minimis threshold, should a simplified process apply or should the requirements of the UK ETS not apply at all? (Y/N) Please explain your response, providing evidence where possible.

Y - With a de minimis threshold set at 400 GT, the UK ETS should not apply at all beneath this level. However, if need be, the UK ETS could apply to ships betwen 400 and 5,000 GT with a simplified process.

13. Do you agree with the inclusion of emissions from the combustion or slippage of methane and nitrous oxide emissions from maritime activity within the scheme? (Y/N) Please explain your response, providing evidence where possible.

Y - All main GHG from the shipping sector emissions (CO2, CH4, and N2O) should fall under the UK ETS coverage. CH4 and N2O are as relevant as CO2 regarding shipping's climate impact. Their higher global warming potential makes it key to cover them too.

14. Do you agree with our proposal for how to calculate an operator's greenhouse gas emissions on a carbon dioxide equivalent (CO2e) basis? (Y/N) Please explain your response, providing evidence where possible.

N - Methane slippage values should be conservative and reflect the most recent evidence. EU and IMO regulations assume 3.1% and 3.5% methane slippage, respectively. These values are under-estimates and should be revised upwards in light of the best available evidence.

Ideally, IPCC AR6 GWP20 values should be used for both methane (82.5) and nitrous oxide (273). Should the Government favour GWP100, the value for methane should be updated to 29.8 as per IPCC guidelines.

15. Do you have any views on the exemption of Government non-commercial maritime activity, or the activity covered by this term? (Y/N) Please explain your response, providing evidence where possible.

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16. Do you think an exemption is necessary for specific ferry services serving island communities in Scotland? (Y/N) Please explain your response, providing evidence where possible.

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17. Do you think an exemption is necessary for specific ferry services serving peninsular communities in Scotland? (Y/N) If so, what would be a suitable definition of remote peninsular communities? Please explain your response, providing evidence where possible.

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18. If these services are exempted, do you think they should be subject to UK ETS MRV regulations? (Y/N) Please explain your response, providing evidence where possible.

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19. Do you have any further comments to make on an exemption for ferry services serving island and/or peninsula communities in Scotland?

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20. Do you consider that there are any further subsectors which might be unduly impacted by the policy and require exemption? (Y/N) Please explain your answer, including on whether UK ETS MRV regulations should apply, and provide evidence where possible.

N- No, beyond GNCMA, no further activity or sector should be exempted from the UK ETS obligations. Further exemptions would be detrimental to the UK ETS integrity, risking unfair treatment across sectors and decreasing the benefits of the UK ETS further: less climate ambition, air pollution reduction, revenue benefits, and incentives for clean innovation.

21. Do you agree that the proposed approach, of adding allowances equivalent to emissions in scope per emissions trajectories aligned to the CBDP, is the most appropriate approach to adjusting the cap and to ensure the emissions reductions required to deliver climate targets? (Y/N). Please explain your response, including by proposing an alternative approach if appropriate.

N - CMW agrees that allowances should be added equivalent to emissions. However, the CBDP should not be used. The CBDP uses flawed assumptions and cannot be proven to be aligned with the 1.5 degree temperature objective of the Paris Agreement.

The CBDP Technical Annex states that the assumed 2021-2040 baseline comes from “internal analysis”, which remains unpublished. Without a baseline we cannot comment on whether the emissions savings presented for shipping are compatible with climate

obligations. However, it appears that UK international shipping emissions have been calculated using the fuel sales methodology (whilst this is not explicitly stated it reflects the Government's reporting policy to date and in future, page 8, para 7). T&E analysis of UK shipping emissions in 2021 indicates that the fuel sales method under-estimates UK international shipping emissions by around two-thirds (government data for that year reports 6.2Mt international emissions, compared to T&E's activity-based inventory of 18Mt (which is a better reflection of the UK's seaborne trade). Emissions savings required from UK international shipping over CBs 4, 5 and 6 therefore need to be very much greater than set out in the CBDP.

22. Do you agree with the proposed approach to adjusting the cap to account for the inclusion in the scheme of emissions from the maritime sector? (Y/N).
Please explain your response with reference to any alternative approaches or sources of evidence, or consideration of how to account for emissions from GB-NI and/or UK-EEA voyages.
N - The flat cap proposed for 2026-2030 is hugely problematic for decarbonisation and the climate. A flat cap indicates no significant decarbonisation of the maritime sector is anticipated or even desired before 2030.

23. Do you have views on whether allowances from cap adjustments in Phase I should all flow directly to auctions, or whether a proportion should flow to reserve pots? Please explain your response, providing evidence where possible.
All allowances should be auctioned and there should not be any free allowances.

24. What would you expect to be the impact of the proposed approach to cap adjustment on participants in the sector and/or the wider UK ETS market? Please explain your response, providing evidence where possible.
A flat cap does not incentivise significant GHG abatement in the maritime sector as woud be required. It creates little incentive for short-term abatement measures such as route-optimisation and slow steaming, and it does not support a strong carbon price.

25. Do you agree with the proposed regulatory provisions, such as the scheme year, compliance dates, content of the emissions monitoring plan and penalties regime, operator requirements, or applicable regulator? (Y/N) Please explain your response, providing evidence where possible.
Y

26. Do you agree that we should use the UK MRV regime as the basis for the UK ETS, with deviations for the purpose of the UK ETS MRV requirements as outlined? (Y/N) Please explain your response, providing evidence where possible.

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27. Do you agree that the approval of monitoring plans for maritime should be in line with existing UK ETS processes? (Y/N) Please explain your response, providing evidence where possible.

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28. Do you agree that we should remove the requirement for a Document of Compliance from the UK ETS MRV requirements? (Y/N) Please explain your response, providing evidence where possible.

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29. How best should we account for biofuels and other sustainable fuels used in the maritime sector in the scheme? How best can we consider lifecycle emissions for fuels used in the maritime sector in the scheme? Please explain your response, providing evidence where possible.

Emissions from all fuels should be accounted for on a lifecycle basis.

CMW strongly supports the use of renewable, hydrogen-based e-fuels such as hydrogen and methanol in the maritime sector. Also known as renewable fuels of non-biological origin (RFNBOs), such fuels are shown to be the only (potentially) zero-emission marine fuel options that are both scalable and sustainable in the longer term. CMW only supports the most sustainable biofuels, causing no indirect land use change, and CMW does not support the large-scale use of marine biofuels.

30. Which greenhouse gas emission factors for each maritime fuel and energy source would be most appropriate to use under the scheme? Are these emission factors fit for purpose for calculating lifecycle CO2e emissions? Please explain your response, providing evidence where possible.

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31. Do you agree that the changes outlined above should also be made to the existing UK MRV regime? (Y/N) Please explain your response, providing evidence where possible.

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32. Do you agree with the proposed approach to defining the obligated entity? (Y/N) Please explain your response, including your views on the requirements for the delegation of responsibility, and on the proposed default position where those requirements are not met. If you do not agree, please outline your preferred alternative approach.

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33. Do you agree with our understanding of the ability for the obligated entity to seek entitlement to cost recovery? (Y/N) Please explain your response, including the extent to which you would expect revision to contractual arrangements.

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34. On which aspects of the policy proposals should we produce guidance, and to what timescale? Please explain your response, providing evidence where possible.

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35. Does the section above capture all relevant short and long term decarbonisation impacts of the UK ETS? (Y/N) Please explain your response, providing evidence where possible.

No - it captures the most important ones, i.e. price signal providing incentives for more effective operations and helping to bridge the cost gap between conventional and alternative clean energy sources, as well as revenue raising. As already raised, benefits can be summarised as follows: 1) climate ambition (in Mt of GHG emission reduction), 2) air pollution reduction (in the quantity of SOx, NOx, PM, VOCs, etc.), 3) revenue benefits from carbon pricing, and 4) incentives for clean innovation (in reducing the cost gap between incumbent technologies and new clean technologies). One should add that high-standard national or regional carbon pricing policy's potential to inspire and/or influence other national/regional and international (IMO) carbon pricing policies could be another positive decarbonisation outcome. The disincentivisation of fossil fuel use carbon pricing triggers also can bring benefits in terms of increased energy security and autonomy.

36. How else could the UK ETS support decarbonisation in the sector? Please explain your response, providing evidence where possible.

Cf answer to question 35

37. Do you consider that the application of the UK ETS will have any further environmental impacts, positive or negative? (Y/N) If negative, are there any mitigations that could be taken? Please explain your response, providing evidence where possible.

Y - cf answer to question 35

38. Do you consider that application of the UK ETS will lead to any adverse impacts for any particular communities or regions, or sub-sectors of the maritime economy. (Y/N) Please explain your response, providing evidence where possible.

/ - CMW considers that the UK administration should monitor these potential impacts and report on these in a regular manner. If observed, these impacts should be mitigated and revenues generated by the UK ETS for maritime could be used for this purpose.

39. Do you consider that application of the UK ETS will lead to any carbon leakage or modal shift to other transport types? (Y/N) Please explain your response, providing evidence where possible.

/ - CMW considers that the UK administration should monitor these potential impacts and report on these in a regular manner. If observed, these impacts should be mitigated and revenues generated by the UK ETS for maritime could be used as efficiently as possible to level the playing field between transport modes and help the maritime sector develop clean alternative solutions.

40. Do you consider that the application of the UK ETS to the maritime sector will lead to any impacts for any groups with protected characteristics under the Equality Act 2010? And do you consider any elements of the UK ETS expansion to the maritime sector could be designed to achieve the objectives set out under s149 of the Equality Act 2010? Please explain your response, providing evidence where possible.

/ - CMW considers that the UK administration should monitor these potential impacts and report on these in a regular manner. If observed, these impacts should be mitigated and revenues generated by the UK ETS for maritime could be used for this purpose. Any mitigation should not lead to a less strict application of the polluter-payer principale or to a less ambition emission reduction pathway.

41. Do you agree that a lower threshold could support the maritime sector to decarbonise? (Y/N) Please explain your response, providing evidence where possible.

Y - MRV for ships under 5,000 GT and above 400 GT should start as soon as possible. Their emissions should be priced from 2026, ie from the outset. Pricing their emissions will bring several advantages: 1) more climate ambition (in Mt of GHG emission reduction), 2) more air pollution reduction (in the quantity of SOx, NOx, PM, VOCs, etc.), 3) more revenue benefits from carbon pricing, and 4) more incentives for clean innovation (in reducing the cost gap between incumbent technologies and new clean technologies). The sooner carbon pricing begins on smaller ships, the sooner the incentive highlighted in the 4th point will kick in. Small ships can serve as an ideal testbed for clean energy and technology pilot projects, before scaling up and transfer to larger ships.

42. Do you agree that if we were to lower the threshold, it should be to 400GT? (Y/N) Please explain your response, providing evidence where possible.

Y - A 400 GT threshold sounds reasonable as a first step. If the administrative is deemed to high on these smaller ships, reporting simplification can be considered. The threshold should be further lowered soon after to ensure smaller private yachts are also covered by carbon pricing. Alternatively, these emissions should be covered by a similar policy tool, eg marine fuel levy or tax.

43. Is it practical for ships between 400GT and 5000GT to undertake monitoring, reporting and verification requirements? (Y/N) Should there be a simplified monitoring regime should the threshold be lowered? Please explain your response, providing evidence where possible.

Y - CMW agrees simplified MRV system can be considered for smaller ships. This should not allow them to forgo the “polluter-pays” principle and escape carbon pricing.

44. Would any inland waterways or leisure craft be captured by a 400GT threshold? (Y/N) Please explain your response, providing data where possible.

Y - A 400 GT threshold could include some larger inland cargo barges and passenger vessels, particularly those operating on major navigable rivers and canals. Superyachts larger than 50 meters can exceed 500 GT, depending on design. Especially for the latter kind, it is all the more relevant to capture emissions under carbon pricing, as an evident example of unnecessary emissions generated by the most privileged tier of society. Incentivising emission reduction and innovation in clean propulsion systems for these small ships and yachts can also help testing solutions there which can then be replicated at larger scale and on larger ships. It can also help further rolling out clean hydrogen-based fuels and decrease their prices.

45. When would be an appropriate date for lowering the threshold if we were to lower it in the future? Please explain your response, providing evidence where possible.

The MRV legislation should be adapted as soon as possible to include MRV obligations for ships between 400 GT and 5,000 GT and start pricing their emissions in 2026, ie from the outset.

46. What will be the impacts of lowering the threshold? Would any sub-sectors be disproportionately impacted? Please explain your response giving evidence where possible.

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In the event that the conditions highlighted above at the IMO were realised;

47. Should the UK ETS be expanded to include emissions from all international voyages starting or ending in the UK in future? (Y/N) Please explain your response, providing evidence where possible.

Y - The UK ETS should mirror the EU ETS as soon as possible in this respect: cover 50% of emissions of international voyages, ie voyages between the UK and another third country. Pricing their emissions will bring several advantages: 1) more climate ambition (in Mt of GHG emission reduction), 2) more air pollution reduction (in the quantity of SOx, NOx, PM, VOCs, etc.), 3) more revenue benefits from carbon pricing, and 4) more incentives for clean innovation (in reducing the cost gap between incumbent technologies and new clean technologies). As mentioned earlier, high-standard national or regional carbon pricing policy (especially when applying to a sharre of international routes) can inspire and/or influence other national/regional and international (IMO) carbon pricing policies. It should be made clear that both an international economic measure (eg a carbon levy) adopted at the IMO and a national/regional economic measure (eg UK or EU ETS) can coexist. It could be ensured, amongst other options, that the national/regional complements the international measure by topping it up (if the international carbon levy were at a lower price level than the UK ETS - eg 20 GBP / tonne of CO2e - for the purpose of complying with UK ETS obligations, the ship operator could deduct the levy fee already paid for compliance with the international IMO carbon levy.

48. If you agree with the above, do you think 50% of emissions from voyages by inscope ships making an international voyage which starts or ends in the UK from overseas should be covered? (Y/N) Please explain your response, providing evidence where possible.

Y - The UK ETS should mirror the EU ETS as soon as possible in this respect: cover 50% of emissions of international voyages, ie voyages between the UK and another third country, mirroring what the EU ETS already does. Cf answer to question 47.

49. If you support the inclusion of international voyages, do you have a view on when this should be implemented? Please explain your response, providing evidence where possible.

The MRV legislation should be adapted as soon as possible to include MRV obligations for ships operating international voyages. The UK ETS should start pricing their emissions in 2026, ie from outset. Cf answers to questions 47 and 48.

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