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Y Dirprwy Brif Weinidog ac Ysgrifennydd y Cabinet dros New
Hinsawdd a Materion Gwledig
Deputy First Minister and Cabinet Secretary for Climate
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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: HID-PO-616-25

Llyr Gruffydd MS
Chair
Climate Change, Environment and Infrastructure Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

27 November 2025

Dear Llyr,

I am writing to inform you that the UK Emissions Trading Scheme (UK ETS) Authority (comprising of the Welsh Government, the UK Government, the Scottish Government, and the Northern Ireland Executive) has published two responses to UK ETS consultations and one further consultation. On 25 November 2025, the Authority published a response to the UK Emissions Trading Scheme Scope Expansion: Maritime consultation, which relates to the inclusion of emissions from domestic maritime. Alongside this response, the Authority also published a consultation on including emissions from international maritime into the scope of the UK ETS. This was followed on 26th November 2025 by the publication of a response to the UK Emissions Trading Scheme: Free Allocation Review consultation. Additionally, *The Greenhouse Gas Emissions Trading Scheme (Amendment) Order 2026* ("the Order") has today been laid in the Senedd.

The Authority Response to the domestic maritime consultation follows proposals to bring domestic maritime into the UK ETS. It confirms that the scheme will apply to vessels of 5000 Gross Tonnage (GT) and above with no de minimis threshold, with a review point for this threshold in 2028. It explains there will be a delay in the inclusion of offshore vessels until January 2027 and that the inclusion will include a 50% reduction in the UK ETS surrender obligations on routes between Northern Ireland and Great Britain to give parity with routes between the Republic of Ireland and Great Britain. It will provide an exemption for ferries serving the Scottish islands and peninsulas, and for fishing vessels, both of which are to be reviewed in 2028. The overall cap on UK ETS allowances will increase in line with the projected increase in emissions from the introduction of the Maritime sector into the UK ETS.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

The Authority, including officials across the Welsh Government, engaged extensively with affected stakeholders. Most were in favour of these proposals and supported the inclusion of maritime to the scheme. The Climate Change Committee (CCC) advised against adjusting the cap to account for maritime emissions as they were concerned the number of allowances in the scheme is too high and the price of UK ETS allowances is too low to drive decarbonisation. However, the Authority decided to proceed with increasing the cap to account for maritime emissions. The cap is consistent with Net Zero and would continue to be so with the additional allowances for maritime. Any decisions to tighten the cap should be made through a formal resetting of the cap or via market stability mechanisms. Allowances in the scheme are not ringfenced for sectors and therefore not adding allowances to cover the maritime emissions would result in a reduction of allowances available to existing sectors, which would have a significant impact on Welsh participants. While the price of UK ETS allowances has been lower than the price of EU ETS allowances over the last year, it is gradually increasing.

These rule changes will require changes to the legislation, which will be taken forward in the Greenhouse Gas Emissions Trading Scheme (Amendment) (Extension to Maritime Activities) Order 2026. This is currently aimed to be laid in the Senedd in January 2026, with the coming into force date in April 2026.

The consultation on including emissions from international maritime follows the announcement on 19 May 2025 that the UK and EU will work towards establishing a link between the UK ETS and the EU ETS. The Common Understanding¹ set out the importance of ensuring that a link does not create competitive distortions, with specific reference that the scope should include international maritime transport.

The consultation on international maritime proposes that an international journey would capture any voyage which either starts or ends in a UK port and seeks views on including or excluding emissions from voyages to and from Crown Dependencies and Overseas Territories. It proposes that participants would monitor and report 100% of their greenhouse gas emissions on a voyage between a UK port and a port outside of the UK. However, operators would only be required to surrender allowances to cover 50% of their emissions. This would mirror the EU's current approach to international maritime emissions in the EU ETS. It also proposes that offshore vessels are included and required to meet the Monitoring, Reporting and Verification (MRV) and surrender obligations in the UK ETS. Lastly, it proposes adjusting the cap to account for international maritime emissions using the latest UK net zero consistent trajectory as set out in the Maritime Decarbonisation Strategy.

The Authority, including officials across the Welsh Government, will engage extensively with affected stakeholders to gather views to support final decisions on how the UK ETS will be expanded. These reforms to the UK ETS will require amendments to the Greenhouse Gas Emissions Trading Scheme Order 2020 and EU law as it applies in domestic law, so the Senedd along with other UK Parliaments will have the opportunity to scrutinise the legislation giving effect to our plans.

The Authority Response to the Free Allocation Review consultation follows proposals to reform free allocation policy and adjust it for Carbon Border Adjustment Mechanism (CBAM) sectors, following the UK Government's announcement that a CBAM will be introduced in 2027. Free allocations of UK ETS allowances (known as free allowances, "FA") is the only policy currently in place to mitigate carbon leakage. Carbon leakage is the displacement of greenhouse gas emissions due to the movement of production to other countries with weaker climate change mitigation policies. FA policy protects UK ETS participants from the

¹ [UK-EU Summit - Common Understanding \(HTML\) - GOV.UK](#)

full carbon price by providing an amount of allowances to participants for free. This is particularly important for Welsh participants who receive high levels of FA.

The Authority Response confirms that operators can choose to exclude activity data from the 2020 year, or the 2020 and 2021 years (due to the impact of Covid-19), from historical comparisons when considering if activity levels have changed. It also confirms that the current benchmarks, which are used to determine levels of FA by representing the performance of the best installations, will continue to be used until the new 2026 EU benchmarks are available. This will provide the most robust and representative framework for reflecting efficiency improvements, incentivise decarbonisation, and will maintain alignment with the EU ETS. While there was interest in developing UK focussed benchmarks, this was not viable due to the significant limitations in the dataset of UK installations. In relation to the introduction of a UK CBAM, the Response confirms a gradual phase-out of FA for sectors covered by the UK CBAM during the period of 2027-2030. This is important to ensure coherence between FA and CBAM policies which overlap in mitigating carbon leakage.

The Response also confirms that the Authority will not be taking forward proposals to amend the Carbon Leakage List (CLL), to tier levels of FA based on the level of carbon leakage, to phase out FA for sectors not on the CLL at an earlier date than currently planned, to consider access to decarbonisation technologies when allocating FA, and to apply conditions to receiving FA. These proposals were not taken forward due to a lack of sufficient UK data, concerns over adding complexity and uncertainty and making it harder for participants to plan and invest in decarbonisation activities, deliverability issues, and the desire to maintain alignment with the EU ETS while a link is being explored.

The rule changes on activity data, benchmarks, and phasing out FA for sectors covered by the UK CBAM require changes to the legislation. Today, the Order has been laid in the Senedd, which will allow for these changes.

Through the UK ETS, we must encourage decarbonisation in a way that does not risk disadvantaging Welsh industry and supports their decarbonisation pathways to a net zero world. These publications and the Order represent a crucial next step in increasing the coverage of the UK ETS and applying a more considered approach to FA within the UK ETS.

I am also copying this letter to the Chair of the Legislation, Justice and Constitution Committee.

Yours sincerely,



Huw Irranca-Davies AS/MS

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Deputy First Minister and Cabinet Secretary for Climate Change & Rural Affairs