REPORT

Linking the UK and EU carbon market is a great step forwards - now we need to deliver

The UK-EU Summit deal to connect carbon markets is a significant win for climate ambition. As ministers on both sides draft legislation for 2028, they must resist any industry lobbying to dilute the polluter pays principle across transport.

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Last Friday, the UK and EU finally agreed to reconnect carbon markets. Set to go live on the 1st of January 2028, the UK-EU Emissions Trading System (ETS) linking agreement will create the world's largest linked carbon market which could potentially save millions for British exporters and will replace two sets of compliance rules with a single, more stable price on carbon.

This deal is a hugely important turning point for both aviation and shipping - two sectors that are particularly challenging to decabonise. By agreeing to "dynamically align" with the EU rules, the UK now has an opportunity to ensure its emission trading scheme matches its own net zero ambitions. At present, the UK net zero target and sixth carbon budget both make reference to the UK's share of international emissions whereas the UK ETS does not - this deal can help bridge this gap. The deal is also a great opportunity to drive investment into British-made clean fuels, helping to bolster the UK's national and energy security.

Whilst legislation is being prepared on the deal for 2027, UK and EU governments need to ensure the ambition they have set out so far is realised. Progress can easily be undermined by bringing in weak rules on allowances, unnecessary loopholes, and missed opportunities on the scheme scope. If either the EU or UK governments allow environmental principles to be watered down, they will squander the industrial and climate benefits this deal is meant to deliver.

A long-overdue breakthrough for UK shipping emissions

Until now, the UK's approach to maritime carbon pricing has lagged badly behind Europe, covering only large vessels on domestic voyages since July 2026. As T&E set out in the *shipping at risk in the Strait of Hormuz* briefing, the shipping industry is heavily reliant on volatile fossil fuels. Extending the UK ETS to cover international shipping emissions and lowering the vessel threshold to 400 GT and above is a key step in reducing emission and lowering our over reliance on fossil fuels.

With the announcement of the summit deal, from 2028, the UK ETS will indeed expand its scope to cover 50% of emissions from international voyages entering or leaving UK ports. This is a great step forward in reducing UK maritime emissions ensuring the carbon pricing is covering the UK's fair share of domestic and international emissions. Mirroring what happens in the EU will also help to reduce administrative costs for business. Combined with aviation, the European Commission has estimated that this scope expansion will bring over 10 million tonnes of additional CO_2 into the carbon market.

Now Governments move to implementation. Both the EU and the UK should resist any more carve outs. Instead, they should take the opportunity to go further, bringing smaller commercial vessels (down to 400 gross tonnes) into scope, as is being discussed in the ongoing EU ETS Review. Both should also ensure shipping ETS revenues are channelled straight back into zero-emission marine fuels and green port infrastructure.

A welcome step for aviation, but the sector still not paying a fair share

For aviation, the linking agreement should make the scheme far easier for airlines to use. Airlines flying between the UK and Europe will now get a streamlined process, with a single administrative body, instead of having to duplicate paperwork across two schemes.

Crucially, the UK will also expand its ETS scope to cover flights to EU Outermost Regions (such as the Canary Islands, Azores and Madeira) from 2028, and both sides have locked in monitoring for aviation's non-CO_2 climate effects like contrails, which have a considerable warming impact on the planet.

However, significant issues still remain in the sector that can't be resolved through linkage alone. As T&E's 2025 UK aviation emissions report showed, 83% of emissions from extra-European flights departing the UK remain completely unpriced. Across Europe as a whole, our 2026 *Flying Blind* report found that airlines avoided an estimated €8.5 billion in carbon costs in 2025, largely because long-haul flights are still exempt.

With this new found connection between the two parties, the UK government should use its voice in Brussels to back the proposed extension of carbon pricing currently discussed as an intermediary step in EU ETS negotiations, and turn non-CO2 monitoring into real mitigation.

Weak allowance rules could undermine this deal

Both the EU and UK government need to be sure that pressure from industry for continual allowances, that work as credits to skip paying for their own emissions, does not weaken the carbon market's environmental principles. As part of the deal, the UK has secured a carve out for 1.5 million UK ETS allowances for SAF. These will play an important role in the scheme, however should be targeted at more advanced and effective technologies like e-SAF, rather than biofuels.

Linking the UK and EU carbon markets is an important step forward that proves climate ambition and economic competitiveness can go hand in hand. Bringing international shipping in as well as locking in non-CO_2 aviation monitoring shows what cooperation across the Channel can achieve. Governments should remain vigilant to ensure the ambition of the summit is realised.

Recommendations

01

Ringfence allowances for e-SAF - in the summit deal, the UK secured a specific carve-out allowing it to award 1.5 million UK ETS allowances to support SAF uptake. As T&E argued in our EU ETS aviation position paper, SAF allowances can play a useful role if they are strictly ring-fenced for e-SAF, rather than wasted on supply-constrained biofuels like used cooking oil.

02

Ensure the ETS cap is realistic - to account for adding international shipping and Outermost Region flights, the agreement sets upper limits on the UK's emissions cap (no greater than 62.2 million allowances in 2028, falling to 57.6 million in 2030). The Government must ensure that any final cap adjustments match real-world emissions reductions..

Further information

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