# UK-EU carbon market link set to push up electricity bills by over £200 million a year



A recent agreement between the UK and the European Union has raised concerns about potential increases in electricity bills, with estimates suggesting a rise of over £200 million annually. This spike is primarily attributed to plans for linking the two regions' emissions trading systems, a move that aims to synchronise carbon pricing frameworks but may inadvertently burden consumers.

In a statement made on May 19, Prime Minister Sir Keir Starmer heralded this "reset" in Brexit relations as a step towards benefiting businesses, consumers, and tourists. The essence of the agreement lies in creating a connection between the UK and EU carbon markets, which are mechanisms designed to curb greenhouse gas emissions by requiring industries to purchase allowances for their carbon output. As these costs often trickle down to consumers, electricity prices are expected to reflect the heightened expense of compliance with stricter carbon regulations.

Independent energy analyst Kathryn Porter emphasised the potential consequences of this harmonisation. She noted that UK carbon permit prices have surged significantly since the announcement, driven by fears of losing competitive advantages against EU counterparts. “Full harmonisation could end up adding more than £200m per year to electricity bills,” Porter remarked, marking a grim forecast for households still grappling with rising living costs.

The impact of this agreement comes against a backdrop of deepening challenges within the UK’s energy sector. The country has seen a dramatic decline in output from energy-intensive industries — a drop of one third since 2021, marking the lowest levels in 35 years. High electricity prices, which are among the steepest in advanced economies, have compounded the woes of industries such as paper, chemicals, and metals. Analysts point to the UK's overreliance on natural gas and a pricing system marginally dictated by gas-powered generation as underlying factors exacerbating these costs, especially post the 2022 Russian invasion of Ukraine.

Adding to the debate is the UK's increasing dependence on electricity imports to meet its energy demands. Recent episodes have illustrated this reliance vividly; for instance, on a notable occasion, the UK imported high-cost electricity from Denmark, which itself sourced power from Germany. Such instances underscore the fragility of the UK's energy independence, further complicated by ongoing initiatives to decarbonise its grid by 2030.

As the UK contemplates crucial market reforms, such as transitioning to zonal electricity pricing, the economic implications remain a pressing concern. Despite favourable conditions for wind generation, for example, there have been instances where renewable sources were curtailed while gas plants were incentivised to increase output—a scenario that reportedly cost the economy over £2 billion in 2024 alone. Looking ahead, these inefficiencies could escalate to an alarming £7.8 billion annually by 2030 if not addressed.

While the government insists that tighter cooperation on emissions will enhance the nation's energy security and prevent the negative ramifications of an impending EU carbon tax, industry groups that back the deal argue that such a link could foster a competitive and efficient market for both consumers and businesses in the long run.

Amidst these developments, the Labour Party, under Starmer’s leadership, continues to position itself as a mediator in re-establishing relationships with the EU without reverting to previous trade agreements like the single market. Proposed measures aimed at enhancing cooperation include not only the carbon market linkage but also new agreements to streamline trade processes. However, the finer details and potential pitfalls of these strategies remain to be seen, and the balance between environmental responsibilities and economic viability will likely dominate discussions in the coming months.

As the public digests these changes, the associated ramifications will be scrutinised closely, with calls for clarity on how the proposed agreements will impact individual households and broader economic stability. The looming question remains whether the anticipated benefits will outweigh the financial burdens that consumers may bear in the near future.

### Reference Map

1. Paragraphs 1, 2, 3, 5, 6
2. Paragraph 2
3. Paragraph 4
4. Paragraph 5
5. Paragraph 5
6. Paragraph 4
7. Paragraph 6

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.express.co.uk/news/uk/2057472/eu-uk-deal-energy-bill-hike> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/energy/british-benchmark-carbon-price-rises-eu-link-talks-2025-05-19/> - On May 19, 2025, the UK carbon price rose over 6% following announcements that the UK and EU plan to link their emissions trading systems. The UK Allowance (UKA) contract increased by £6.5, reaching £51.50 per metric ton. Analysts noted that linking the markets would likely equalize prices, driving UKA prices up to match EU Allowance (EUA) prices, which are currently around €70.35 per ton.
3. <https://www.ft.com/content/a4301149-af90-4dc8-a4dc-250a98da509d> - Output in the UK’s energy-intensive industries has declined by a third since 2021, reaching the lowest level in 35 years. Industries such as paper, petrochemicals, basic metals, and inorganic products have been hit hard due to high electricity prices—the highest among advanced economies. The UK’s reliance on natural gas and its marginal pricing system, where gas-fired generation often sets the wholesale electricity price, has exacerbated costs, particularly after the 2022 Russian invasion of Ukraine.
4. <https://www.ft.com/content/23156681-ad20-4edb-a36d-7db3b2d90f3d> - As Britain phases out coal and ramps up renewable energy, it increasingly relies on electricity imports from neighboring countries via undersea interconnector cables. A notable example occurred on January 8, when the UK imported high-cost electricity from Denmark, which in turn sourced it from Germany. Such episodes highlight the UK's dependence on international power amid efforts to decarbonize its grid by 2030.
5. <https://www.ft.com/content/36b383c8-bc82-4687-bee5-34d8a118bf0b> - The UK government is facing a critical decision on whether to implement zonal electricity pricing, a major market reform designed to address the inefficiencies of the current power system as renewable energy production grows. On March 30, despite high winds ideal for power generation, wind farms in Scotland were paid to reduce output due to limited grid capacity, while a gas plant near London was paid to increase output. These balancing actions cost over £2bn in 2024 and could reach £7.8bn annually by 2030.
6. <https://www.reuters.com/sustainability/climate-energy/industry-groups-business-call-britain-eu-link-carbon-markets-2025-04-30/> - More than 50 European companies and business groups are urging the UK and EU to initiate discussions at a forthcoming May 19 summit aimed at linking their carbon markets. This move is expected to harmonize carbon prices, prevent competitive distortions, and reduce costs for both EU and UK consumers. Under their respective Emission Trading Systems (ETS), the UK and EU charge industries for each ton of CO₂ they emit as part of efforts to meet climate goals.
7. <https://www.ft.com/content/9c4684b6-91c2-415f-bd8e-435445ab3945> - With UK Prime Minister Rishi Sunak stepping down, Labour, led by Sir Keir Starmer, is poised to win the next election on July 4. Starmer aims to restore EU-UK relations without rejoining the single market or customs union. Instead, Labour plans to build trust by complying with the Trade and Cooperation Agreement (TCA) and engaging in defense and security cooperation. Measures to improve trade might include reaching a veterinary agreement to simplify food export processes, linking the UK's Emissions Trading System with the EU's to streamline carbon pricing, and potentially rejoining the Pan-Euro-Mediterranean cumulation of origin convention for smoother supply chains.