# UK-EU emissions trading linkage sparks hope and concern amid shifting climate policies



The recent announcement regarding the UK and EU's agreement to move towards linking their emissions trading systems has prompted an array of reactions, notably due to its significance in post-Brexit relations. While the reaffirmation of cooperation is a positive development, some critics argue it represents a regression, a return to a collaborative approach that many believe should never have been disrupted.

To contextualise this agreement, the linkage aims to ensure the progression aligns with the EU’s Carbon Border Adjustment Mechanism (CBAM), set to take effect in 2026. Industry professionals view the linkage favourably, claiming it could enhance competitiveness for British exporters. Chris Aylett, a research fellow at the think tank Chatham House, highlights the critical choice faced by many businesses: secure access to European markets or contend with the repercussions of diminished market presence. The industry group Energy UK estimates that linkage could lower carbon prices in the coming years, mitigating the financial burden on UK industries and alleviating potential charges that could reach £800 million annually due to the CBAM.

However, this optimism is tempered by concerns regarding the timing of the UK's own CBAM, slated for 2027, a whole year after the EU’s implementation. The delayed approach raises fears that the UK could become an unintended destination for high-emission products, such as steel and cement, as international producers exploit the regulatory gap. The Labour Party's potential re-alignment of carbon trading systems with the EU, should they triumph in the upcoming general election, could further complicate this landscape and provoke backlash from staunch Brexit supporters.

In tandem with these developments, broader discussions surrounding energy policy are gaining traction. Recent signals from Germany’s new Chancellor Friedrich Merz indicate a potential shift in Berlin’s long-standing opposition to recognising nuclear energy alongside renewable resources within EU legislation. This shift reflects a significant realignment of French-German relations, with both nations advocating for policies they argue will enhance economic competitiveness. Yet, critics argue that prioritising competitiveness over rigorous environmental standards could undermine long-term climate objectives, especially in light of emerging research by organisations such as Bruegel. Their analysis warns that business-as-usual approaches to economic policies in the context of climate change risk significant public finance strain, foreseeing a scenario where governments can neither sustain public finances nor ensure long-lasting environmental viability.

Moreover, city leaders across Europe have underscored the crucial role of urban areas in driving public investments, calling for the next EU budget to reflect this reality. They assert that cities contribute decisively to the implementation of EU climate legislation, accounting for a substantial share of climate-related public spending. This suggests a need for comprehensive support for local efforts within the broader EU framework, particularly as cities grapple with the impacts of climate change.

Amidst these discussions, the recent rise in carbon prices in the EU, surpassing 100 euros per ton for the first time, signals a growing acknowledgment of the urgency to manage emissions. The EU’s emissions trading system (ETS), which requires companies to purchase allowances for their carbon output, is undergoing significant transformations aimed at ambitious climate targets. Although this may enhance revenue generation for the European Green Deal, there are valid concerns that unchecked global trade dynamics could restrict the effectiveness of these policies, particularly impacting UK renewable energy exporters who may face new carbon fees under the impending CBAM.

As discussions unfold in the lead-up to pivotal climate conferences like COP30, experts are contemplating new frameworks for equitable climate action that extend beyond traditional classifications of industrialised and developing nations. Francois Gemenne, a prominent academic, advocates for a reclassification that would facilitate a more balanced approach to tackling emissions and investments in green technology.

In conclusion, while the recent agreement to link emissions trading systems heralds a renewed focus on cooperation between the UK and EU, the complexities surrounding carbon pricing, industrial competitiveness, and comprehensive environmental strategies necessitate careful navigation. As both regions seek to address the challenges of climate change, the imperative for cohesive action and sustainable economic policy remains at the forefront of the debate.

### Reference Map

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

## Bibliography

1. <https://www.sustainableviews.com/editors-note-in-or-out-ebf25c84/> - Please view link - unable to able to access data
2. <https://www.ft.com/content/49c25a8e-cc95-4656-a03e-0f47afced24e> - The UK Labour Party is considering realigning the UK's carbon trading system with the EU's Emissions Trading System (ETS) if it wins the next general election. This move aims to benefit major industries but may upset some Brexit supporters. Currently, the UK and EU have separate ETSs, leading to concerns over potential additional costs for British exporters due to differing carbon prices. The UK plans to implement its own Carbon Border Adjustment Mechanism (CBAM) in 2027, a year after the EU's, raising fears of the UK becoming a temporary dumping ground for products like steel and cement.
3. <https://www.reuters.com/sustainability/climate-energy/industry-fears-eu-carbon-border-tax-will-penalise-british-green-energy-2024-06-17/> - British renewable energy exporters may face carbon fees under the EU's Carbon Border Adjustment Mechanism (CBAM), potentially impacting revenues from wind and solar farms despite their zero emissions. The charges, based on default historical and average emissions rates, threaten to increase EU power prices and could disincentivize clean power in the UK. Industry sources argue that this could lead to higher CO2 emissions due to increased coal and gas power generation in Europe. Ongoing talks between the UK and EU aim to address this issue, with no resolution expected before the UK general election in July. Linking the UK and EU carbon markets has been suggested as a potential solution, though both sides have yet to agree on this approach.
4. <https://apnews.com/article/a0ada72d40ef5bef586d95b83213ef79> - The EU carbon price surpassed 100 euros for the first time, marking a significant milestone in the bloc's efforts to curb carbon emissions by making pollution more expensive. Established in 2005, the EU's emissions trading system (ETS) requires emitters to buy allowances for each ton of CO2 released. The price, which long remained below 25 euros, surged in the past two years, reaching 100 euros as of Tuesday. Experts attribute this increase to recent reforms, including a December agreement to reduce carbon allowances more rapidly, with plans to phase them out by 2038. The EU aims to cut emissions by 62% from 2005 levels by 2030, supported by the expansion of renewable energy in response to geopolitical developments like Russia's invasion of Ukraine. Prices are anticipated to continue rising in the medium term, potentially reaching 125 to 160 euros per ton by 2030.
5. <https://www.ft.com/content/b555a7d9-7763-4488-82e6-b09cd35ba0eb> - The UK steel industry warns the government of significant risks due to the delayed introduction of a carbon border tax (CBAM) compared to the EU. The EU will implement its CBAM in January 2026, while the UK plans to follow a year later, in January 2027. This discrepancy could lead to a surge of high-emission steel imports into the UK as producers in Asia and the Middle East seek to bypass EU regulations. Gareth Stace, director-general of UK Steel, calls for the UK to advance its CBAM to 2026 to avoid this issue. Minister Sarah Jones acknowledges the difficulty in aligning the regimes but emphasizes ongoing cooperation with the EU. The Labour government, in office since July, aims to link UK and EU carbon-trading schemes, although this might not be achieved by the EU's 2026 deadline due to complex negotiations. The UK Treasury argues for the 2027 implementation to allow thorough consultations with businesses.
6. <https://www.reuters.com/markets/carbon/global-2023-carbon-trading-revenues-grew-74-bln-report-says-2024-04-10/> - Global carbon trading revenues reached a record $74 billion in 2023, up from $64 billion in 2022. This increase is attributed to more jurisdictions implementing emissions trading systems (ETS) to combat climate change, covering 58% of global GDP. The International Carbon Action Partnership (ICAP) reported that 36 such systems are currently operational, with another 22 in development or consideration in countries like Argentina, Brazil, India, Turkey, and Vietnam. ETSs cap emissions for certain sectors, requiring companies to buy permits for each ton of CO2 emitted. The rise in permit prices, particularly in the European Union's ETS and the British ETS, bolstered revenues. The EU ETS remains the largest and most established system, generating $47.1 billion last year.
7. <https://apnews.com/article/08ed280db9be1ea2efdb1db1d94f338f> - The UK government announced plans to introduce a carbon tax on imported raw materials such as aluminum, iron, steel, and cement from 2027. This initiative aims to prevent domestic firms from being undercut by foreign producers with higher carbon footprints. However, the plan has faced criticism from British steel representatives for its delayed implementation, as the EU's similar proposal will begin in 2026. The Treasury argues that the tax will create a level playing field, helping green domestic producers compete. Concerns remain over the UK's environmental commitments, especially after Prime Minister Rishi Sunak recently scaled back some green policies. Despite overall approval of the Carbon Border Adjustment Mechanism (CBAM), there are worries about the potential disadvantage of its later start compared to the EU. The UK often aligns its policies with former EU partners despite Brexit.