

## **FIUK Response to:**

# **UK ETS: Scope expansion – emissions from international maritime voyages consultation**

## Questionnaire

### Expansion to International Maritime Voyages Proposal

1. **Do you agree with our proposal to include 50% of emissions from international voyages within the UK ETS from 1 January 2028? (Y/N)** Please explain your response, providing evidence where possible.

**a. No.**

- b. Fuels Industry UK represents the major fuel manufacturers and distributors that supply over 85% of the UK's transport fuels. The sector supports over 100,000 jobs and contributed more than £37 billion in tax revenues in 2024.

To supply the UK market, members import large quantities of crude oil (44.6 Mt, including NGLs, in 2024) and renewable feedstocks for upgrading in refineries, and finished oil products and renewable fuels for blending and distribution. These imports are almost entirely transported by ship.

The sector's reliance on international maritime imports leaves it particularly exposed to the UK ETS maritime expansion to international voyages, for which there are no alternative sources of supply. While the sector recognises the need to decarbonise maritime transport, it emphasises that shipping is a global industry and should be regulated at a global rather than regional level.

Accordingly, the sector considers that the International Maritime Organization (IMO), through its Net Zero Framework (NZF), should set the approach for maritime decarbonisation, ensuring that obligations and costs are shared equitably. Moving ahead of the NZF, even where aligned with the EU, risks material harm to UK businesses and

consumers, including beyond the downstream fuels sector. There is also a risk that any UK-specific measures may need to be withdrawn following the release of the NZF, creating unnecessary administrative burdens.

The responses set out the specific areas of concern and the reasoning behind them.

- c. National Audit Office concluded there is insufficient evidence to suggest that UK ETS is the cause of decarbonisation or that past emissions reductions are indicative of future success<sup>1</sup>.
- d. In 2022, international shipping accounted for about 2% of global CO<sub>2</sub> emissions<sup>2</sup> of which in 2024 the UK was responsible for 3.4% of global imports and 2.1% of global exports by value<sup>3</sup>. While global shipping emissions have been increasing, the carbon intensity of vessels reduced by 10% between 2016 and 2023<sup>4</sup> and there was a 35% reduction in energy intensity when accounting for utilisation between 2008 and 2022 demonstrating that the maritime sector is decarbonising without the need for additional costs. This rate of reduction has slowed in recent years<sup>5</sup>.

The working assumption, as outlined in the Impact Assessment for domestic maritime<sup>6</sup>, is that “GHG emissions will be reduced where the cost of abatement is lower than...the UKA price”. Since shipping carbon intensity has been declining for several decades, the recent slowdown in this trend suggests that the most cost-effective abatement measures have likely already been implemented. Therefore, the additional ETS costs will not induce further carbon intensity reductions per tonnage of cargo and are not expected to<sup>7</sup>.

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<sup>1</sup> National Audit Office, UK Emissions Trading Scheme, 2025, <https://www.nao.org.uk/reports/uk-emissions-trading-scheme/>

<sup>2</sup> <https://www.iea.org/energy-system/transport/international-shipping>

<sup>3</sup> International Trade Centre, Trade Map, n.d.

<sup>4</sup> <https://theicct.org/publication/greenhouse-gas-emissions-and-air-pollution-from-global-shipping-2016-2023-apr25/>

<sup>5</sup> T. Smith and H. Francis, Transition Trends: International Shipping Emissions from 2018 to 2022, 2024, UCL and UMAS, <https://www.u-mas.co.uk/international-shipping-emissions-return-to-peak-2008-levels-due-to-insufficient-energy-efficiency-improvements/>

<sup>6</sup> DESNZ and DfT, UK ETS scope expansion: domestic maritime – final stage impact assessment, 2025

<sup>7</sup> Ibid.

Also noteworthy is the dilemma that exists with all ETS costs, rather than providing the intended economic incentive to decarbonise funds are instead used to purchase allowances. Investment is not a bottomless pit and is especially constrained in the current economic environment. The argument could be made that the ETS in its current form is not delivering expected progress on a global scale as it introduces an unequal cost on businesses that increases costs without in fact incentivising investment that would reduce carbon emissions. A better approach may be for in scope operators to incur carbon costs after a predetermined period, thereby allowing for investment during that period to decarbonise rather than spending it on allowances.

- e. Similar concerns to the aviation sector exist regarding ensuring no ETS costs are accrued from the portion of emissions attributable to low carbon fuels. This will be especially difficult as the expansion to international maritime voyages includes journeys that do not begin at a UK port. Conducting thorough due diligence on the carbon intensity of fuel that has been procured in any number of ports globally would be extremely challenging.

Additionally, low carbon fuels may in fact result in higher carbon emissions at the tailpipe while still achieving reduced life cycle emissions. Therefore, an operator that has switched to using lower carbon fuel may incur higher ETS costs with no means to adequately report what proportion of those are attributable to the low carbon fuel and therefore would be zero rated. In such a scenario, not choosing to use a low carbon fuel would be the most cost-effective approach for the operator with no resultant improvement in carbon emissions.

- f. Divergence from stated Government aims across energy security, business, trade and consumers:
  - i. “Clean energy superpower”<sup>8</sup> – even the move towards an energy autarky requires an orderly transition. Further penalising imports of critical materials, when no alternative exists, jeopardises the ability of the UK to meet its demands. In the context of the downstream sector, crude oil imports and products

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<sup>8</sup> <https://www.gov.uk/missions/clean-energy>

manufactured from them are the backbone of day-to-day activities in the UK. An additional cost on crude imports, risks domestic energy security by further burdening domestic production and supply of oil products.

- ii. “Kickstart economic growth”<sup>9</sup> and “backing British business”<sup>10</sup> – the impact of additional costs on imports and exports will invariably be margin compression. This reduces the ability for businesses to operate and invest, in the short- and long-term.
  - iii. “Championing global trade”<sup>11</sup> – adding additional costs to imports and exports places a clear barrier to global trade. In particular for exports, it makes UK production less competitive with other exports not exposed to additional shipping costs.
  - iv. “Tackling the cost of living”<sup>12</sup> – additional costs for imports and to business will inevitably have some pass through to consumers and are therefore inflationary, while likely to provide little benefit in both regional and global emissions reductions. Cost pass through was identified as one of the key risks in the Impact Assessment<sup>13</sup> for domestic maritime inclusion in UK ETS. In the case of essentials, such as fuel, these additional costs will negatively impact the cost of living.
- g. If the international voyages are to be included, regardless of the stated concerns, then the cargo type should be considered. Where products moved via ship are vital to the UK economy and there are no viable alternatives (as is the case for crude oils), an exemption should be considered or else risk the result of increased costs to UK business or the consumer..
- h. Specifically considering the downstream sector, including imports of crude oil and imports and exports of oil products, the additional cost from international maritime UK ETS inclusion is estimated between £100–

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<sup>9</sup> <https://labour.org.uk/change/kickstart-economic-growth/>

<sup>10</sup> DBT, The UK’s Modern Industrial Strategy, 2025, <https://www.gov.uk/government/collections/the-uks-modern-industrial-strategy-2025>

<sup>11</sup> Ibid.

<sup>12</sup> <https://labour.org.uk/delivering/economic-growth/>

<sup>13</sup> DESNZ and DfT, UK ETS scope expansion: domestic maritime – final stage impact assessment, 2025

120 million annually, based on 2023 data<sup>14</sup> using DESNZ forecast ETS allowance price for 2026 of £87/tCO<sub>2</sub>e<sup>15</sup>. This will have a material impact on the margin of an industry that is already blighted by high energy and ETS costs, disproportionately to other industries, and which has seen the closure of two refineries, representing 20% of refining capacity, in 2025.

- i. The application of a Low Carbon Fuel Standard (LCFS)<sup>16</sup>, such as the Renewable Transport Fuel Obligation (RTFO)<sup>17</sup>, would be an effective way to ensure long-term, predictable carbon emission reductions in a technologically neutral and less inflationary manner. This appears to be part of the approach outlined by the IMO for the upcoming NZF.

2. **Do you think that the emissions from voyages to and from Crown Dependencies and Overseas Territories should be included in the scope of the scheme? (Y/N) Will it lead to any gaming, avoidance or adverse impacts if they were exempted?** Please explain your response, providing evidence where possible.

**a. No.**

- b. As above, do not think UK ETS maritime should be expanded to include 50% of emissions. However, if so, undoubtedly not including Crown Dependencies would offer a potential means for avoiding some costs. On the other hand, Overseas Territories are commonly small islands with economies that are highly dependent on maritime for both imports and tourism. Bringing Overseas Territories within scope may do significant damage to their economies.
- c. If gaming, avoidance or adverse impacts are detected then the legislation should be sufficiently flexible to allow updates to combat this.

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<sup>14</sup> DfT, PORT0204: International freight traffic by route and cargo type (filter by direction and year), 2025

<sup>15</sup> Net Zero Strategy Aligned value for 2026, £2024 prices.

<https://www.gov.uk/government/publications/traded-carbon-values-used-for-modelling-purposes-2024/traded-carbon-values-used-for-modelling-purposes-2024>

<sup>16</sup> <https://www.climatepolicydashboard.org/policies/transportation/low-carbon-fuel-standards>

<sup>17</sup> <https://www.gov.uk/government/collections/renewable-transport-fuels-obligation-rtfo-orders>

3. **Do you agree that offshore ships should be included in the scope of the expanded scheme? (Y/N)** Will it lead to any gaming, avoidance or adverse impacts? Please explain your response, providing evidence where possible.

a. **No.**

- b. A number of offshore vessels are used in the oil and gas sector to support the exploration, drilling, construction, maintenance and production at offshore oil rigs. Bringing these vessels in scope will impact the upstream oil sector, which will have a knock-on effect on the downstream sector.

4. **Do you agree with the intention to not provide a 5% reduction in allowance surrender for ice class vessels? (Y/N)** Please explain your response, providing evidence where possible.

a. **No.**

- b. While ice class vessels are not explicitly involved in the UK downstream sector, this style of thinking is indicative of a "gold plating" approach. If the UK is going to align with the EU, then there is no need to go over and above the EU requirements.

5. **Does the scope of the scheme as outlined in the main Authority Response need to be further amended in light of proposals to include international voyages? (Y/N)** Please explain your response, providing evidence where possible.

a. **Yes.**

- b. Ensure cap adjustment also accounts international voyages if they come in scope.

- c. As noted in our response to question 1 (g), the type of cargo should be considered. Crude oil is essential for energy security and day-to-day activities in the UK. No feasible alternative exists to replace imports of crude oil, thus increasing the costs associated with importing it will be passed through to fuel manufacturers and suppliers. This further burdens UK businesses and the consumer too.

6. **Do the regulatory provisions as outlined in the main Authority Response need to change in light of proposals to include international voyages? For example, does the requirement for a Document of Compliance need to be reinstated, or further regulatory powers such as port bans or expulsion need to be added? (Y/N)** Please explain your response, providing evidence where possible.

- a. **No.**
- b. Current understanding is that limited changes would be required regarding operators in scope as they will already be in scope from domestic maritime ETS.
- c. The regulations must ensure consistency with the Monitoring, Reporting, Verification (MRV) and compliance methods required for both domestic and international voyages to minimise administrative burden.

Additionally, consistency with the use of low carbon fuels for maritime decarbonisation as with other sectors, such as consideration of country and feedstock origin. These will ensure a level playing field for UK manufacturers.

## Cap Adjustment

7. **Do you agree with our proposal to adjust the cap using the net zero consistent trajectory as set out in the more up to date published trajectory at the point of the Authority Response to this consultation? (Y/N)** Please explain your response, providing evidence where possible.

a. **Yes.**

- b. Agree that the cap must be adjusted. Furthermore, Fuels Industry UK believe that inclusion should be determined considering the cargo as well to avoid adversely impacting specific UK industries that have no choice but to rely on imported goods, as is the case for the UK with regards to most of its crude oil demand.
- c. In the case of domestic maritime, an addition of over nine million allowances was confirmed in the Main Authority response<sup>18</sup>, almost a 17% increase on the total number of allowances available in 2025<sup>19</sup>. The domestic maritime expansion was to achieve a 0.645 MtCO<sub>2</sub>e reduction over 20 years from a transport mode that emitted 5.2 MtCO<sub>2</sub>e in 2023 (including fishing vessels), only about 5% of transport emissions or 1.4% of total domestic emissions. International shipping, which is excluded from territorial emissions calculations, emitted about 6.3 MtCO<sub>2</sub>e in 2023. This firstly demonstrates how low the carbon intensity of the shipping industry is, especially when considering the mass of goods transported, and secondly that the inclusion of emissions from international voyages within the UK ETS scope would require a further cap adjustment. Without a cap adjustment there would be a reduction in free allowances available for land-based UK businesses, further increasing their costs of ETS compliance.

## Future Review

8. **What measures should the UK Government undertake to ensure that both the UK ETS and the IMO's Net Zero Framework, following adoption, can effectively support the decarbonisation of the UK maritime sector?** Please provide supporting evidence for your views, including costs and benefits.

- a. The UK should wait for the IMO's Net Zero Framework (NZF) which is designed specifically to incentivise the move to low carbon fuels and

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<sup>18</sup> <https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector/outcome/uk-ets-scope-expansion-domestic-maritime-main-authority-response-accessible-webpage>

<sup>19</sup> <https://www.gov.uk/government/publications/uk-emissions-trading-scheme-markets/uk-emissions-trading-scheme-markets>



applied on a global, rather than regional scale. International shipping is, by definition, global and therefore its decarbonisation should be tackled globally. The IMO is the UN body tasked with mandating a global solution to a global problem. A UK ETS on international maritime voyages affects the UK economy only, is inflationary, may result in more carbon leakage and will not meaningfully lower global emissions.

## Impacts

9. **Do you agree with our understanding of the impacts of including international voyages in the UK ETS?** (Y/N) Please explain your response, providing evidence where possible.

**a. No.**

- b. The consideration of impacts makes a strong, yet assumed, expectation that this approach will achieve decarbonisation goals, with no evidence provided and no impact assessment yet conducted. It was stated that it is “expected” to be a driver for decarbonisation or “will support...decarbonisation” or the expectation that the work on domestic maritime inclusion is equally applicable to international maritime voyages – no proof has been provided and the NAO report on the UK ETS scheme suggests it is hard to isolate the ETS impact regardless.

Furthermore, the ETS domestic maritime expansion Impact Assessment implied that the greater difficulty and cost of maritime decarbonisation would raise UK allowance (UKA) prices, thereby incentivising faster decarbonisation and additional mitigation options in other sectors. This implies that an expansion to international voyages would further drive up UKAs, thus achieving little in maritime decarbonisation but forcing it instead onto the burdened UK industries. This risks greater carbon leakage.

- c. Disagree that it will ensure GHG savings or air quality improvements because the emissions reductions will happen elsewhere and may instead lead to carbon leakage, directly (mode shift to road or rail

freight) or indirectly (business moves abroad due to higher costs increasing import volumes).

- d. Agree that it will increase operator costs (operational and administrative) and that these will be passed through, as already evidenced in the EU<sup>20</sup>, causing more damage to the UK business environment.

**10. Do you think that the proposed expansion to international maritime voyages could lead to any adverse impacts? (Y/N) This could include, but is not limited to, impacts on prices and availability of goods for consumers, impacts on the competitiveness of the UK maritime sector, impacts on supply chains, shift to other transport modes, or trade impacts.** Please explain your response, providing evidence where possible.

**a. Yes.**

b. Refer to response to question 1:

- i. Low carbon fuels must be zero rated in a technology neutral way. However, if barriers exist to reporting their usage, then operators may be penalised as voyage emissions (which are to be measured and reported) rise, while Well-to-Wake emissions are falling.
  - ii. Negative repercussions for businesses, trade and consumers jeopardising stated Government aims.
- c. Consumers will experience higher prices. The estimated yearly cost to economy, using 2023 data, was circa £350 million, of which £100-120 million was experienced by the downstream sector, as outlined in

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<sup>20</sup> DESNZ and DfT, UK ETS scope expansion: domestic maritime – final stage impact assessment, 2025

response 1 (h) and based on 2023 data<sup>21</sup> using DESNZ forecast ETS allowance price for 2026 of £87/tCO<sub>2</sub>e<sup>22</sup>. .

- d. Businesses in the downstream sector, and economy as a whole, will experience margin compression to remain competitive. For the downstream sector, these costs could further impact an already fragile industry; the closure of any more refineries would further increase import reliance reducing UK energy resilience.
- e. Transshipment may increase whereby some sectors may elect to bring more products across the Channel on HGVs which are not included in UK ETS. In this way they would only be exposed to the EU ETS on shipping to the EU port for goods not originating in the EU. This circumvents any UK revenue collection from ETS. However, this is not a viable option for the downstream sector, which cannot shift to road or other delivery modes due to the quantity of goods movement involved.

Additionally, as an island nation the UK is geographically different to much of the EU bloc and is restricted to importing and exporting many goods via shipping. This is a constraint that is not mirrored in the EU for continental country trade (e.g. German car exports to other European countries).

11. **Do you think we need to take any action against gaming, transshipment, or evasion if the UK ETS extends to cover emissions from international maritime voyages?** (Y/N) Please explain your response, providing evidence where possible

a. **Yes.**

- b. Undoubtedly, additional costs will encourage businesses to seek ways to avoid margin impact. Obvious avenues to do so are not available to

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<sup>21</sup> DfT, PORT0204: International freight traffic by route and cargo type (filter by direction and year), 2025

<sup>22</sup> Net Zero Strategy Aligned value for 2026, £2024 prices.

<https://www.gov.uk/government/publications/traded-carbon-values-used-for-modelling-purposes-2024/traded-carbon-values-used-for-modelling-purposes-2024>

the downstream sector given the nature and quantity of the cargo imported and exported.

- c. However, the legislation should be sufficiently flexible to enable appropriate preventative actions to be taken should any gaming, transshipment or evasion emerge.

**12. Would changes to the global carbon pricing landscape (e.g. the IMO NZF or EU ETS) affect the impacts of the proposed UK ETS expansion to international maritime voyages? If so, how?**

- a. Given strong UK government preference for alignment with EU, any EU ETS changes seem likely to impact UK ETS and provide further uncertainty and instability for UK business.
- b. IMO NZF is about achieving global decarbonisation rather than penalising regional trade and when announced will supersede the UK ETS expansion since it applies globally. This seems likely to undermine the purpose of the UK ETS maritime expansion increasing the burden for the regulator and UK business and highlight the uniquely negative impacts it has on UK businesses and trade.

### Welsh language impacts

\*Q13 &14 NOT INCLUDED

No response.