Mr Peter Webb
Policy Director

Fuels Industry UK
1st Floor
1-2 Castle Lane
London
SW1E 6DR

Direct mobile: 07741 934 650
Switchboard: 020 7269 7600
Email: peter.webb@fuelsindustryuk.org

9 April 2025

Via email: emissions.trading@energysecurity.gov.uk

Emissions Trading,
Department for Energy Security and Net Zero
3rd Floor
3-8 Whitehall Place
London
SW1A 2EG

Fuels Industry UK response to Extending the UK ETS Cap beyond 2030 (link)

Fuels Industry UK represents the seven main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, Phillips 66, Prax Refining, Shell, and Valero – are together responsible for the sourcing and supply of product meeting over 87% of UK inland demand, accounting for over a third of total primary UK energy[1].

The refining and downstream oil sector is vital in supporting UK economic activity. It provides a secure supply of affordable energy for road and rail transport, aviation, and marine applications, as well as for commercial and domestic heating. It also supplies base fluids for use in lubricants, bitumen for use in road

[1] Based on the Department of Energy Security and Net Zero Digest of UK Energy Statistics 2024

surfacing, and graphite for use in electric vehicle batteries and as electrodes in steel and aluminium manufacture.

As a sector we have been involved in the UK ETS from its inception as a large net buyer of UK ETS credits. Based on an analysis of 2023 allowances and surrender data, when those industries that cannot relocate are removed, it is apparent that of the remainder, (i.e. those at risk of carbon leakage), refineries are the largest net buyer of ETS credits. Specifically, of those industries which can relocate that are buying ETS to support their ongoing activities in the UK; of around 11.1 Mt of ETS being purchased, the refining industry purchased 4.6 Mt.

The sector is poised to play a central role in enabling a Net Zero future by leading deployment of at-scale decarbonisation technologies to reduce our own emissions and those of others. It also brings expertise in delivery of large scale, complex and capital-intensive projects.

Maintaining and accelerating such investment to support the Net Zero transition means the UK needs to be a globally competitive place to invest. However, the UK is at risk of being left behind, due to domestic disadvantages and international incentives elsewhere.

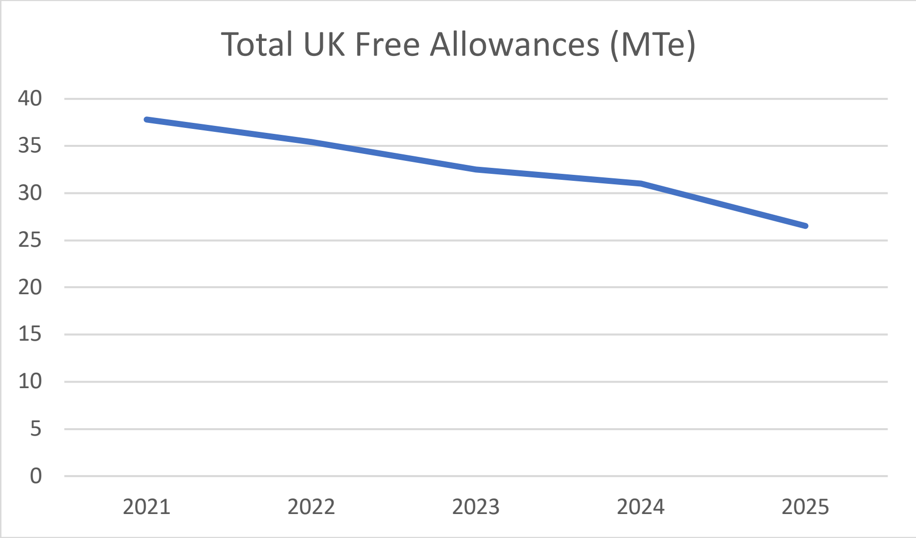
The UK has higher carbon and energy costs than most competitor countries, poorer incentives to develop low carbon technologies, and a policy environment that does not offer sufficient investor certainty. Consequently, the risks of carbon leakage and deindustrialisation are real and increasing.

We would agree with those who believe UK industrial output is reducing faster than UK demand. For example, the CCC's 2024 progress report to Parliament stated that whilst UK territorial emissions fell 47% from 1990-2021, imported emissions increased by 21% over the same period, resulting in a reduction of UK consumption emissions of only 24%.

Ongoing deindustrialisation of the UK is demonstrated by the sustained reduction of free allowance allocations (FAAs) issued across all UK industry since the start of UK ETS (see chart).

From 2021 through 2025, as the calculation basis has not changed, the lower allocation reflects lower activity levels within the energy intensive and trade exposed sectors which are eligible to receive FAAs. Total FAAs have reduced 30% from 2021 to 2025, with reductions apparently across all sectors including: steel, fertilisers, chemicals, oil and gas production, and refining.

Chart: Allocations reflect lower activity in energy intensive and trade exposed sectors



Source: https://www.gov.uk/government/publications/uk-ets-allocation-table-for-operators-of-installations

Previously Fuels Industry UK has responded to the 2023 UK ETS Free Allocation Review consultation[2] and agreed then that the refining sector is at a high risk of carbon leakage, that the current FAA regime does a poor job of protecting against the risk of carbon leakage, and that with the prospect of FAA levels reducing still further the refining sector should be brought within scope of the UK CBAM regime.

Since then, despite our response and proactive efforts to engage government teams on this topic, the overall level of FAA remains unchanged, the sector has been left outside of the scope of the UK CBAM regime. And one further refinery has announced closure stating that a contributory factor was cost of UK ETS compliance.

We have done the best we can to provide responses to the questions as presented, however we note that:

- There is an absence of alternative options demonstrating a lack of broader policy consideration before proposing a minded to position to continue the UK ETS.
- The recent volume of ETS related consultations and the limited coherence of overall UK ETS strategy does not provide confidence for investors. We strongly urge the government to respond to all the outstanding consultations, providing a clear and coherent direction for the future of the UK ETS.

[2] Link to response: https://www.fuelsindustryuk.org/media/s4bfojn5/uk-ets-free-allocation-review-review.pdf

Within that context, the main points in our responses are as follows:

- UK ETS currently plays an active role in UK deindustrialisation while driving emissions offshore.
- The current 10-year ETS phase is too long, with little opportunity for change or discussion, and does not provide more certainty than shorter periods.
- Strongly agree on a rollover of credits from Phase 1 to Phase 2, with recommendation that there are no limits to FAA roll over and that roll over credits do not lower allocation allowances.

We look forward to continuing our support of DESNZ policy work that is based on evidence to inform policy decisions, and to collaborating in a cooperative and forward looking way.

Yours faithfully,

Peter Webb

Peter Webb
Policy Director

cc:	Dan Micklethwaite	Department for Energy Security and Net Zero
	Camilla Pierry	Department for Energy Security and Net Zero
	Michael Duggan	Department for Energy Security and Net Zero
	Andy Short	Department for Energy Security and Net Zero
	Neil Hodgson	Department for Business and Trade