



The Rt. Hon Rachel Reeves MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

London, 16 October 2024

Dear Chancellor

**Re: Including the UK's share of shipping emissions in the UK Emissions Trading Scheme could generate over £1bn per year**

We, the undersigned, call upon the new Government to include the UK's share of maritime greenhouse gas emissions in the United Kingdom Emissions Trading Scheme (UK ETS). At a time of particularly challenging fiscal circumstances and the pressing need for climate action, the resulting revenues - in excess of £1bn per year - would give the Government scope to provide essential support for the UK's nascent zero-emission marine fuels industry, at zero cost to the taxpayer.

The maritime sector is essential to the UK economy, [transporting 95% of our trade globally and directly contributing £14.5bn per year](#). It is also highly polluting, with vessels relying entirely on fossil fuels of the dirtiest kind and producing nearly [one-fifth of UK transport greenhouse gas emissions](#). Unlike other transport modes, shipping is not subject to fuel or emissions duties, an outdated policy which drives profligate use of fossil fuels whilst deterring investment in zero-emission alternatives.

Shipping emissions must be eliminated for Net Zero. This will only be achieved if the environmental costs of greenhouse gas emissions from fossil marine fuels are effectively internalised within the market framework. As part of a package of ambitious measures to bear down on emissions and support the uptake of zero-emission fuels and technologies, comprehensive emissions pricing is key.

The Climate Change Committee's 2023 assessment that the UK has "no credible policies" to reduce shipping emissions for the 6th Carbon Budget is of the utmost concern. Furthermore, the very significant economic and energy security benefits to the UK of bold, national action on shipping emissions risk being squandered.

Over £1bn per year could be generated for the Exchequer by including the UK's share of shipping emissions - domestic and 50% international, from all commercial vessels above 400 gross tonnage - in the UK ETS. The Climate Change Committee has recommended that, [should the EU apply carbon pricing to international shipping, the UK should align itself closely to this](#). The EU ETS has included the EU's share of shipping emissions since January 2024.

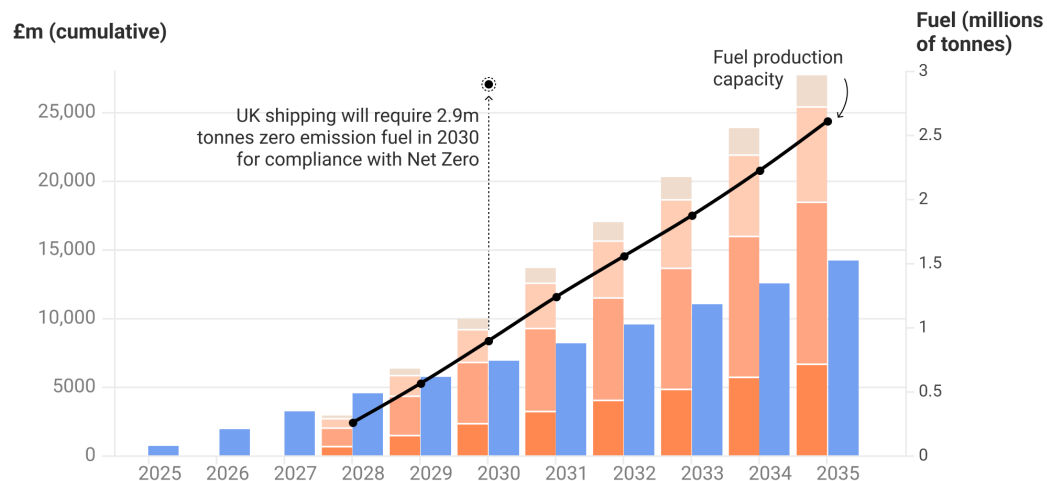


UK shipping will need [nearly 3 million tonnes](#) of renewable, hydrogen-based fuels such as ammonia and methanol in 2030. These fuels, along with other zero-emission marine technologies, are currently at an early stage of development and will require unprecedented levels of investment right across the value-chain to bring to commercial scale. Nevertheless, rapidly developing renewable energy capacity combined with an existing asset-base and highly developed port infrastructure mean the UK is well-placed to become a global pioneer in zero-emission shipping. We cannot afford to waste this opportunity.

As shown below, the investment value to the UK of domestic capacity to produce most of the fuel needed is nearly £28bn between 2025 and 2035 (allowing 3 years between the start of ETS operation and initial investment). Echoing how part of the EU ETS revenues are directed to maritime decarbonisation via the Innovation Fund and national budgets, ring-fenced maritime ETS revenues - or an equivalent sum from other sources - could be used to capitalise the National Wealth Fund. At an investment rate of £3 private to £1 public, this would crowd very substantial private capital into UK-based production of renewable, hydrogen-based marine fuels. Whilst a fuel plant can take [between 3 and 6 years to](#) commence production following final investment decision, sufficient capacity for ~2.6 million tonnes per year of zero-emission fuel could be both under construction and operating in the UK by 2035.

### UK hydrogen-based marine e-fuel capacity investment and production potential using ETS revenues, 2025-2035

**Investment (£m cumulative)** Electricity Electrolyser Hydrogen compression Ammonia synthesis  
**Revenues (£m cumulative)** ETS revenues  
 — Fuel production capacity (cumulative, millions of tonnes)



Source: Transport & Environment analysis



Realising this policy would help meet commitments across multiple areas of the net-zero transition, kick-starting an essential new sector and bolstering energy security by greatly reducing the UK's reliance on marine fuel imports. It would better align emissions pricing policy across different transport modes, where Vehicle Excise Duty and the ETS go some way to internalising the pollution costs of fossil fuel use



in the road and aviation sectors. It would harmonise maritime emissions pricing regulations between the UK and EU. And it would mean the current risk of carbon leakage from vessels stopping unnecessarily at UK ports to avoid EU ETS fees would be avoided.

Whilst discussion on reducing international shipping emissions continues at the International Maritime Organization (IMO), the process is slow and highly uncertain and cannot be relied upon. In May 2024, the International Tribunal on the Law of the Sea (ITLOS) ruled in its [advisory opinion](#) three very significant points: that States have obligations under the United Nations Convention on the Law of the Sea (UNCLOS) to address greenhouse gas emissions from shipping; that these cannot be met exclusively by participating in global efforts [such as the IMO]; and that States should take individual action as appropriate in addition to global cooperation.

The UK shipping sector's transition to zero emissions can be delayed no longer. Fortunately, the UK's existing shipping emissions monitoring regulation and functioning carbon market mean the UK is ideally-placed to act boldly and decisively on its shipping emissions and in so doing, reap the very considerable economic, climate and energy security benefits. Comprehensive emissions pricing is an ideal way to begin, and announcing your intention to take this forward in the forthcoming Budget would send a powerful signal to industry, investors and other governments that maritime decarbonisation in the UK is well under way.

I am copying this letter to the Secretaries of State for Energy Security and Net Zero, Business and Trade, Transport, and the Minister for Aviation, Maritime and Security.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anna', written in a cursive style.

**Anna Krajinska**  
**Director, T&E UK**

With the support of

**DIMITRI ZENGHELIS**, Special Advisor, Bennett Institute, University of Cambridge and Senior Visiting Fellow, London School of Economics

**BOB WARD**, Policy and Communications Director, Grantham Research Institute on Climate Change and the Environment, London School of Economics

**ALEX CHAPMAN**, Senior Economist, New Economics Foundation

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