EXPLANATORY MEMORANDUM TO

THE GREENHOUSE GAS EMISSIONS TRADING SCHEME (AMENDMENT) (EXTENSION TO MARITIME ACTIVITIES) ORDER 2026

2026 No. XXXX

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Department for Energy Security and Net Zero and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Chris McDonald MP, Minister for Industry at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

2.2 Daniel Harrison, Deputy Director for Emissions Trading at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Elliot Bacon at the Department for Energy Security and Net Zero can be contacted by email at the following address with any queries regarding the instrument: LPC@energysecurity.gov.uk. Alternatively, the department can be contacted by telephone: 02072153273.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument makes amendments to the legislation which gives effect to the UK Emissions Trading Scheme (the "UK ETS"). The UK ETS incentivises decarbonisation by requiring operators to purchase allowances based on emissions. The instrument expands the UK ETS to include coverage of CO_2, CH_4 and NO_2 from maritime activities.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument is the whole of the United Kingdom.

4.3 The territorial application of this instrument is the whole of the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The ETS is a UK-wide greenhouse gas emissions trading scheme which incentivises emissions reductions in line with the UK's net zero targets. The UK ETS replaced the UK's participation in the EU Emissions Trading System from 1st January 2021.

5.2 The scheme is governed by the UK ETS Authority, comprising UK Government, Scottish Government, Welsh Government and the Department of Agriculture, Environment and Rural Affairs in Northern Ireland, hereinafter "the Authority". The UK ETS is regulated by the Environment Agency, the Scottish Environment Protection Agency, Natural Resources Wales, the Northern Ireland Environment

Agency and the Secretary of State (Offshore Petroleum Regulator for Environment and Decommissioning), hereinafter "the Regulators".

5.3 Under the UK ETS, participants are required to monitor, report on, and surrender allowances in respect of their greenhouse gas emissions.

5.4 The scope of the UK ETS is being expanded as part of the government's strategy of decarbonising all sectors of the UK economy to meet our net zero target by 2050. This instrument will require maritime operators to participate in the scheme, monitoring, reporting on, and surrendering allowances in respect of their CO_2, CH_4 and NO_2 emissions arising from certain activities. They will have the opportunity to buy emission allowances at auction or trade them on the secondary market.

5.5 The intent of this instrument is to require operators of ships undertaking eligible maritime activities to obtain an "emissions monitoring plan" (to document the processes through which it will ascertain the emissions associated with the activities of its ships) and, for each scheme year, to monitor, independently verify, and report to the regulator its maritime emissions, and to surrender a level of allowances equivalent to those emissions. This is only applicable to ships of 5,000 gross tonnage and above, and various other exemptions apply, such as for government ships (including military and law enforcement ships), fish-catching and fish-processing ships, and ferries operating services to Scottish islands and remote peninsulas. Activities excluded from scope include, but are not limited to: search and rescue, firefighting and the provision of humanitarian aid or assistance.

5.6 The definition of offshore ships used in the legislation is based on the IHS Statcode 5 which forms the basis of the definition of offshore ship in Annex I, Part AA, of EU Regulation 2015/757,[1] as inserted by Commission Delegated Regulation 2024/3214.[2] These are industry standard designations that are recorded in ship certifications and underpinned by the IHS Statcode 5 regime.

5.7 Maritime operators will be assigned to a UK ETS regulator using the same approach taken for aircraft operators in the scheme, based on the location of their registered office or place of residence. For maritime operators registered in one of the four nations of the UK, regulatory responsibility will fall to the regulator for that nation.[3] Where maritime operators do not have a registered office or place of residence in the UK, regulatory responsibility will fall under the remit of the Environment Agency.

5.8 Maritime operators must apply to the regulator for an emissions monitoring plan within 42 days of the first day that the maritime operator performs its first maritime activity. There will be one emissions monitoring plan per operator which will cover all of the ships for which the maritime operator is responsible. Emissions must be monitored using one of the four methods prescribed in the instrument, ensuring that once a method has been chosen, it is consistently applied. Maritime operators will report emissions through an "annual emissions report", which must be submitted to the regulator on or before 31st March in the year following the scheme year to which it

[1] Regulation (EU) 2015/757 of the European Parliament and of the Council of 29th April 2015 on the monitoring, reporting and verification of greenhouse gas emissions from maritime transport, and amending Directive 2009/16/EC.

[2] Commission Delegated Regulation (EU) 2024/3214 of 16th October 2024 amending Regulation (EU) 2015/757 of the European Parliament and of the Council as regards the rules for the monitoring of greenhouse gas emissions from offshore ships and the zero-rating of sustainable fuels.

[3] For England, this is the Environment Agency, for Northern Ireland this is the Northern Ireland Environment Agency, for Scotland this is the Scottish Environment Protection Agency and for Wales this is Natural Resources Wales.

relates. Similarly to the emissions monitoring plan, each maritime operator must submit one annual emissions report covering emissions from all of the ships for which the maritime operator is responsible. The instrument contains further information on the maritime-specific monitoring methods, monitoring and reporting principles, and verification procedures.

5.9 Maritime operators have an obligation to verify their annual emissions report. The verification must be carried out by an impartial and accredited verifier, independent from the maritime operator. The verifier must assess whether the operator's annual emissions report is complete and meets the requirements laid down in the instrument and that the maritime operator acted in compliance with the requirements of the emissions monitoring plan issued by the regulator. They must also assess whether the data in the maritime operator's annual emissions report are free from material misstatements and information can be provided in support of the maritime operator's data flow activities, control system and associated procedures to improve the performance of their monitoring and reporting. If satisfied, the verifier will draft a verification report that concludes with reasonable assurance that the maritime operator's annual emissions report is free from material misstatements. This will be submitted to the regulator alongside the annual emissions report.

5.10 Maritime operators must also surrender, on or before 30th April in the following year, a number of allowances equal to their maritime emissions in that scheme year (expressed in tonnes of carbon dioxide equivalent). However, the instrument introduces the concepts of "surrender deductions" (reducing by 50% the number of allowances for surrender in respect of voyages between Great Britain and Northern Ireland, to deliver equivalence in carbon pricing coverage on routes across the Irish Sea), and of "double surrender", whereby the date by which allowances must be surrendered in relation to the 2026 (first) scheme year is 30th April 2028.

What was the previous policy, how is this different?

5.11 The UK withdrew from the EU before the EU ETS scope was expanded in January 2024 to include greenhouse gas emissions from certain maritime activities. As such, the maritime industry has not previously been required to engage or participate in emissions trading under UK law. However, ships of 5,000 gross tonnage and above are subject to the EU ETS under EU law when operating voyages beginning and/or ending in a port under the jurisdiction of an EU Member State.

5.12 Prior to the development of the EU ETS, and before the UK withdrew from the EU, the maritime industry monitored, reported and verified ("MRV") CO_2 emissions from ships over 5,000 gross tonnage calling at EU ports.[4] Following the UK's withdrawal from the EU, the UK established a UK MRV regime to monitor, report and verify emissions data from ships calling at UK ports,[5] with data collection beginning in 2022. However, while operators have been required to continue monitoring their emissions, the reporting requirement has not been enforced in the absence of a reporting system.[6]

[4] Regulation (EU) 2015/757 of the European Parliament and of the Council of 29th April 2015 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport, and amending Directive 2009/16/EC.
[5] Retained through the European Union (Withdrawal) Act 2018 and was formally assimilated under the Retained EU Law (Revocation and Reform) Act 2023.
[6] MIN 669 (M+F) Amendment 1 - Reporting emissions data into the UK MRV regime: https://www.gov.uk/government/publications/min-669-mf-amendment-1-reporting-emissions-data-into-the-uk-mrv-regime/min-669-mf-amendment-1-reporting-emissions-data-into-the-uk-mrv-regime

5.13 The UK ETS MRV requirements are similar to those required under the UK MRV, however there are deviations to ensure that the UK ETS MRV requirements are suitable for emissions trading. These are set out in the policy consultation, Authority response and in legislation. Notable differences include the requirement for an emissions monitoring plan and annual emissions report to be submitted per maritime operator and not per ship. Additionally, there is an increased role for regulators under the UK ETS, whereby regulators issue emissions monitoring plans; under UK MRV these were approved by the verifier.

6. Legislative and Legal Context

How has the law changed?

6.1 The UK ETS was established under the Climate Change Act 2008 by the Greenhouse Gas Emissions Trading Scheme Order 2020 (the "2020 Order").

6.2 The Climate Change Act 2008 provides the core enabling powers to make provision by regulations for trading schemes relating to greenhouse gas emissions.[7] This Act allows the amendment of the 2020 Order to expand the UK ETS to cover emissions from certain maritime activities.

6.3 This instrument amends the 2020 Order, notably inserting Part 4ZA and Schedule 2A to extend the application of the Order to cover emissions arising from certain maritime activities.

Why was this approach taken to change the law?

6.4 As this instrument extends to the UK as a whole, it is necessary for it to be made jointly by the Secretary of State and the devolved governments.

6.5 Various possible approaches to expand the ETS to cover maritime emissions were considered. Following the United Kingdom's withdrawal from the EU, a consultation was published in March 2022 regarding the development of the UK ETS.[8] The 2022 consultation included these possible approaches, with the Authority outlining a lead option for expanding the UK ETS to include domestic maritime, which was based on ship activity. This would require maritime participants to monitor their emissions from eligible voyages, report their emissions from these voyages and surrender sufficient allowances to cover their emissions. It was stated that this lead option would apply to domestic voyages only, which would be defined as a voyage starting and finishing at a port located in the UK. As part of this lead option, the Authority also invited views on whether the requirement to report emissions and surrender the requisite UK ETS allowances should be applied to ship owners or ship operators. Two additional options were also proposed. First, a fuel supplied approach, which would see the UK ETS obligation placed on maritime fuel suppliers who would be required to monitor, report, and verify emissions arising from their fuel sales, and surrender allowances to cover this. The second option was a hybrid approach and would see some operators obligated based on ship activity, and others covered by the fuel supplied approach. The Authority opted for the lead approach because it was preferred by stakeholders and would minimise stakeholder burden.

[7] Powers conferred by sections 44, 54 and 90(3) of, and Schedule 2 and paragraph 9 of Schedule 3 to, the Climate Change Act 2008.
[8] Developing the UK Emissions Trading Scheme (UK ETS) consultation: https://www.gov.uk/government/consultations/developing-the-uk-emissions-trading-scheme-uk-ets

7. Consultation

Summary of consultation outcome and methodology

7.1 Two consultations to the affected parties have been published in relation to the provisions provided for by this instrument.

7.2 The first consultation, as detailed in section 6.5, was concerned with the development of the UK ETS. As outlined above, it contained options on the overarching approach to expanding the UK ETS to include maritime emissions. The initial consultation was published in March 2022,[9] with the Authority response following in July 2023.[10] The response stated that 82% of respondents supported the Authority's lead option to extend emissions trading to domestic maritime based on vessel activity.

7.3 A second consultation, on bringing greenhouse gas emissions from certain maritime activities into scope of the UK ETS, was published in November 2024.[11] This consultation concerned the technical implementation of expanding the UK ETS to maritime. It asked operators in the maritime sector key questions about scheme participation (such as regulatory regime and operator requirements), the scope of the scheme (such as the definition of a domestic voyage), and impacts of the scheme (such as carbon leakage risk). The consultation also sought views from maritime operators on details around how to adjust the UK ETS cap to include emissions from the maritime sector and the potential future expansion of the UK ETS to additional maritime emissions, with a future review of the threshold and possible coverage of international routes. The Authority published its interim Authority response in July 2025, stating that 72% of respondents agreed with the definition of a domestic voyage. The Authority published its Authority response in November 2025,[12] stating that 67% of respondents agreed with the proposed approach to adjusting the cap.

8. Applicable Guidance

8.1 The UK ETS Regulators will issue guidance on how to comply with the obligations by 1st July 2026, the date from which the obligations apply.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment is submitted with this memorandum and published alongside the Explanatory Memorandum on the legislation.gov.uk website.

Impact on businesses, charities and voluntary bodies

9.2 The policy is expected to deliver a net reduction of approximately 645,000 tonnes of carbon dioxide equivalent (CO_2e)[13] accounting impacts in the domestic maritime sector over the entire appraisal period, and the rest of the UK ETS market in Phase I. These reductions are driven by operators responding to the carbon price signal

[9] Ibid.
[10] Main response to the Developing the UK Emissions Trading Scheme (UK ETS) consultation: https://www.gov.uk/government/consultations/developing-the-uk-emissions-trading-scheme-uk-ets
[11] UK Emissions Trading Scheme Scope Expansion: Maritime consultation: https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector
[12] Main Authority response to the UK Emissions Trading Scheme Scope Expansion: Maritime consultation: https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector
[13] UK Emissions Trading Scheme (ETS) Scope Expansion: Domestic Maritime – Final Stage Impact Assessment: https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector

through investment in cleaner technologies and behavioural changes. The social value of these greenhouse gas emission savings is estimated at £155 million over the appraisal period (2026–2046) (discounted to 2026 base year, expressed in 2024 prices).[14] Furthermore, scope expansion of the UK ETS is expected to lead to air quality benefits by reducing the air pollutant emissions from UK domestic maritime. Using a damage costs approach, the value of these benefits is estimated at £179 million over the appraisal period (discounted to 2026 base year, expressed in 2024 prices).[15]

9.3 The impact on business, charities or voluntary bodies is mainly concentrated within the domestic maritime sector. Operators in scope will face new compliance and abatement costs, primarily through the purchasing of emissions allowances and administrative requirements. The total cost of investing to abate emissions, driven by UK ETS scope expansion to domestic maritime, is estimated at £22 million,[16] with an additional £179 million in administrative costs over the appraisal period (2026–2046).[17] The cost of purchasing allowances across all UK ETS operators is projected to increase by £1,900 million,[18] reflecting a financial transfer to government rather than a net cost to society.[19] The total cost burden, including purchasing of allowances, to UK businesses is estimated at £85 million[20] over the appraisal period, as the majority of domestic maritime operators are non-UK entities. Overall, the policy delivers proportionate emissions reductions at low cost to operators, maintains market stability and supports the UK's Net Zero Strategy.

9.4 The legislation does impact small or micro businesses. To minimise the impact of the requirements on small or micro businesses (employing up to 50 people), the scope of the regulation is limited to vessels of 5,000 gross tonnage and above. This threshold excludes most small and micro businesses from the requirements of the regulation.

9.5 There is no, or no significant, impact on the public sector because the compliance obligations fall on private sector maritime operators, and government non-commercial activity is exempt.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is set out in the 2020 Order. Article 17 of the 2020 Order requires the UK ETS Authority to review the operation of the UK ETS in 2023 and in 2028. The UK ETS Authority published the 2023 scheme review in December 2023.[21]

10.2 The instrument does not include a statutory review clause. The requirement under section 28(2) of the Small Business, Enterprise, and Employment Act 2015 to make

[14] Ibid.
[15] Ibid.
[16] All figures shown in 2024 prices, discounted to a 2026 base price year.
[17] UK Emissions Trading Scheme (ETS) Scope Expansion: Domestic Maritime – Final Stage Impact Assessment: https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector
[18] Rounded to the nearest £100m.
[19] UK Emissions Trading Scheme (ETS) Scope Expansion: Domestic Maritime – Final Stage Impact Assessment: https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector
[20] Sum of cost of investing in emissions abatement, administrative costs and purchasing of allowances multiplied by an assumption on the proportion of operators who are UK-based.
[21] UK Emissions Trading Scheme review 2023: https://www.gov.uk/government/publications/uk-emissions-trading-scheme-review-2023

provision for review does not apply to this instrument as it falls within an exception in section 28(3) of that Act.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Minister for Industry at the Department for Energy Security and Net Zero has made the following statement regarding Human Rights:

"In my view the provisions of the Greenhouse Gas Emissions Trading Scheme (Amendment) (Extension to Maritime Activities) Order 2026 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts"). It does however relate to the withdrawal of the United Kingdom from the European Union because the UK ETS is a policy replacement for the UK's participation in the EU ETS.