EXPLANATORY MEMORANDUM TO

THE GREENHOUSE GAS EMISSIONS TRADING SCHEME (LIME BENCHMARK) (ENGLAND) ORDER 2026

2026 No. 566

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 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 the UK Emissions Trading Scheme at the Department for Energy Security and Net Zero confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Rob Wilbraham 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 address. Alternatively, the department can be contacted by telephone: 07709853311.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument makes modifications to the legislation which gives effect to the UK Emissions Trading Scheme (the "UK ETS"). This modification provides for an uplift to the lime benchmark for 2027 to the value intended, and stated publicly, to ensure lime installations' preliminary free allocations for the 2027 scheme year are calculated as intended.

4.2 Benchmarks are a reference value representing the greenhouse gas emission intensity of the top 10% most efficient installations in a given sector. They are used for the purpose of calculating preliminary free allocations. This lime benchmark refers to the lime production sector of which the only incumbent installations in the UK are located in England.

4.3 This legislation provides for an uplift to the lime benchmark for incumbent installations to 0.798 from 0.725 for the 2027 scheme year only in order to achieve publicly stated intent.

Where does the legislation extend to, and apply?

4.4 The extent of this instrument is England and Wales

4.5 The territorial application of this instrument is England.

5. Policy Context

What is being done and why?

5.1 The UK ETS is a UK-wide greenhouse gas emissions trading scheme to incentivise emissions reductions in line with the UK's net zero targets. The UK ETS replaced the UK's participation in the EU Emissions Trading Scheme 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. Participating operators at risk of carbon leakage[1] are given a certain number of UK ETS allowances for free, to manage their exposure to the carbon price and the risk that business' decarbonisation efforts could be undermined by higher-carbon imports. Participants can also buy allowances at auction and in secondary markets.

5.4 Operators of installations are required to confirm that they intend to proceed with their free allocation applications by 30th June 2026 and from 1st October regulators will start to calculate 2027 Free Allocations.

5.5 The policy intention is to ensure that a lime product benchmark value of 0.798 (and not 0.725) is used when calculating preliminary free allocations in respect of lime product benchmarked sub-installations for the 2027 scheme year. This is to ensure lime sub-installations receive the number of free allowances as intended in previously announced government policy.

5.6 The lime product benchmark value of 0.798 for the 2027 scheme year is an extension to the existing value of 0.798 which was used as a temporary uplift through the 2024, 2025 and 2026 scheme years. As the only incumbent lime sub-installations are located in England this instrument will only modify legislation relating to incumbent lime sub-installations located in England.

What was the previous policy, how is this different?

5.7 Existing policy for recent scheme years namely the years 2024, 2025 and 2026 provided for a temporary uplift in the lime benchmark value to 0.798. The intention was to continue to carry this uplift forward for the 2027 scheme year. The instrument will provide continuity of the benchmark value, deliver publicly stated policy and provide clarity to operators of lime installations ahead of regulators beginning free allocation calculations on 1st October 2026.

5.8 This policy is required in order to fulfil the publicly stated commitment to continue the temporary uplift in the lime benchmark value for the 2027 scheme year and ensure operators of lime sub-installations receive an amount of free allowances relevant to their sub-installations efficiency compared with the lime benchmark efficiency standard.

[1] Carbon leakage is the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation.

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"). The 2020 Order applies the Monitoring and Reporting Regulation 2018 and Verification Regulation 2018 on the monitoring, reporting and verification of emissions with modifications to ensure that they are appropriate for the UK ETS

6.2 In addition, UK ETS legislation includes assimilated law relating to the free allocation of allowances, known as the Free Allocation Regulation[2] and the Activity Level Changes Regulation[3].

6.3 In April 2026[4] the Free Allocation Regulation, Article 16, on determining preliminary allocation for incumbent installations was amended to provide for the benchmarks used in calculations of preliminary annual number of allowances for the 2027 scheme year as set out in Annex 8 to that Regulation. Within Annex 8 a value of 0.725 appears for the lime benchmark, however the intention was for this to be uplifted to 0.798 for the 2027 scheme year.

Why was this approach taken to change the law?

6.4 As the only incumbent lime operators in the UK are located in England, this instrument will only apply to incumbent lime operators located in England.

6.5 It was agreed within the Authority (and therefore with Devolved Government agreement) to proceed on an England only basis given that the practical impact of UK-wide or England only instrument would have been the same for the 2027 scheme year.

7. Consultation

Summary of consultation outcome and methodology

7.1 We have carried out consultations which is a statutory requirement in the Climate Change Act 2008. The UK and devolved governments carried out these consultations in the 2023 Free Allocation Review Consultation[5] and the 2024 Free Allocation Review Carbon Leakage consultation[6].

7.2 The 2023 Free Allocation Review consultation ran from 18th December 2023 to 11th March 2024 and received responses from over 66 organisations. The 2024 Free Allocation Review Carbon Leakage consultation ran from 16th December 2024 to 10th March 2025 and received responses from over 54 organisations.

7.3 The relevant consultation responses are summarised in the Authority Response[7]:

7.4 The advice of the Climate Change Committee (CCC) on the policy proposal being implemented through this instrument was sought, which is a further statutory requirement in the Climate Change Act 2008. The CCC reviewed this proposal and

[2] Commission Delegated Regulation (EU) 2019/331 (the "Free Allocation Regulation").
[3] Commission Implementing Regulation (EU) 2019/1842 (the "Activity Level Changes Regulation").

[4] https://www.legislation.gov.uk/uksi/2026/278/contents/made.
[5] https://www.gov.uk/government/consultations/uk-emissions-trading-scheme-free-allocation-review.
[6] https://assets.publishing.service.gov.uk/media/6760062fb745d5f7a053ef7a/ukets-free-allocation-review-carbon-leakage-consultation.pdf.
[7] https://www.gov.uk/government/consultations/uk-emissions-trading-scheme-free-allocation-review

had no comment.

8. Applicable Guidance

8.1 UK ETS guidance is available to assist operators with completing stage 2 of the free allocation application process.[8]

8.2 Only the operators of installations who have completed and submitted both stages (stage 1 and stage 2) of the free allocation application will be eligible to receive free allocation at any point in the 2027-2030 allocation period.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment was prepared covering the policy positions being implemented through this instrument. This was published in April 2026 alongside a previous instrument[9].

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies has been published in an impact assessment alongside the UK Emissions Trading Scheme Main Authority Response to the Free Allocation Review, as referenced in 9.1 above.

9.3 The changes made to legislation through this instrument do not impact small or micro businesses. This is because small or micro businesses (employing up to 50 people), operators with relatively low levels of emissions are either not caught up by the scheme or participate in the HSE or USE schemes, which has lower compliance burdens than the main UK ETS, and neither scheme involves free allocation.

9.4 There is no significant impact on the public sector. Hospitals who participate in the HSE scheme are subject to lower compliance burdens than main UK ETS scheme participants and the HSE scheme does not involve free allocation.

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.[10]

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

[8] https://www.gov.uk/government/collections/uk-emissions-trading-scheme-uk-ets-technical-guidance-and-tools.
[9] https://www.legislation.gov.uk/ukia/2025/230.
[10] https://www.gov.uk/government/publications/uk-emissions-trading-scheme-review-2023.

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 As the instrument is subject to negative procedure and does not amend primary legislation no statement is required.

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.