

UK ETS Free Allocation Review update (published on behalf of the UK ETS Authority).

The UK ETS Authority has published updates to the Free Allocation Review – a consultation on carbon leakage and confirmation of moving the start of the second allocation period to 2027.

The UK ETS Authority has published a package of updates as part of our review of free allocation policy. These build on our previous commitments to better target free allocations to sectors at risk of carbon leakage, and to ensure the UK ETS and UK Carbon Border Adjustment Mechanism work cohesively to mitigate carbon leakage risk.

Published today are:

- An interim consultation as part of the second phase of the Free Allocation Review, allowing participants to provide views on the future of the Carbon Leakage List and options for free allocation adjustments for CBAM sectors
- An Authority response confirming the move to 2027 implementation for the second free allocation period

### **Carbon leakage consultation**

The UK ETS Authority is seeking views on a number of proposals to improve our approach to free allocations.

In the 2023 [UK ETS Free Allocation Review](#) consultation, the Authority committed to publish a draft UK Carbon Leakage List and to put forward further options on free allocation adjustments for CBAM sectors.

The interim consultation published today is seeking stakeholder views on:

- Two options for the Carbon Leakage list - a Carbon Leakage List formulated using UK-specific data, or the option of retaining the current list
- How free allocations for CBAM covered sectors should be adjusted from 2027

[Read the consultation and respond here](#)

## **Authority response on extending the UK ETS first Free Allocation period**

The UK ETS Authority has also published a response to its targeted consultation, carried out in September 2024, on moving the start of the second allocation period.

This response confirms that the start of the second allocation period will move from 2026 to 2027, extending the current allocation period to include 2026. This means that changes to Free Allocation will align with the introduction of the UK Carbon Border Adjustment Mechanism in 2027.

The response also contains details of the process for applications for the 2027-2030 allocation period, and of the process for applications for Hospital and Small Emitter and Ultra-Small Emitter status. It confirms that changes to the electricity generator classification will come into effect in 2026 as planned.

These changes will not impact either the overall cap or the Industry Cap which set the net zero aligned limit on allowances available to be given out for free. The move of the second allocation period will not impact the auction share, which was reset following the announcement of the net zero cap last year. The Authority does not expect the changes to trigger the application of the cross-sectoral correction factor in 2026. In the unlikely event that it is triggered, the Authority will mitigate its application through use of our reserves.

[Read the full response here](#)

## **Stakeholder engagement**

The UK ETS Authority is holding a webinar to give an overview of the Free Allocation Review on 14 January at 10:00.

[Sign up to attend here.](#)

This session will cover the consultation and response published today, as well as the changes to rules around permanent cessation of activity the Authority published in November – *read that response [here](#).*

In the New Year, the Authority will send invitations to detailed workshops on the carbon leakage consultation.