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UK Emissions Trading Scheme Scope Expansion: Maritime – Interim Response

A joint interim response of the UK Government, the Scottish Government, the Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland

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Introduction

In the *UK Emissions Trading Scheme Scope Expansion: Maritime* consultation¹, published in November 2024, the UK ETS Authority consulted on technical implementation details in relation to the expansion of the existing UK Emissions Trading Scheme (UK ETS) to include emissions from the maritime sector. This followed the Authority Response to the *Developing the UK ETS* consultation², published in July 2023, where we confirmed the expansion to emissions from domestic maritime, as well as an intent to implement this expansion from 2026.

The November 2024 consultation was split into two sections:

- **Section A: Implementing the UK ETS for Maritime.** In this section, we consulted in detail on the implementation of the scheme and provided more detail on the changes announced in the previous Authority Response. This included stating that the threshold would be 5000 gross tonnage (GT) and proposing to review this threshold in future, as well as providing further detail on a definition of a domestic journey, exemptions, a cap adjustment, and the monitoring, reporting and verification (MRV) requirements.
- **Section B: Potential further expansion of the UK ETS to additional maritime emissions.** Here, we consulted on any potential further expansion to the maritime regime. This included a proposal to review the threshold by 2028 and to consider how a proportion of international emissions could be brought into scope in future, should action from the International Maritime Organization (IMO) be delayed or prove insufficient.

Following the consultation, we have finalised certain elements of the maritime expansion. We are therefore issuing an interim Authority Response containing some of our policy decisions to enable maritime operators to prepare to comply with the requirements of the UK ETS, and to assist regulators to conduct onboarding activities in preparation for implementation.

This document confirms decisions on the definition of a domestic journey including in port emissions (referred to as emissions at berth in the previous consultation), the relevant greenhouse gases, and the exclusion of certain activities, as well as on the regulatory regime, the MRV requirements, and the definition of the maritime operator. We will issue a full Authority Response to the consultation, including to confirm decisions on all other policy proposals, as soon as possible.

We made a commitment to expanding the scheme in 2026 in the consultation. We would like to clarify the intention of the **UK ETS Authority to launch the UK ETS maritime regime on 1 July 2026. This will include coverage of domestic journeys and all in port emissions in the UK, as per the technical details set out in this Authority Response.** As confirmed in the UK-EU Summit, the UK and EU should work towards establishing a link between carbon markets. The Common Understanding³ set out that, subject to negotiations, we intend to expand the UK ETS to include emissions from international voyages. We will set out further proposals in due course about how we intend to expand to international emissions, including the date for this expansion, via a notice to ETS stakeholders.

¹ <https://www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector>

² <https://www.gov.uk/government/consultations/developing-the-uk-emissions-trading-scheme-uk-ets>

³ <https://www.gov.uk/government/publications/ukey-summit-key-documentation/uk-eu-summit-common-understanding-html>

While we did not ask an explicit question on the timing of the UK ETS expansion to maritime, we note that many stakeholders referenced this in their responses. In particular, stakeholders flagged concerns that there would be insufficient time to understand their compliance obligations under the UK ETS and make preparations to meet these obligations.

We anticipate that the publication of these early decisions will support operator preparations and regulatory onboarding, as well as the 1 July 2026 commencement of the maritime regime, which will help to alleviate the abovementioned concerns from industry.

UK ETS Maritime - Interim Response

The Authority confirms that:

- The expansion of the UK ETS to maritime will be from 1 July 2026, so all compliance obligations will apply from this date. The first scheme year will run 1 July 2026 to 31 December 2026. Future scheme years will run from 1 January to 31 December.
- Emissions in scope are those from domestic voyages (defined as those between UK ports, including those which start and end at the same port) and within UK ports.
- We will exempt government non-commercial maritime activity.
- We will include methane and nitrous oxide emissions.
- The regulatory provisions which exist for sectors already covered by the UK ETS will apply where relevant for maritime operators.
- We have provided further details on the monitoring, reporting and verification (MRV) requirements to support the expansion of the UK ETS to maritime.
- The entity responsible for compliance with the UK ETS is the Registered Owner of a ship, except where the ISM Company has duly assumed responsibility instead.

Scope of the Scheme

Definition of a domestic voyage

Summary of Consultation Proposals

In the consultation, we outlined that the definition of a domestic voyage for the purpose of the UK ETS would include voyages travelling from one UK port to another UK port, as well as voyages which start and end at the same port in the UK. The definition will include all emissions within a voyage between ports of call, including while at anchor and while moored.

We also stated that we propose to include all in port emissions, comprised of emissions at berth in UK ports and emissions from movements within UK ports. This will include in port emissions from ships travelling domestically, internationally or both.

Questions

1. **Do you agree with the proposed definition of a domestic voyage?** (Y/N) Please explain your response, providing evidence where possible.
2. **Do you agree that the proposed definition will capture all relevant domestic emissions?** (Y/N) Please explain your response, providing evidence where possible.
3. **Do you envisage this definition leading to any loopholes or perverse incentives?** (Y/N) Please explain your response, providing evidence where possible.

4. Do you agree with the inclusion of emissions at berth in a UK port from ships performing both domestic and international voyages? (Y/N) Please explain your response, providing evidence where possible.

Summary of Consultation Responses

64 stakeholders responded to question one, on the definition of a domestic voyage. Of those, 46 (72%) agreed with the definition proposed by the Authority. Despite the strong support for the definition, some stakeholders raised concerns about the inclusion of offshore ships (9 responses) and calls for clarity around emissions at anchor and defining the start and end of a voyage. Several stakeholders also emphasised the need to align with the EU ETS definition.

There were 53 responses to question two, on whether the definition would capture all relevant emissions. Views were more divided on this, with 28 (53%) respondents agreeing and 24 (45%) disagreeing and 1 (2%) unsure. Of those who disagreed, seven respondents supported the inclusion of ships below 5000GT. Five stakeholders supported the inclusion of voyages to and from Crown Dependencies and Overseas Territories (CDs & OTs).

54 stakeholders responded to question three, on whether the definition would lead to loopholes or perverse incentives. 35 (65%) stakeholders responded yes, and 18 (33%) stakeholders responded no. Of these, 22 respondents stated that the proposed definition could be gamed or would lead to re-routing. Specifically, five stakeholders raised concerns that not including CDs & OTs could lead to evasion via the Isle of Man. Three stakeholders raised concerns that there would be modal shift to other forms of transport. While not directly relevant to the question, six stakeholders raised concerns that the threshold of 5000GT would incentivise the use of ships below the threshold to avoid inclusion. Six respondents raised concerns that the scheme would overlap with the future IMO measure, or other international schemes.

There were 75 responses to question four, on the inclusion of emissions at berth. 45 (60%) respondents agreed with the inclusion of these emissions, with 28 (37%) disagreeing and 2 (3%) unsure. Of those supporting inclusion, 40 respondents supported inclusion of all emissions at berth (i.e. whether travelling both domestically and internationally). 14 respondents felt this would encourage uptake of clean technology/infrastructure and 8 respondents said it will improve air quality. Of those who did not support this proposal, 25 expressed concerns about the inclusion of emissions at berth from internationally travelling ships, and 17 expressed concerns about overlap with the future IMO measure and other international schemes. Some also flagged concerns based on the challenge of making shore power available due to grid capacity and connection.

The Authority Response

The Authority intends to proceed with the proposed definition of domestic voyage, which would include voyages from one UK port to another UK port and voyages which start and end at the same port in the UK. This will include all emissions within a voyage, including while at anchor and while moored. We recognise that there were calls for clarity around emissions at anchor and defining the start and end of a voyage, which we will address in future guidance.

Stakeholder support for the inclusion of CDs & OTs has been noted. While we do not intend to include these emissions from launch in 2026, we will continue to engage in a process of ongoing monitoring and review of the scheme and may consider this in future, particularly if

risks of gaming are realised, though we currently do not have evidence to support the idea that not including CDs & OTs will lead to gaming or perverse incentives.

The risk of gaming due to the threshold of 5000GT has also been noted. We will be applying the UK ETS to ships of 5000GT and above from the start of the scheme in 2026. The consultation feedback and final policy decisions regarding a future review of this threshold, will be included in the full response to this consultation. We will take measures to monitor gaming, and we reserve the right to make changes to the scheme based upon observed behaviours.

We also recognise that there are concerns from industry about the inclusion of offshore ships within the scheme, particularly the risk of gaming, depending on how this is defined. We will set out further detail on this in the full response to this consultation.

We also intend to proceed with the inclusion of all in port emissions within UK ports of call, from ships which are travelling domestically, internationally or both. In port emissions in the UK represent 46% of total UK domestic maritime emissions and including these will ensure that they are subject to the same incentive to decarbonise as voyage emissions. We recognise concern from stakeholders regarding an overlap with the IMO Net Zero Framework and will continue to consider the UK ETS coverage as this measure develops.

We also asked questions about the inclusion of some emissions from international voyages. We will respond to these in the full Authority response to this consultation.

Inclusion of methane and nitrous oxide emissions

Summary of Consultation Proposals

We proposed to include emissions of methane and nitrous oxide, as well as those of carbon dioxide. This would include emissions from both the combustion and slippage⁴ of these gases. Methane and nitrous oxide emissions would be calculated on a carbon dioxide equivalent (CO₂e) basis, based on their Global Warming Potential (GWP).

The GWPs proposed are in line with international reporting standards as follows: a GWP of 28 per tonne of methane and a GWP of 265 per tonne of nitrous oxide⁵.

Questions

- 13. Do you agree with the inclusion of emissions from the combustion or slippage of methane and nitrous oxide emissions from maritime activity within the scheme? (Y/N)** Please explain your response, providing evidence where possible.
- 14. Do you agree with our proposal for how to calculate an operator's greenhouse gas emissions on a carbon dioxide equivalent (CO₂e) basis? (Y/N)** Please explain your response, providing evidence where possible.

⁴ Slipped and fugitive emissions are emissions caused by the amount of fuel that does not reach the combustion chamber of the emission source or that is not consumed by the emission source because they are not combusted, vented or leaked from the system.

⁵ The GWP for each gas is defined as its warming influence in relation to that of CO₂ over a 100-year period and is from table 8.A.1 (without climate-carbon feedback) of Working Group 1 of the IPCC Fifth Assessment Report: Climate Change 2013 (AR5).

Summary of Consultation Responses

We received 61 responses to question 13, on the inclusion of methane and nitrous oxide emissions. 54 (89%) of responses agreed with our proposal, with 5 (8%) disagreeing and 2 (3%) unsure. A common theme among the responses of those supporting the proposal was alignment with the EU ETS and other international schemes. Seven stakeholders also mentioned that the inclusion of methane would ensure that liquified natural gas (LNG) was not incentivised as an alternative fuel, which agreed with our rationale for proposing this change.

There were fewer responses to question 14 (50 respondents), on the carbon dioxide equivalency of methane and nitrous oxide emissions. 36 (72%) respondents to this question supported the proposal, with 8 (16%) disagreeing and 6 (12%) unsure. Alignment with the EU ETS approach was cited as a key factor by 12 of those who supported the proposal. Nine stakeholders called for use of the latest GWPs from the Intergovernmental Panel on Climate Change, which are higher than those per the approach proposed in the consultation.

The Authority Response

The Authority has decided to proceed with the inclusion of methane and nitrous oxide emissions within the scheme. This will be both from the combustion or slippage of these gases as part of maritime activity. The inclusion of these gases will strengthen the climate ambition of the scheme, as well as avoid perverse incentives to switch to fuels with lower carbon dioxide emissions but higher methane or nitrous oxide emissions, which have a higher GWP than carbon dioxide. This was a view shared by industry.

We also confirm that methane and nitrous oxide will be calculated on a CO₂e basis using the GWPs for each gas. In the consultation, we proposed to use figures set out in the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (AR5). Further detail on calculating emissions from these gases will be provided in guidance.

We recognise the mixed feedback regarding the use of GWP figures based on the AR5, with some stakeholders calling for use of those listed in the Sixth Assessment Report (AR6). After thorough consideration, we confirm that the GWP figures will be those in the AR5. We recognise that these GWPs have been updated in the AR6. However, to ensure consistency in reporting and calculations, we will continue to use values from the AR5 in accordance with international reporting guidelines under the Paris Agreement⁶.

Cross-government greenhouse gas emissions reporting and accounting will also continue to use AR5 figures, including all other maritime policies. The approach to greenhouse gas emissions reporting under the UK ETS will be under review in future, including alongside international reviews of common metrics to ensure consistency⁷.

⁶ Decision -/CMA.1 Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement (Section D). The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement. https://unfccc.int/sites/default/files/resource/cp24_auv_transparency.pdf

⁷ The UNFCCC agreed to continue considering common metrics at the Subsidiary Body for Scientific and Technological Advice 66 meeting in 2027. <https://unfccc.int/process-and-meetings/transparency-and-reporting/reporting-and-review/methods-for-climate-change-transparency/common-metrics>

Excluded maritime activity

Summary of Consultation Proposals

We confirmed that we intend to exempt government non-commercial maritime activity (GNCMA) from the UK ETS. We provided a non-exhaustive list of activities we consider to fit this term. We proposed that this activity will be fully exempted from the scheme.

We also consulted on further derogations from the scheme. Details of these proposals, consultation responses and final Authority decisions will be contained in the full Authority Response to the consultation, which will be published in due course.

Questions

15. Do you have any views on the exemption of government non-commercial maritime activity, or the activity covered by this term? (Y/N) Please explain your response, providing evidence where possible.

Summary of Consultation Responses

There were 34 respondents to question 15. The question did not ask whether respondents agreed with the proposed exemption, so it is not possible to provide a breakdown of the responses which supported or opposed these proposals, but respondents were generally supportive. Some responses called for further exemptions. Please note that these will be considered and responded to in the full Authority Response to this consultation.

Two respondents disagreed with the exemption, stating that government ships should “lead by example”. However, most respondents had no issue with the proposal. A theme emerged on the importance of a robust decarbonisation strategy for government ship activity, alongside the exemption. Some respondents noted that continuity with how government ships are treated in other regimes, including the EU ETS, was sensible.

The Authority Response

The Authority can confirm that government non-commercial maritime activity will be exempt from the UK ETS. This is consistent with the approach taken to aviation in the UK ETS. We received useful feedback in relation to the type of activities that should be excluded, such as those performed by arms-length government bodies.

To ensure that this exemption covers all appropriate activities, the Authority will move away from an umbrella term for this exclusion and instead provide a list of activities in legislation to outline activities excluded from scope. Further detail will be outlined in legislation, but this will include the following:

- Military activities
- Customs / Border Force activities
- Police activities
- Coastguard and other government search & rescue activity

- Emergency/medical ships
- Government research activities
- General Lighthouse Authority activity

These activities will be fully exempt from the UK ETS, meaning that there will be no reporting or surrender requirement. Further detail on the activities included in this exemption will be outlined in the full Authority Response in due course.

Ships performing these activities are still expected to decarbonise their operations in line with net zero commitments across the UK, and the Authority notes feedback about the importance of a robust decarbonisation strategy for government ships. The National Shipbuilding Office (NSO) has set out a 30-year cross-government shipbuilding pipeline of over 150 new ships. In the Maritime Decarbonisation Strategy⁸, the UK Government committed to working with the NSO to develop opportunities to procure low-carbon ships and maximise green ambition.

Details of any further derogations are not covered in this interim Authority Response. Consultation responses and final Authority decisions on other derogations will be contained in the full Authority Response to the consultation to be published in due course.

Regulatory regime

Summary of Consultation Proposals

In the consultation, the Authority outlined that it intends to apply the same regulatory provisions that exist for sectors that are already in the UK ETS to also be applied to maritime. This includes the definition of the scheme year, the reporting and surrender deadlines of 31st March and 30th April respectively, and the requirement to apply for the approval of an emissions monitoring plan. Maritime operators will also need to appoint an independent verifier, accredited by the UK Accreditation Service (UKAS), to verify their annual emissions report.

On enforcement, we proposed that, in general, we would mirror provisions which already apply for UK ETS participants, including civil penalties.

On the assignment of maritime operators to a UK ETS regulator, we again propose to mirror the approach taken for aircraft operators. Maritime operators will be assigned to a regulator based on the location of their place of residence or registered address. For those operators registered in one of the four nations of the UK, regulatory responsibility will fall to the regulator for that territory⁹. For operators which do not have a registered office or place of residence in the UK, regulatory responsibility will fall to the Environment Agency.

⁸ <https://www.gov.uk/government/publications/maritime-decarbonisation-strategy>

⁹ 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. For Wales, this is Natural Resources Wales.

Questions

25. Do you agree with the proposed regulatory provisions, such as the scheme year, compliance dates, content of the emissions monitoring plan and penalties regime, operator requirements, or applicable regulator? (Y/N) Please explain your response, providing evidence where possible.

Summary of Consultation Responses

46 stakeholders responded to question 25. Opinions on this question were split. 21 (46%) respondents agreed with the proposals, 17 (37%) disagreed, and 8 (17%) were unsure.

Just under half of respondents mentioned alignment with EU ETS deadlines. Stakeholders cited complex contractual arrangements as the reason for preferring alignment with the EU ETS compliance deadlines. They stated that it would be challenging to recover money from the relevant party (due to various chartering arrangements across the year) and purchase allowances in the one-month window between reporting and surrender.

11 respondents supported alignment with the rest of the UK ETS. Among respondents who supported this, some stated that the regulatory provisions would provide clarity and consistency to support effective implementation of the scheme. Of the responses which explicitly mentioned the penalties regime (six responses), there were mixed views on the use of the existing penalties regime. The majority of stakeholders mentioning this, supported the use of the existing penalties regime, but some stated that these were not sufficiently high.

In general, there was support for the proposal to assign maritime operators to UK ETS regulators based on location of their registered office or place of residence. Some responses raised concerns that regulators would not be sufficiently resourced to undertake the regulation of the maritime sector. One participant also called for there to be only one regulator for the maritime regime and suggested the Maritime and Coastguard Agency could be well placed.

The Authority Response

Given the decision to expand the UK ETS to maritime from 1 July 2026, as stated at the beginning of this Authority Response, the first scheme year will run from 1 July 2026 to 31 December 2026. All subsequent scheme years run 1 January to 31 December each year.

The Authority has considered the stakeholder responses and acknowledges that stakeholders called for UK ETS deadlines to align with EU ETS deadlines, particularly the EU surrender deadline which is 30th September, as opposed to 30th April each year.

However, the Authority will progress the proposed position of aligning the proposed regulatory provisions, including the compliance dates, with the rest of the UK ETS. It is important for all participants within the UK ETS to be subject to the same rules. We engage in monitoring and evaluation of the scheme and the compliance dates have not been raised as an issue for the operation of the scheme. We acknowledge the feedback on the one-month window between reporting and surrender deadlines. We note that allowances may be purchased via auctions, or on the secondary market throughout the year, meaning that operators can choose to purchase allowances at any point in the year in preparation for surrender.

We recognise that there was broad support in general for aligning to the UK ETS on the other specific areas mentioned in the question. We therefore intend to take forward the proposals in the previous consultation, including the requirement to apply for an emissions monitoring plan, the application of the UK ETS penalties regime and the proposed method for assigning regulators. On the latter, we also recognise the feedback from stakeholders that a published list of operators and their relevant regulator could be helpful, particularly from a verifier perspective. We are exploring the possibility of this and will set out more detail in due course.

Monitoring, Reporting and Verification requirements

Summary of Consultation Proposals

We outlined that we intend to use the existing UK MRV¹⁰ regime as the basis for the MRV requirements for the UK ETS, but to deviate in five general areas from that existing regime.

The first of these is that the scope of the UK ETS MRV requirements would need to be wider than the UK MRV regime to include maritime activities, voyages, and ships in scope of the UK ETS. We therefore plan to include emissions at berth in the UK for ships arriving and departing from the UK on international voyages in the UK ETS MRV requirements¹¹. The UK ETS MRV requirements will also apply to ships and ship movements not serving the purpose of transporting cargo or passengers, as these are currently not in scope of the UK MRV regime.

Second, we propose to include methane and nitrous oxide emissions from maritime activity within the UK ETS MRV requirements.

Third, we intend for the UK ETS MRV requirements to align with the planned point of obligation for the UK ETS, covered in a later section of this document.

Fourth, the regulation of emissions from ships will now be dealt with within the UK ETS framework, for example, regulators will approve emissions monitoring plans (EMPs) as opposed to accredited verifiers. We also intend that an emissions monitoring plan and annual emissions report is required per operator, as opposed to per ship. We also proposed to remove the requirement for a Document of Compliance (DoC) for the UK ETS MRV requirements.

We consulted on how best to account for the use of biofuels and sustainable fuels within the UK ETS, and whether to use a lifecycle approach (or well-to-wake, WtW)¹² for maritime fuels.

Finally, we proposed that the changes we outlined to the UK ETS MRV requirements should also be made to the UK MRV regime, to simplify reporting across the industry.

¹⁰ Established by EU Regulation (Regulation (EU) 2015/757), retained in domestic law under the EU (Withdrawal) Act 2018, subject to amendments needed to make it operable in a UK-only context. For further details on the relevant legislation and current operation of the UK MRV see guidance note 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>.

¹¹ Voyages between the UK and non-European Economic Area countries, including the associated in port emissions, are already captured within the UK MRV scheme.

¹² Lifecycle emissions are the sum of a) the GHG emissions generated by operating ships, which are also known as Tank-to-Wake emissions; and b) the GHG emissions from the production and distribution of the fuels and other energy sources (e.g. electricity) that are used by ships, which are also known as Well-to-Tank emissions.

Questions

- 26. Do you agree that we should use the UK MRV regime as the basis for the UK ETS, with deviations for the purpose of the UK ETS MRV requirements as outlined? (Y/N)** Please explain your response, providing evidence where possible.
- 27. Do you agree that the approval of monitoring plans for maritime should be in line with existing UK ETS processes? (Y/N)** Please explain your response, providing evidence where possible.
- 28. Do you agree that we should remove the requirement for a Document of Compliance from the UK ETS MRV requirements? (Y/N)** Please explain your response, providing evidence where possible.
- 29. How best should we account for biofuels and other sustainable fuels used in the maritime sector in the scheme? How best can we consider lifecycle emissions for fuels used in the maritime sector in the scheme?** Please explain your response, providing evidence where possible.
- 30. Which greenhouse gas emission factors for each maritime fuel and energy source would be most appropriate to use under the scheme? Are these emission factors fit for purpose for calculating lifecycle CO₂e emissions?**
- 31. Do you agree that the changes outlined above should also be made to the existing UK MRV regime? (Y/N)** Please explain your response, providing evidence where possible.

Summary of Consultation Responses

For question 26, 33 (75%) of the 44 respondents supported the principle of the UK MRV regime being broadly the basis for the UK ETS MRV requirements. Six (14%) disagreed and five (11%) were unsure. Of those who did, several cited the importance of consistency with the EU ETS and EU MRV to avoid administrative burden. A small number of stakeholders called for clarity on which reporting system would be used for complying with the UK ETS, with some calling for single reporting across the two schemes.

Some responses explicitly mentioned support for some of the deviations from the UK MRV as outlined in the consultation. In particular, several stakeholders supported the widening of the scope of the UK MRV to match the proposed scope of the UK ETS. There was also support for the amendment to facilitate the inclusion of methane and nitrous oxide (covered earlier in this Response) and support for matching the point of obligation.

There were 41 responses to question 27, on moving the responsibility for approving EMPs to UK ETS regulators instead of verifiers. 25 (61%) respondents agreed that the approval of EMPs should be in line with the rest of the UK ETS. 12 (29%) disagreed, raising concerns around the regulators' capacity and expertise to approve the EMPs, including that this could lead to delays and increase costs. Others flagged that the sector has become used to the verifier undertaking this activity, so continuing with this approach could be simpler. There were also four (10%) respondents who were unsure in their answer.

In total, 33 consultees responded to question 28, on the proposal to remove the requirement for a DoC from the UK ETS MRV requirements. 20 (61%) respondents disagreed with this proposal for a variety of reasons. Some stakeholders emphasised that the DoC is essential for demonstrating compliance with a regulatory requirement to Port State Control (PSC). Others flagged that this could disadvantage UK shippers trading internationally when entering ports outside of the UK, or that a DoC may be required as part of the due diligence process in ship sales and purchases. Of those stakeholders who did agree with the removal of the DoC, most did so on the grounds of simplicity, reducing regulatory burden, and to be in line with the other sectors included in the UK ETS (which do not require a Document of Compliance).

Question 29 concerned the approach to biofuels and other sustainable fuels, including how best to consider lifecycle emissions for all maritime fuels. 45 stakeholders responded to this question. This question did not ask whether stakeholders agreed or disagreed with the proposals, so it is not possible to breakdown responses in this way. The most common themes arising from the responses included that there should be consistency with the EU ETS approach to zero rate these fuels (mentioned in 19 responses), and that sustainable fuels should be treated on a lifecycle assessment basis (mentioned in 19 responses). Many responses also mentioned the importance of the approach being consistent with IMO guidance and international standards. While emissions factors were explicitly asked about in the next question, some respondents did mention it in their response to this question. Most of those who did mention this supported the use of standard emissions factors.

We received 37 responses to question 30, on emissions factors. Again, a breakdown of responses has not been included, as this question did not ask whether stakeholders agreed or disagreed with the proposal. The key theme in responses was the importance of consistency with the EU ETS and the IMO to ensure simplicity, particularly as these emissions factors and standards are already recognised internationally. Some responses called for regular reviews of the emissions factors, recognising that this is an area which is developing rapidly given the development of new fuels.

Finally, 26 responses were received to question 31 on whether the changes outlined in the consultation should also be made to the UK MRV regime. 19 (73%) respondents agreed that these changes should be made to the UK MRV, with two (8%) disagreeing and five (19%) respondents unsure. Of those agreeing with the proposal, many cited that it was helpful for the two schemes to be as similar as possible to reduce reporting burden. Some cited the alignment with the EU approach as their reason for supporting the proposal. Some of those who disagreed did so on the basis that they did not agree with some of the changes we have proposed for the purposes of the UK ETS, such as the removal of the DoC.

The Authority Response

The Authority has decided to proceed with the proposal to use the principles of the UK MRV regime as the basis for the UK ETS, with deviations for the purpose of the UK ETS MRV requirements, as outlined in the summary of proposals and decisions set out below. However, to be clear, the UK ETS MRV requirements will be separate from the UK MRV regime.

While not within the remit of the UK ETS Authority, we recognise that stakeholders are calling for clarity on the future of the UK MRV regime. The Department for Transport recognises this feedback and the calls for clarity on the future of the UK MRV regime and will set out further information on this in due course.

In terms of the specific deviations proposed in the consultation, we intend that the UK ETS MRV requirements will match the final proposed scope of the scheme. However, the final scope, including any further exclusions and derogations from the scheme, will be outlined in the full Authority Response to this consultation.

At present, we can confirm that the UK ETS MRV requirements will include the monitoring and reporting of in port emissions, whether travelling domestically or internationally, as well as the monitoring of emissions of methane and nitrous oxide, in line with decisions outlined above.

Almost two thirds of stakeholders agreed with our proposal that EMPs should be approved by the UK ETS regulator. We have decided to proceed with this. We acknowledge some stakeholder views that this should be carried out by verifiers, which would diverge from the process for other UK ETS sectors. However, we have decided on a standardised approach. We will also require one EMP and annual emissions report (AER) per operator, and not per ship. We note that the EMP requires the ships in which maritime activities are performed to be listed and the emissions from each ship as well as aggregated data to be reported in the AER.

On the proposal to no longer require a Document of Compliance for the purposes of UK MRV, we recognise the strength of stakeholder feeling on this proposal. The Authority is therefore still considering its final position on this proposal and will set out further information in the full Authority Response to this consultation.

We also appreciate the detailed feedback on the treatment of biofuels and other sustainable fuels. We recognise the importance of ensuring that such fuels are recognised for maritime, as in existing UK ETS sectors. We therefore intend to incentivise the use of sustainable fuels of both biological and non-biological origin through zero-rating from the start of the scheme. We will provide further detail on the treatment of sustainable fuels, and on how to make an Emissions Reduction Claim, in guidance. We will consider emissions from all maritime fuels on a Tank-to-Wake basis from the start of the scheme. There was also strong support for the use of emissions factors in line with industry standards. We therefore also confirm the use of standard emissions factors for conventional fuels in line with the rest of the UK ETS. Further detail will follow in guidance.

We recognise that many stakeholders noted the importance of a lifecycle or Well-to-Wake (WtW) assessment approach for sustainable fuels, and that many support alignment with IMO guidance in these areas. The IMO agreed draft legal text for a new regulation to reduce the greenhouse gas emissions from international shipping at Marine Environment Protection Committee 83. This regulation will incorporate an approach for lifecycle greenhouse gas intensity assessment (LCA). As the IMO WtW LCA framework is not yet sufficiently developed, the Authority considers it would be premature to move to a lifecycle assessment at this stage but recognises the benefits of doing so in future. We will therefore keep the progress of the IMO framework under review and consider revising our approach in future.

Point of Obligation

Summary of Consultation Proposals

The Authority proposed that the obligation to comply with the UK ETS should be applied to the Registered Owner, except where this responsibility has been delegated by a legally binding agreement to the entity which has assumed from the Registered Owner the responsibility for the operation of the ship and the duties imposed by the ISM Code (“the ISM Company”).

Where responsibility has been delegated to the ISM Company, we proposed that notification should be provided to the satisfaction of the regulator to demonstrate that the ISM Company has assumed from the Registered Owner the responsibility for compliance with the UK ETS.

We also proposed that, where such evidence was not received to the satisfaction of the relevant regulator, the obligations would be applied by default to the Registered Owner.

We asked for views on this approach, as well as views on whether an alternative approach may be preferable. We specifically referenced the following potential alternative approaches:

- An approach of applying the obligation to comply with the UK ETS to the ISM Company only; or
- An approach of applying the obligation to comply with the UK ETS to the ISM Company, except where a legally binding agreement provides that the Registered Owner will retain the responsibility to comply with the UK ETS.

On cost recovery, we set out that we do not intend to mandate the recovery of costs as it is our understanding that contracting parties will be able to agree the entitlement of the obligated entity to recover costs, as well as the practicalities of recovering those costs, through the inclusion in contractual agreements of clauses on responsibilities for emissions trading.

Questions

32. Do you agree with the proposed approach to defining the obligated entity?

(Y/N) Please explain your response, including your views on the requirements for the delegation of responsibility, and on the proposed default position where those requirements are not met. If you do not agree, please outline your preferred alternative approach.

33. Do you agree with our understanding of the ability for the obligated entity to seek entitlement to cost recovery? (Y/N) Please explain your response, including the extent to which you would expect revision to contractual arrangements.

Summary of Consultation Responses

There were 25 respondents to question 32 on the definition of the Maritime Operator.

18 (72%) consultees responded in favour of the proposed approach. 12 cited in their support for the proposed approach the importance of EU ETS alignment, and six cited the benefit of minimising operator administrative burden. Two respondents noted that the EU ETS approach is now generally understood by the sector.

Seven (28%) consultees disagreed with the proposed approach. Two respondents cited challenges relating to engagement with foreign-based Registered Owners, which may in many cases be a Special Purpose Entity (SPE) set up for the financing of a ship purchase but with little or no involvement in the management or operation of a ship.

On alternative approaches, to apply the obligations to the ISM Company only was supported by two respondents, while application to the Registered Owner only, and to the charterer, were supported by one respondent each. One respondent also called for the bareboat charterer to be able to assume responsibility, irrespective of whether it was the ISM Company.

There were 24 respondents to question 33 on the potential for cost recovery.

17 (71%) consultees agreed with our understanding of the potential for cost recovery. Five respondents noted that it is already commonplace in the sector for contractual agreements to provide for entitlement to, and outline practicalities for, the recovery of costs. Two respondents referenced such practices in relation to the recovery of EU ETS costs.

Seven (29%) consultees disagreed with our understanding of the potential for cost recovery. Four respondents called for legislative provision to entitle Maritime Operators to recover UK ETS costs, and one respondent called for their passthrough to be mandated.

The Authority Response

The Maritime Operator in respect of a ship is to be its Registered Owner, except where the ISM Company has entered into a legally binding agreement with the Registered Owner to assume the responsibility for compliance with the obligations of the UK ETS instead.

Where an ISM Company has assumed from a Registered Owner the responsibility for compliance with the UK ETS in respect of one or more ships, evidence will be required, to the satisfaction of the regulator, of the agreement in place between those two entities.

Where the person that has performed a maritime activity is not known, including where the regulator could not be satisfied that the ISM Company had duly assumed responsibility for UK ETS compliance in respect of the relevant ship, the Registered Owner will be deemed to have performed that maritime activity, and so to be the Maritime Operator in respect of that ship.

We understand from stakeholder engagement, including the consultation responses above, that this approach is endorsed by the sector. We recognise that this approach is consistent with that adopted by the EU ETS, with which industry is increasingly familiar following its operationalisation. We are therefore satisfied that this approach will mitigate additional administrative burden for most operators who will be participating in both schemes, many of whom will also have established contractual responsibilities in relation to emissions trading.

We understand that this approach will also provide flexibility for the relevant stakeholders to determine, for each ship, which entity is best placed to comply with the obligations of the UK ETS. For example, it will enable the entity with the existing responsibility for compliance with the EU ETS and EU MRV, and/or the IMO Fuel Oil Consumption Data Collection System (DCS), to assume also the responsibility for compliance with the obligations of the UK ETS.

We also understand that this approach will, in many cases, apply the obligations of the UK ETS to the entity that is usually responsible for operational decisions affecting the greenhouse gas emissions of a ship (e.g., the choice of cargo, route, and speed).

We note that some respondents call for provision in legislation for the Maritime Operator to be entitled to recover the costs associated with UK ETS compliance from the entity responsible for operational decisions affecting the emissions of a ship, where those two entities are different.

However, the Authority does not intend to provide a legislative entitlement to the recovery of UK ETS compliance costs. This is because it remains our understanding, including based on consultation feedback, that contracting parties will be able to agree that entitlement to recover the costs of compliance as a matter of standard commercial practice. We expect that this entitlement, as well as the practicalities for the recovery of costs, will be addressed through the inclusion in contractual agreements of clauses on responsibilities for emissions trading.

Next Steps

We will issue a full response to all questions included in the *UK Emissions Trading Scheme Scope Expansion: Maritime* consultation in due course.

This consultation is available from: www.gov.uk/government/consultations/uk-ets-scope-expansion-maritime-sector

If you need a version of this document in a more accessible format, please email alt.formats@energysecurity.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.