

# Extending the UK Emissions Trading Scheme cap beyond 2030

A joint 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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# Executive Summary

## Background

This document sets out the UK ETS Authority's response to the public consultation *Extending the UK ETS Cap Beyond 2030*<sup>1</sup>.

The consultation sought views on:

- Extending the UK ETS into a second phase from 1 January 2031 onward.
- The length of a post-2030 Phase II.
- Whether to allow banking of UK emissions allowances (UKAs) between Phase I and a post-2030 Phase II of the Scheme.

The UK Emissions Trading Scheme (ETS) is a cap-and-trade scheme that came into operation on 1 January 2021. The Scheme puts carbon pricing at the heart of the UK-wide approach to decarbonisation. It sets an overall limit on emissions within its scope (the cap) and establishes a market for emissions allowances that allows them to be traded between participants. The UK ETS is key to building a decarbonised economy across the UK, delivering a sustainable and economically efficient transition to net zero, and demonstrating the UK's global leadership on carbon pricing.

The downward trajectory of the cap drives emissions reductions in the covered sectors towards ambitious climate targets on a clearly defined trajectory, while the market for allowances gives businesses covered by the Scheme the flexibility to decide how to decarbonise most effectively at least cost.

Each year, businesses covered by the Scheme must surrender allowances to cover their reportable emissions. Participants receive free allowances and/or buy emission allowances at auction, which they can subsequently trade with other participants as needed. The trading of allowances on the market determines their price and allows participants to decarbonise where it is cheapest to do so.

In December 2023, the Authority published the UK Emissions Trading Scheme long-term pathway<sup>2</sup>. The pathway confirmed the intent to continue the Scheme until at least 2050, subject to consultation. It also committed to ensuring the Scheme remains aligned with a net zero trajectory and providing participants with long-term certainty to support much needed investments in decarbonisation.

The Authority took the next step in delivering on that commitment with a public consultation *Extending the UK ETS Cap Beyond 2030*, which was open for eight weeks from 12 February to

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<sup>1</sup> <https://www.gov.uk/government/consultations/extending-the-uk-emissions-trading-scheme-cap-beyond-2030>.

<sup>2</sup> <https://www.gov.uk/government/publications/uk-emissions-trading-scheme-long-term-pathway>.

9 April 2025<sup>3</sup>. We have considered all the responses to the consultation, and the views and evidence provided have informed the Authority's decisions as outlined in this document.

### **Linking the UK and EU ETS**

The UK and the EU have agreed to work towards linking the UK ETS and the EU Emissions Trading System (EU ETS). The Common Understanding text establishes that the UK cap and reduction pathway will be guided by the UK's Climate Change Act obligations and Nationally Determined Contributions and that they should be at least as ambitious as the EU cap and reduction pathway. This will be subject to upcoming negotiations.

### **UK ETS Phase II Cap – Evidence and Analysis**

The consultation included preliminary analysis covering firms' investment planning timelines and the impacts of not allowing allowance banking between EU ETS phases I and II. The decisions outlined in this response have taken this evidence into account alongside the responses to the consultation. As we move forward with the extension of the UK ETS cap beyond 2030 (see Next Steps, below), the Authority Response to the second-stage consultation on the Phase II cap trajectory will include an analytical annex and a full impact assessment. This will include details on the cap trajectory and analysis of its expected impacts. Stakeholders will have the opportunity to provide further input on these critical aspects as part of the second-stage consultation, helping to shape a robust and effective Phase II scheme design.

### **Summary: Extending the UK ETS beyond 2030**

- The Authority has decided to extend the UK ETS into a Phase II from 2031 onwards.
- Before legislating to extend the Scheme, the Authority will consult on the specifics of a detailed Phase II cap profile (see the timelines section at the end of this document).
- Consultation on the Phase II cap profile will not entail changes to the cap trajectory of UK ETS Phase I. Other aspects of UK ETS scheme design continue to remain subject to review.

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<sup>3</sup> <https://www.gov.uk/government/consultations/extending-the-uk-emissions-trading-scheme-cap-beyond-2030>.

## Summary: The Length of UK ETS Phase II

- The Authority has decided that UK ETS Phase II will run from 1 January 2031 to 31 December 2040, a phase length of 10 years.
- A 10-year phase will ensure that market signals remain consistent with long-term decarbonisation goals, enabling strategic planning and long-term decarbonisation investment in the sectors within scope.
- The Authority recognises concerns raised around the need for flexibility, responsiveness, and the ability to account for uncertainty. Phase I of the UK ETS included two review points to assess the design and operation of the Scheme. The Authority recognises the case for review points during Phase II, and will consult on their scope, frequency, and timing in due course.

## Summary: Interphase Banking

- The Authority has decided to allow banking of allowances between Phases I and II of the UK ETS.
- As part of the Phase II cap-setting process, the Authority will assess the interactions between banked allowances and UK emissions targets, as well as considering any impacts on carbon budgets from the banking of UKAs.

# Details of Authority Response

## Extending the UK ETS Beyond 2030

### Summary of Proposal

The Greenhouse Gas Emissions Trading Scheme Order 2020 currently provides for the UK ETS to operate until the end of the current trading period starting 1 January 2021 and ending on 31 December 2030 (UK ETS Phase I)<sup>4</sup>. To ensure that the UK ETS continues to operate after 2030, a UK ETS Phase II will be provided for in legislation.

Extending the Scheme beyond 2030 is vital to ensuring that an appropriate price continues to be applied to emissions within sectors covered by the Scheme. Legislating for UK ETS Phase II means that the UK ETS can continue to drive least-cost decarbonisation within the covered sectors through the 2030s and beyond, supporting the transition toward a UK-wide net zero economy.

Therefore, the Authority consulted on a proposal to legislate for extending the UK ETS beyond the end of Phase I on 31 December 2030, and into a Phase II from 1 January 2031.

### Summary of Responses

Of the 65 responses received to the consultation, 50 (77%) were in favour of extending the UK ETS, 10 (15%) were not in favour, and 5 (8%) did not express a view, or chose to reserve their response.

35 of the 50 responses expressing support for extending the Scheme referenced the role of the UK ETS within the UK-wide approach to net zero, and the need for an incentive to the covered sectors to decarbonise their operations. Other key themes were the need for long-term certainty and continuity for the covered sectors and the wider market, alongside the role of emissions trading in facilitating long-term planning and decarbonisation investment by participants.

Of the 15 responses reserved or not in favour of extending the Scheme, 14 of 15 referenced the difficulties associated with empirical assessment of the scheme's measurable impacts and effectiveness. 12 of 15 raised concerns around the risks of potential deindustrialisation within the covered sectors, and the same number (12 of 15) emphasised the need to maintain UK competitiveness in international markets and prevent carbon leakage.

We also sought the advice of the CCC on the post-2030 extension of the Scheme. The Committee recommended a) that the UK ETS be extended and b) that the design of the

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<sup>4</sup> <https://www.legislation.gov.uk/uksi/2020/1265/contents/made>.

Scheme be robust enough to drive decarbonisation in the covered sectors consistent with a net zero emissions trajectory<sup>5</sup>.

### Authority Response

The Authority has decided to extend the UK ETS into a Phase II from 2031 onwards.

This aligns with the views expressed by the majority of respondents, who cited the benefits of the UK ETS in providing an incentive to the covered sectors to decarbonise their operations, while giving participants the flexibility to do so at least cost.

As outlined in the 2023 UK Emissions Trading Scheme long-term pathway, extending the Scheme into a post-2030 Phase II will ensure that the UK ETS can continue to provide these benefits over the 2030s and beyond. The Scheme will thus continue to drive economically efficient decarbonisation within the covered sectors beyond 2030, crucial to meeting legally binding long-term net zero targets across the whole of the UK<sup>6</sup>.

Before legislating to extend the Scheme, the Authority will consult on the specifics of a detailed Phase II cap profile (see Next Steps section at the end of this document). Consultation on the Phase II cap profile will not entail changes to the scheme design or cap trajectory of UK ETS Phase I.

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<sup>5</sup> <https://www.theccc.org.uk/publication/letter-advice-on-extending-the-uk-ets-beyond-2030/>.

<sup>6</sup> <https://www.gov.uk/government/publications/uk-emissions-trading-scheme-long-term-pathway/the-long-term-pathway-for-the-uk-emissions-trading-scheme>.



## Length of UK ETS Phase II

### Summary of Request for Views

The length of Phase II needs to balance the long-term cap trajectory required for stakeholder planning and market confidence with the confidence with which we can model the projected emissions trajectories that underpin ETS cap decisions.

The Authority consulted on three indicative options for the length of Phase II: 7 years, 10 years or 12 years. The consultation sought to gather stakeholder views on these options (and any others suggested by respondents) in order to support decision-making and policy development on the Phase II cap.

### Summary of Responses

31 of 65 responses (48%) expressed a clear preference for a 10 year UK ETS Phase II, while a further 5 (8%) listed a 10 year phase as a joint preference and a further 3 responses (5%) expressed a preference for alignment with Phase V of the EU Emissions Trading System (EU ETS). Phase IV of the EU ETS runs for 10 years from 2021-2030; the length of Phase V has not yet been determined.

11 of 65 responses (17%) expressed no phase length preference, while 7 responses (11%) expressed a preference for a 12 year Phase II, 5 (8%) for a 7 year Phase II, and 1 response for a 5 year Phase II. Additionally, 1 response expressed a preference for Phase II to be 'as short as possible', and 1 response expressed the opposite view that Phase II should be 'as long as possible'.

41 (63%) of responses referenced long-term certainty and clarity as central priorities, key to supporting the stability of the allowance market, and to enabling decarbonisation investment planning by businesses and investors.

22 (34%) of responses referenced the importance of flexibility, the need for opportunities to adapt and adjust the design of the Scheme when required, and the need to make the ETS more responsive to wider technological, infrastructural and economic factors. Responses emphasising the need for flexibility and responsiveness sometimes favoured a shorter phase, but more often favoured a longer (e.g. 10 year) phase with comprehensive mid-phase reviews. This approach was also the recommendation of the CCC, with the Committee advising a 10-year phase and a comprehensive mid-phase review of the scheme cap, scope, and markets policy.

## Authority Response

The Authority has decided that UK ETS Phase II will run from 1 January 2031 to 31 December 2040, a phase length of 10 years.

A 10 year Phase II beginning on 1 January 2031 provides long-term certainty for participants. It also provides consistency and continuity with ETS Phase I, in line with the preferences expressed by respondents to the consultation and the CCC.

A 10 year phase will ensure that market signals remain consistent with long-term decarbonisation goals, enabling strategic planning and long-term decarbonisation investment in the sectors within scope.

The Authority welcomes the CCC's support for a 10 year Phase II and notes the case for comprehensive intra-phase review points to assess scheme design and cap level, in order to ensure alignment with wider net zero targets.

## Interphase Banking

### Summary of Proposal

The Authority proposed that interphase banking be permitted between UK ETS Phases I and II. Banking refers to the practice of purchasing an allowance in a given year for surrender in subsequent years and is permitted within Phase I of the UK ETS. Correspondingly, interphase banking refers to the practice of holding allowances purchased during a given phase of an ETS to be surrendered or traded in a subsequent phase.

Banking of allowances between phases is built into most mature emission trading schemes, including the EU ETS transition from Phase III (2013-2020) to Phase IV (2021-2030). The consultation outlined risks to market stability within the Scheme and overall scheme function if interphase banking were not permitted. Not permitting interphase banking could also increase Phase I emissions within the covered sectors, as participants might increase emissions in the late 2020s and 2030 in order to use their Phase I allowances before they became invalid.

### Summary of Responses

Responses to the consultation were overwhelmingly in support of allowing the banking of allowances between Phase I and Phase II of the UK ETS, with 61 of 65 responses (94%) expressing this position. The remaining 4 responses did not provide their views on the proposal.

Responses frequently referenced the role of interphase banking in maintaining price stability over Phase I, as well as the short and long-term benefits inherent in extending the Scheme's existing flexibility provisions. This greater flexibility for participants was widely seen by respondents as key to facilitating long-term decarbonisation planning and investment.

The CCC has indicated that it supports the banking of allowances between Phase I and II, provided that the Phase II cap be set on a trajectory that sufficiently accounts for the allowances to be carried over.

### Authority Response

The Authority has decided to allow banking of allowances between Phases I and II of the UK ETS.

As above, responses to the consultation overwhelmingly agreed with this proposal. Allowing interphase banking between UK ETS Phases I and II would extend the Scheme's existing flexibility provisions and give participants greater opportunity to take advantage of longer-term abatement options, better facilitating least-cost decarbonisation. This would allow the UK ETS to more effectively incentivise long-term decarbonisation investment within the sectors covered by the Scheme, and deliver on the benefits of market-driven carbon price discovery.

As part of the Phase II cap-setting process, the Authority will assess the interactions between banked allowances and UK emissions targets, and consider any impacts on carbon budgets from the banking of UKAs.

# Next Steps

## UK ETS Phase II Cap Trajectory

The UK ETS Authority recognises the need to provide a long-term decarbonisation signal and certainty for participants. We will seek to consult again on a specific trajectory for a Phase II cap as soon as possible. As part of this consultation, we will also seek views on other aspects of Phase II scheme design where required.

The proposed Phase II cap trajectory will need to be aligned with cross-economy decarbonisation plans across all four nations. The UK-wide net zero pathway will be crucial to this approach, and we will aim to consult on the post-2030 cap profile alongside or soon after publication of the delivery plan for the Carbon Budget 7 period. This will allow us to base our proposals on an emissions trajectory for the covered sectors which aligns with UK carbon budgets and net zero. We will aim to include additional analysis to support consultation responses, outlining the analytical basis for the range of trajectories we are considering, and the emerging impacts of those trajectories.

The entire second-stage consultation process, including Authority response, will occur sufficiently ahead of the beginning of a proposed Phase II on 1 January 2031 to provide the required certainty for participants.

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This publication is available from: <https://www.gov.uk/government/consultations/extending-the-uk-emissions-trading-scheme-cap-beyond-2030>

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