

Cognitud



**EU and UK Plan to Link Carbon Markets,
Creating Unified Emissions System**

As of May 2025, the United Kingdom and the European Union unveiled a landmark agreement to link their Emissions Trading Systems (ETS), a historic step toward deepening climate cooperation in the post-Brexit era. The deal represents one of the most significant climate policy integrations since the UK's departure from the EU and is aimed at creating a unified carbon market that spans both regions. By allowing cross-border trading of emissions allowances and aligning carbon pricing mechanisms, the agreement seeks to enhance market efficiency, reduce regulatory fragmentation, and support industries in transitioning toward a low-carbon economy. Critically, this linkage is expected to accelerate both parties' progress toward net-zero targets, while setting a global precedent for collaborative emissions governance.

Key features of the planned linkage

Economic Implications

The linkage is projected to save UK exporters up to £800 million in avoided carbon border taxes, though alignment with EU carbon prices may lead to a short-term price increase in the UK.

Sectoral Coverage and Future Expansion

The integrated ETS will initially cover power generation, industrial heating, manufacturing, aviation, and maritime transport, with potential expansion to other sectors over time.

Political and Regulatory Considerations

Finalizing the linkage requires the UK's emissions cap and reduction trajectory to be as ambitious as the EU's, alongside harmonization of legal and regulatory frameworks.

Establishment of a Unified Emissions Trading Framework

The EU and UK announced a plan to integrate their Emissions Trading Systems (ETS), enabling cross-border trading of carbon allowances and establishing mutual recognition of emission permits.

Alignment with Carbon Border Adjustment Mechanisms (CBAM)

The agreement introduces mutual exemptions under the EU and UK CBAM regimes, aiming to reduce regulatory friction and prevent carbon leakage by maintaining equal carbon pricing for imported goods.

Potential Benefits and Challenges

Benefits

Economic Efficiency

A unified carbon market can lower compliance costs and enhance market liquidity.

Trade Facilitation

Mutual CBAM exemptions reduce trade barriers for carbon-intensive goods.

Climate Leadership

The linkage demonstrates a joint commitment to achieving net-zero emissions.

Challenges

Price Adjustments

UK industries may face higher carbon prices in the short term as markets align.

Regulatory Alignment

Ensuring compatibility between the two ETSS requires careful coordination.

Timeline Uncertainty

No formal timeline has been established, and full integration may take several years.

Conclusion

The EU-UK agreement to link their carbon markets represents a major milestone in post-Brexit climate collaboration. By integrating their Emissions Trading Systems (ETS), both regions aim to create a more efficient, harmonized carbon pricing regime that reduces regulatory burdens, prevents carbon leakage, and supports a level playing field for industries. While initial adjustments particularly for UK carbon prices, may pose short-term challenges, the long-term benefits include strengthened climate ambition, cost savings for exporters, and a unified approach to decarbonizing critical sectors. This move not only reinforces both parties' commitment to net-zero targets but also signals a renewed era of strategic climate alignment in Europe.

