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REPORT

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UK-EU Energy Cooperation: Emissions Trading Systems and the Electricity Market

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Foreword

By Peter Norris, Chair of the UK Trade and Business Commission

The publication of this report comes at a pivotal moment as the relationship between the United Kingdom and European Union continues to progress. Since the inaugural UK-EU Summit in May 2025, the case for closer cooperation and shared economic and strategic priorities has become increasingly compelling. Nowhere is this more apparent than within the energy sector. As recent geopolitical events have demonstrated, energy security, economic resilience and industrial competitiveness are deeply interconnected and central to the safety of the United Kingdom.

Over the course of its work, the UK Trade and Business Commission examined a range of measures to strengthen UK-EU cooperation and focused on three areas where closer collaboration could deliver significant mutual benefits: emissions trading, energy market integration and industrial resilience. The evidence gathered from experts, industry and business stakeholders points to strong support for a more coordinated approach - one that reduces barriers, enhances efficiency and strengthens long-term competitiveness for both the UK and Europe. Discussions focused on practical measures to advance these goals, including electricity interconnectors, carbon pricing alignment, and mechanisms through which UK industry can help shape future agreements.

At the same time, we must recognise the domestic challenges that continue to constrain the competitiveness of UK industry. Most notably amongst these are persistently high electricity prices, which place UK businesses and manufacturers at a disadvantage relative to many international competitors, alongside structural weaknesses within the energy system that limit efficiency and increase costs. While closer cooperation with European partners can help improve market integration, strengthen energy security and support investment, it is not a substitute for domestic action. Addressing the UK's electricity cost challenge will require a coherent and ambitious strategy that delivers a more competitive, resilient and affordable energy system for industry and consumers alike.

This report sets out a practical path forward. No single measure would resolve every challenge facing the UK energy sector, but deeper UK-EU cooperation can deliver meaningful, tangible benefits for households, businesses and consumers. The UK Government must build on the momentum generated since the Summit, pursue cooperation where it serves the national interest, and develop a comprehensive strategy that strengthens competitiveness, accelerates the clean energy transition, and positions the UK to thrive in a world where energy security and economic security are one and the same.

Recommendations

1. **The UK Government and EU should continue to deepen energy cooperation to deliver affordable, clean, secure energy for businesses and consumers.**

2. **The UK and EU should use joint governance mechanisms to discuss any future expansion in their respective ETS scopes. This should include coordinated development of ETS policy to reduce the risk of divergence. The UK Government should also seek early consultation on proposed changes to UK or EU ETS/CBAM to ensure UK industry views are understood and that future policy balances industrial competitiveness and decarbonisation.**

3. **Once the emissions trading agreement is signed, both parties should agree a reciprocal exemption from each other's CBAMs to cover the period between the agreement being signed and entering into force, to avoid costs to UK firms of up to £800m.**

4. **Given the strong mutual interest in close energy cooperation, the EU should ensure that any request for a financial contribution is appropriate and proportionate, recognising the UK's significant contribution to European energy security and decarbonisation objectives.**

5. **The UK Government should support foundational and energy-intensive industries, including steel, chemicals, cement, fertiliser and advanced manufacturing. The UK Government should launch a structured consultation with these sectors to better understand their challenges and ensure the design of the linked UK and EU ETSs support decarbonisation while ensuring the long-term viability of strategically important industries.**

6. **The UK should follow the EU's example in ringfencing revenues generated by the ETS and reinvesting them into industrial decarbonisation.**

7. **The UK Government should develop a long-term clean energy workforce strategy, with significant investment into STEM education and technical training. It should support industry in their efforts to retrain and retain skilled workers. At the 2026 UK-EU Summit, the UK Government and EU should explore a targeted business mobility visa concession for strategically important energy and offshore roles where there are skills shortages. This should include appropriate labour protections.**

8. **The UK and EU should create a new Economic Security Dialogue to drive closer cooperation on industrial strategy, supply chains, and energy security.**

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1. Overview

At the UK-EU Summit in May 2025, the UK Government and the European Commission agreed two major energy and climate cooperation objectives. This marked a welcome step forward for UK consumers and businesses - and for global efforts to reduce emissions.

The first objective was to formally link the UK's Emissions Trading Scheme (UK ETS) and the EU's Emission Trading System (EU ETS)[1]. The UK and EU run separate schemes, both of which aim to accelerate the Net Zero transition by capping overall emissions and setting a carbon price. By linking carbon markets, an agreement would reduce costs for businesses by creating a larger and more efficient trading system - and by creating the conditions to exempt UK businesses from a new EU carbon border tax. This would, in turn, make the UK a more attractive investment destination, unlocking investment in clean technologies and helping businesses decarbonise more quickly and more cheaply.

The second objective was to explore UK participation in the EU's internal electricity market[2]. Integrating the UK into the EU's electricity market would make cross-border trading more efficient, lowering overall costs (for businesses and consumers) and improving security of supply.

Taken together, these commitments deliver clear benefits for both parties: supporting economic growth by making energy more affordable (for businesses and consumers); accelerating progress towards Net Zero by increasing the availability and affordability of clean energy; and enhancing energy resilience (for example, by reducing exposure to volatile gas supplies).

1.1 Linking Emissions Trading Systems

The Common Understanding, released alongside the Summit, states that the United Kingdom and the European Commission should work towards an *"agreement linking the United Kingdom Emission Trading Scheme (UK ETS) and the European Union Emission Trading System (EU ETS)"*.

In January 2021, following its withdrawal from the EU, the UK launched its independent ETS . Article 392 of the Trade and Cooperation Agreement committed both parties to give "serious consideration to linking their respective carbon pricing systems" in the future, but did not go further than this.

The introduction of two separate systems negatively impacted UK businesses exporting to the EU. First, it created administrative complexity as businesses trading energy-intensive goods in both markets were forced to comply with two separate schemes. Though UK and EU ETS are currently broadly similar, there is a risk of regulatory divergence over time and therefore increased complexity and cost.

Second, it brought UK exporters into the scope of the EU's new Carbon Border Adjustment Mechanism (CBAM), which came into force in January 2026. The UK Government will introduce its own CBAM from January 2027[3]. The difference in dates creates a significant imbalance and competitive disadvantage for

[1] UK Government, UK-EU Summit - Common Understanding, 19/05/2025
[2] UK Government, UK-EU Summit - Common Understanding, 19/05/2025
[3] UK Government, Carbon border adjustment mechanism (CBAM): Policy Summary, 09/04/2026

UK firms. UK exporters are already subject to the EU CBAM, whereas EU exporters will only become subject to the UK CBAM a year later.

An emissions trading agreement could bring multiple benefits for UK businesses. The UK Government estimates that a deal on Emissions Trading Systems (ETS) with the EU would add 0.1%, or around £3 billion, to UK GDP by 2040[4]. Research by Frontier Economics[5] and Professor Emily Lydgate[6] outlines benefits from the UK being part of a larger carbon market, including a reduction in market volatility and improved liquidity, helping to boost investment and encourage decarbonisation. It will also create the conditions for mutual exemptions from respective Carbon Border Adjustment Mechanisms (CBAM), saving £7 billion of UK exports from being exposed to the EU CBAM"[7].

A UK-EU ETS agreement would also be particularly beneficial for regions with a high concentration of energy-intensive industries, including Yorkshire, the Midlands and the North East. By improving competitiveness for sectors such as steel, chemicals, cement and ceramics, an ETS agreement would support investment, jobs and industrial growth in these regions. This demonstrates how closer UK-EU cooperation can directly support the UK Government's industrial strategy objectives by strengthening the competitiveness of key manufacturing sectors across the UK.

1.2 UK participation in the EU internal electricity market

Following its withdrawal from the EU, the UK left the EU's internal electricity market on 1 January 2021[8]. The UK moved to a new and less efficient set of electricity trading arrangements with the EU.
The UK remains a part of a broader European energy system, with deeply interconnected electricity and gas markets. Energy depends on fixed infrastructure, such as the pipes and cables running under the North Sea. So while some sectors of the economy were able to redirect trade flows or adapt supply chains to mitigate the impact of new barriers, this was not possible for energy[9].

At the May 2025 Summit, both sides committed to "explore" UK participation in the EU's Internal Electricity Market (IEM). In December 2025, a joint statement from Commissioner Maroš Šefčovič and Minister Nick Thomas-Symonds confirmed the conclusion of exploratory talks, with both sides committing at that stage to commence negotiations for the UK's participation in the EU's IEM[10]. In June 2026, Minister Nick Thomas-Symonds confirmed negotiations on this matter had formally begun, and pushed for closer energy cooperation with our European counterparts[11].

[4] UK Government, Methodology note: assessing the preliminary economic impacts of linking the UK-EU Emission Trading Schemes, 19/05/2025
[5] Frontier Economics, Linking UK and EU carbon markets, 06/08/2024
[6] Centre for Inclusive Trade Policy, Linking EU and UK Emissions Trading Systems: Why, how, and is it easy or tough for the UK Labour Government?, 17/10/2024
[7] 10 Downing Street, King's Speech 2026: background briefing notes, 13/05/2026
[8] European Commission, EU-United Kingdom energy cooperation, accessed 12/05/2026
[9] Energy UK, Energy UK Explains: the cost of the UK-EU relationship for energy, 24/10/2024
[10] European Commission, Joint Statement, 17/12/2025
[11] The Independent, If you want cheaper energy bills, cosying up to Europe is the smartest switch we can make, 10/06/2026

The cumulative impact of less efficient trading arrangements is estimated to have added between 0.25% to 0.7% onto electricity costs[12]. In 2022 alone this was between £120m to £370m and at current prices is estimated to be £500m over this parliament. UK participation in the EU's IEM could make electricity trade with the EU more efficient, reducing electricity prices for consumers and businesses while also making progress towards Net Zero cheaper and faster.

1.3 Questions for the UK Government to consider

There are several issues for the UK Government to consider across both agreements, which are covered in more detail in sections 2-4 of this report. At the time of writing, the 2026 UK–EU Summit has been postponed following the resignation of Prime Minister Keir Starmer. The European Union has indicated that discussion will resume once a new UK Government is in place. In the meantime, the postponement is likely to prolong uncertainty and the period of divergence between the UK and EU, potentially increasing compliance costs for businesses. A longer delay may also defer the economic and practical benefits that the agreements are intended to deliver.

Dynamic alignment

The extent to which the EU will require the UK to dynamically align with current and future EU ETS/CBAM policy, and how far the EU will demand that the UK align, is one of the central questions in the negotiations. While deep alignment improves market access and helps drive energy efficiency, it also imposes greater constraints over the UK's own policy development.

Industrial Competitiveness

The UK Government should consider how they can ensure that UK–EU energy cooperation and carbon pricing support decarbonisation while maintaining the competitiveness of UK industry and providing businesses with the certainty and stability needed to invest. It should be recognised that any carbon pricing scheme does impose cost to businesses, and should be delivered in the context of wider domestic industrial reforms to ensure UK companies can remain competitive (balance competitiveness with providing businesses certainty and stability).

Delivering the benefits

An ETS agreement and deeper UK–EU energy cooperation would support the UK Government's objectives of improving energy security and reducing cost-of-living pressures. Deeper UK–EU energy cooperation brings benefits for businesses and consumers by reducing trade barriers, supporting investment, and improving market efficiency. However, the extent to which these benefits are realised will depend on whether such agreements act as a foundation for wider industrial growth and avoid the introduction of additional barriers that could undermine competitiveness or investment.

[12] Energy UK, Energy UK Explains: the cost of the UK-EU relationship for energy, 24/10/2024

2. Dynamic alignment

2.1 Alignment between UK and EU regulations

The Common Understanding states that the emissions trading agreement should "*ensure the dynamic alignment of the United Kingdom with the relevant European Union rules underpinning the functioning of the ETS link*".

In stakeholder evidence sessions, the UKTBC found that the UK and EU ETS are currently closely aligned in overall design and ambition. Given the similarity of the two systems, stakeholders felt that linkage was a rational next step to avoid the additional administrative burden and costs created by EU CBAM:

> *"[The UK's emissions trading system] remains remarkably similar to what the EU had in place [...] An additional tax, an additional disincentive for exports to your largest export market seems like a pretty foolish thing to do, especially when there really is no distance between us in what we are actually doing in policy terms. All we are doing here is formally aligning what is effectively the lived reality of these policy mechanisms."*
>
> – **Adam Berman, Director of Policy and Advocacy, Energy UK**

Professor Emily Lydgate similarly described linkage as "a logical first step", given the UK and EU schemes remained closely aligned because they had participated in a shared ETS until 2021[13]. It is perhaps for this reason that there is cross-sector industry support for linkage. In April 2025, 53 organisations signed an open letter calling for the linking of the UK and EU ETS, including the Confederation of British Industry (CBI), Energy UK, National Grid, RenewableUK and UK Steel[14].

> *"[W]hen it comes to the industry side, I could not name you a single industry that falls under the UK ETS and the CBAM which is not pretty vocally in favour of linkage, and so this runs across the gamut of the UK economy."*
>
> - **Adam Berman, Director of Policy and Advocacy, Energy UK**

Recommendation 1

The UK Government and EU should continue to deepen energy cooperation to deliver affordable, clean, secure energy for businesses and consumers.

This should include strengthening collaboration with North Sea energy partners, particularly Norway and EU member states, to enhance energy security, accelerate the clean energy transition, and maximise the shared benefits of offshore wind, electricity interconnection, carbon capture and storage, and other strategic energy infrastructure.

[13] Centre for Inclusive Trade Policy, Linking EU and UK Emissions Trading Systems: Why, how, and is it easy or tough for the UK Labour Government?, 17/10/2024
[14] Hydrogen Europe, Time to strengthen EU-UK cooperation by linking the EU and UK ETS, 30/04/2025

Despite broad similarity, the UKTBC identified some limited areas of regulatory divergence between the UK and EU ETS. For example, the UK and EU carbon prices have diverged considerably, with the UK's carbon price currently lower than the EU's. There are also some sector-specific differences: for example, the UK is phasing out free allowances more rapidly than the EU in the aviation sector[15]. While these examples illustrate the risk of increasing regulatory divergence over time and the potential costs associated with linkage, evidence collected by the UKTBC suggested that ETS linkage would be relatively straightforward at this point because the underlying ETS frameworks remain similar.

Turning to the electricity agreement, the question of regulatory alignment could prove more complex. Unlike ETS linkage, which is based on one core legislative directive, the UK participation in the EU IEM would require dynamic alignment across a wide range of directives and regulations.

> *"On the electricity side, it's a bit more complex, to be honest, and dynamic alignment is very uncertain as to exactly where you draw the boundaries of that. There's not just one piece of legislation [...] [The UK will] gain access to an entire market with a set of obligations that underpin it. So, we are going to find our way through that, and you can see through this document that was published in late December, which is essentially a terms of reference for the negotiation between both sides, you can see them sketching out red lines."*
>
> - **Jonny Peters, Chief of Staff, E3G**

The UK Government's Explanatory Memorandum on the EU Commission's proposed electricity market mandate begins to demonstrate the wide range of stakeholders that would need to be involved, as well as the complex markets and rules (including State Aid) that would be in scope[16].

2.2 Sovereignty and decision shaping rights

Any UK-EU ETS agreement will need to balance the UK's obligation to dynamically align with EU rules with its right to influence EU policy in line with its national interests. UKTBC heard concerns from stakeholders that the UK, as a third-country, could have limited formal influence over EU ETS. Given the UK has agreed to pay towards the costs associated with the scheme, it is especially important that the UK is meaningfully consulted.

The Common Understanding confirms that the "United Kingdom should be involved at an early stage and contribute appropriately for a country that is not a member of the European Union to the decision-shaping process of European Union legal acts in the fields covered by the obligation to dynamically align". The agreement should be subject to a "joint governance" and a "dispute resolution mechanism"[17].

The EU-Swiss emissions trading agreement provides a precedent for how influence could be achieved through a Joint Committee structure. For example, it obliges both parties to notify the other when

[15] UK Government, UK Emissions Trading Scheme: Impact of end of aviation free allocation on regional connectivity consultation, 28/10/2025
[16] UK Government, 2026-01-12 Draft EM on EU Commission document COM(2025)804 on electricity mandate, 15/05/2026
[17] UK Government, UK-EU Summit - Common Understanding, 19/05/2025

developing relevant legislation to allow the exchange of views. It also creates the ability for the Committee to set up working groups, which could provide forums for detailed engagement on legislative changes[18].

The question of UK decision-shaping will become even more important as the EU expands its ETS scope. The UK will need to consider whether to follow the EU's expansion to avoid the costs of new CBAM changes, and any trade-offs involved in following EU regulations in these new sectors.

For example, the EU is considering significant expansions to both ETS and its CBAM. The proposed EU ETS2 scheme[19] would extend carbon pricing to emissions from road transport and buildings. The Common Understanding does not include fuels emitted in road transport and explicitly excludes the "individual heating of houses"[20]. The EU is also considering downstream CBAM expansion for steel, aluminium and metal products. These proposals raise important questions about the future direction of UK policy if the systems become formally linked.

> *"Currently, the UK CBAM, as it's going through Parliament with the legislation, the product scope is exactly the same as the EU's current iteration of CBAM. But the EU is already planning to expand theirs, does the UK follow, does it not? The product list that the Commission has put forward, certainly the UK economy is different. The manufacturing base here is different."*
>
> – **George Riddell, Managing Director, Goyder Ltd**

The UKTBC identified sectoral expansion as a key governance challenge for the agreement. The Common Understanding does allow for a procedure in the emissions trading agreement to "further expand the list of sectors to be covered by the linking agreement". If the EU expands the scope of ETS or CBAM rules over time, the UK will face increasing pressure to follow future EU reforms in order to preserve market access and minimise trade frictions. Naturally, if the UK decides not to align in new sectors, then those sectors would be subject to new EU CBAM charges (and therefore, a competitive disadvantage in the EU market). The agreement should therefore allow for meaningful early engagement on sectoral expansion, in order for the UK to consider (alongside its industry) the costs and benefits of expanding the agreement accordingly.

Recommendation 2

The UK and EU should use joint governance mechanisms to discuss any future expansion in their respective ETS scopes. This should include coordinated development of ETS policy to reduce the risk of divergence. The UK Government should also seek early consultation on proposed changes to UK or EU ETS/CBAM to ensure UK industry views are understood and that future policy balances industrial competitiveness and decarbonisation.

[18] EUR-Lex, Agreement between the EU and Switzerland on linking emissions trading systems, 07/12/2017
[19] European Commission, ETS2: buildings, road transport and additional sectors - Climate Action, accessed 27/05/2026
[20] UK Government, UK-EU Summit - Common Understanding, 19/05/2025

Greater influence would also depend on sustained institutional capacity. Effective participation in EU processes would require closer coordination between government, regulators and industry, and a stronger presence in Brussels-based forums where technical and policy discussions take place.

2.3 CBAM exemptions

CBAM introduces transitional risk while UK and EU systems are still being implemented. Coordination should therefore seek to minimise the period during which firms face overlapping compliance requirements and additional administrative burdens. For UK businesses, these costs could reach up to £800 million by 2030.[21]

During any implementation period, a reciprocal exemption between the UK and EU CBAM systems should be considered. This would be particularly relevant once the UK CBAM enters into force in January 2027, especially if a broader UK-EU agreement is still being finalised or implemented. Currently, UK exporters are subject to EU CBAM measures but EU exporters are not subject to equivalent UK measures until the UK CBAM comes into effect in January 2027.

Under this approach, EU exporters to the UK would be temporarily exempt from the UK CBAM, and UK exporters would be exempt from the EU CBAM. This would reduce short-term trade friction and avoid duplicate regulation while both systems stabilise.

Recommendation 3

Once the emissions trading agreement is signed, both parties should agree a reciprocal exemption from each other's CBAMs to cover the period between the agreement being signed and entering into force, to avoid costs to UK firms of up to £800m.

2.4 Financial contributions

The Common Understanding establishes that the UK should make an 'appropriate financial contribution'[22] in relation to linking Emission Trading Systems. Similar language was used in the joint statement in December 2025[23] confirming negotiations on the UK's participation in the EU's internal electricity market.

In March 2026, the Council of the EU greenlit talks on electricity negotiations alongside talks regarding an 'appropriate UK financial contribution to the EU's cohesion policy' (a fund designed to reduce inequality between different member states). For its part, the UK Government has so far resisted confirming it would

[21] Frontier Economics, Linking UK and EU carbon markets, 06/08/2024
[22] UK Government, UK-EU Summit - Common Understanding, 19/05/2025
[23] European Commission, Joint Statement, 17/12/2025

pay a financial contribution to EU Cohesion Funds, saying in April that 'any UK financial contribution would be subject to negotiations with the EU, and no contributions have yet been made or agreed upon"[24].

The EU's ask for a financial contribution is not exceptional. The EU requires other non-EU Member States (including Norway and Switzerland) to pay into the cohesion fund in return for market access[25].

Nevertheless, the UK should not agree to participation at any price. There is a lesson to be learned from the collapsed SAFE negotiations, where reports suggest the EU asked for a UK contribution numbering in the billions, while giving Canada access for a contribution in the tens of millions[26]. Any contribution request from the EU should be proportionate, reflecting the substantial mutual benefits arising from UK participation.

Cooperation on the Internal Electricity Market is a case in point. It is in neither party's strategic interest for the UK to continue to operate under inefficient and costly third-country terms. In UKTBC evidence sessions, stakeholders highlighted the vital role of the UK in European energy security and Net Zero objectives[27].

> *"When the French nuclear fleet went down back in, I think it was 2022, when there was a problem with a family of reactors and essentially half the French nuclear fleet went offline, it was UK electricity keeping the lights on in Paris [...] As we look toward the future to an increasingly renewables-dominated electricity system in particular, and as we progressively use less and less gas, that is one where the economics of the system only really stack up if you do cooperation."*
>
> - **Adam Berman, Director of Policy and Advocacy, Energy UK**
>
> *"It's worth saying that in 2022 in the fallout from Russia's invasion of Ukraine the price spikes were huge and the UK being in a costly third country trading place with the EU, the costs were increased there because of the nature of our trading relationship with the EU. So, in these unforeseen geopolitical situations, it's absolutely vital that we invest in the UK-EU relationship, including through the negotiations, to make sure we mitigate the impact of those price spikes into the UK and consumers."*
>
> - **Jonny Peters, Chief of Staff, E3G**

Great Britain is set to become a net electricity exporter by 2030[28]. Reintegrating the UK into the EU electricity market will help both the UK and the EU move towards Net Zero more cheaply and more securely. Any financial contribution to EU funds should account for these wider economic and strategic benefits.

[24] UK Parliament, Written Question: EU Cohesion Fund, 25/03/2026
[25] UK in a changing Europe, A year since the EU-UK summit: where are we now?, 21/05/2026
[26] Euronews, Did the EU charge the UK billions more than Canada to join its defence loan scheme?, 20/02/2026
[27] Energy UK, Energy UK Explains: the cost of the UK-EU relationship for energy, 24/10/2024
[28] Ofgem, Empowering Great Britain for a clean and flexible energy future with the next generation of interconnectors, 12/11/2024

Recommendation 4

Given the strong mutual interest in close energy cooperation, the EU should ensure that any request for a financial contribution is appropriate and proportionate, recognising the UK's significant contribution to European energy security and decarbonisation objectives.

3. Industrial competitiveness

The UK-EU energy agreements could help improve industrial competitiveness by lowering electricity costs and reducing trade frictions. However, these agreements must be accompanied by an effective domestic industrial strategy to maintain competitiveness while transitioning to Net Zero.

This section examines two key challenges: the impact of high energy costs on energy-intensive industries, and workforce and skills shortages in the clean energy sector.

3.1 Costs for energy-intensive sectors

The UKTBC heard broad agreement that persistently high electricity prices have already damaged UK industrial competitiveness. High UK energy prices were attributed to several factors, including the continued linkage of electricity prices to gas markets, carbon pricing costs, and other policy levies. Recent events in Iran and the subsequent shocks to oil prices are only driving up energy prices further.

Energy-intensive sectors - such as chemicals and fertiliser - are particularly vulnerable to the effects of high prices. The electricity agreement should help to bring electricity costs down, while the emissions trading agreement would exempt UK businesses from future EU CBAM costs. However, alongside this, these sectors need domestic support to prevent the loss of the UK's industrial manufacturing base.

> *"High energy prices are consistently cited as one of the major barriers to European competitiveness and one of the reasons why, in the face of Chinese competition and in the face of technological developments elsewhere in the world, that they are struggling to continue to compete on the European continent. Therefore, energy security, if you are able to bring those costs down in a consistent and secure way, will pay huge dividends to your economic security objectives."*
>
> - **George Riddell, Managing Director, Goyder Ltd**

The UK Industrial Strategy lists important 'foundational industries' that are vital for manufacturing supply chains and national resilience, such as steel, construction materials (such as cement and concrete), critical minerals (such as aluminium) and chemicals[29]. However, some stakeholders felt UK industrial policy addressed at these sectors was still too fragmented, without enough focus on long-term needs. They contrasted this with the EU's clearer and more interventionist industrial approach, including initiatives such as the Net-Zero Industry Act[30] and the Critical Raw Materials Act[31], which identify strategically important sectors for targeted support .

Stakeholders raised concerns about the ability of these sectors to absorb the combined pressures of high energy prices, international competition, as well as carbon pricing and border taxes. Partly to address this, UK and EU ETS systems already provide free allowances and compensation mechanisms for energy-intensive sectors. There have been reports that the European Commission could expand the number of CO2 permits for heavy industry further in the face of pressure from companies[32].

[29] UK Government, Industrial Strategy Sector Definitions List, 04/03/2026
[30] European Commission, The Net-Zero Industry Act, accessed 02/06/2026
[31] European Commission, European Critical Raw Materials Act, accessed 02/06/2026
[32] Reuters, EU Considers Expanding Free CO2 Permits For Industry, 05/04/2026

However, these exemptions demonstrate the tension at the centre of carbon pricing policy: between preserving competitiveness in the short-term, versus maintaining incentives to decarbonise. The UK Government's ETS framework will need to support domestic industrial manufacturing without undermining the decarbonisation objectives through continuous exemptions.

Recommendation 5

The UK Government should support foundational and energy-intensive industries, including steel, chemicals, cement, fertiliser and advanced manufacturing. The UK Government should launch a structured consultation with these sectors to better understand their challenges and ensure the design of the linked UK and EU ETSs support decarbonisation while ensuring the long-term viability of strategically important industries.

3.2 Recycling ETS revenues

Some stakeholders argued that revenues generated through carbon pricing should be recycled more directly into industrial support measures. Suggested areas included electrification, grid upgrades, hydrogen infrastructure, carbon capture and storage, and support for industrial innovation and efficiency improvements.

The European Union already requires Member States to use revenues generated through the auctioning of emissions allowances predominantly for climate and energy-related purposes, including industrial decarbonisation and innovation support[33]. By contrast, the UK Government has stated that revenues generated through the UK Emissions Trading Scheme (UK ETS) are not currently ringfenced for decarbonisation purposes[34].

The OBR estimated that, in 2024-25, the UK ETS would raise £2.6 billion in government revenues (around 0.2% of all receipts)[35]. Over time, revenues are expected to fall as the number of permits and the carbon price decrease (with the latter happening more quickly once the UK and EU are part of one larger, more liquid carbon market). Nevertheless, there is likely to be a short-term increase for UK operators when the schemes are linked given the UK's price will need to rise to meet the EU's. Frontier Economics estimated that if the UK's (lower) ETS price was the same level as the EU's, the government would have taken an additional £3.5 billion-£8 billion in receipts over the Parliament starting summer 2024[36].

[33] European Environment Agency, Use of auctioning revenues generated under the EU Emissions Trading System | Indicators, 17/05/2025
[34] UK Parliament, UK Emissions Trading Scheme: Shipping, 28/01/2026
[35] Office for Budget Responsibility, Emissions Trading Scheme (UK ETS), accessed 04/06/2026
[36] Frontier Economics, Linking UK and EU Carbon Markets, 06/08/2024

Recommendation 6

The UK should follow the EU's example in ringfencing revenues generated by the ETS and reinvesting them into industrial decarbonisation.

3.3 Skills and workforce planning

The UKTBC also heard evidence of acute workforce and skills shortages, particularly in specialist engineering and construction. This echoes findings from the House of Commons Energy Security and Net Zero Committee (December 2025) which concluded that 'significant new intervention in the UK workforce"[37] was essential to meet 2030 clean energy targets. Chair Bill Esterson MP warned that "market forces alone cannot overcome the skills gap"[38]. Research from Energy UK[39] and National Grid[40] identifies similar shortfalls.

Skills constraints in offshore wind, grid infrastructure, and engineering are already slowing deployment. The UK Government should therefore develop a long-term industrial and workforce strategy for clean energy sectors.

Stronger UK-EU cooperation on labour mobility could play an important role in supporting the clean energy transition. The UK has previously used targeted visa concessions to enable specialist workers to move more easily between countries to support major clean energy projects, helping businesses access the expertise they need when and where it is required[41]. As part of ongoing UK-EU discussions on business mobility, there is a valuable opportunity to pilot similar arrangements again. Greater mobility would facilitate the exchange of skills, knowledge and experience across borders, while creating new opportunities for UK professionals in construction, engineering and related sectors to contribute to projects across EU markets.

Targeted business mobility arrangements could support the efficient delivery of clean energy projects, facilitate the exchange of expertise between the UK and EU, and help both sides meet their Net Zero objectives more cost-effectively. As well as complementing deeper integration of UK and EU electricity markets, such arrangements could serve as a practical example of the benefits that broader UK–EU business mobility cooperation could unlock across the economy.

[37] UK Parliament, Workforce planning to deliver clean, secure energy, 05/12/2025
[38] UK Parliament, Government will miss clean energy targets without skills shake up, 05/12/2025
[39] Energy UK, Energy UK Explains: Building the future energy workforce, 31/10/2025
[40] National Grid, Building the skills for our energy future, accessed 12/05/2026
[41] CSO Marine Group, The end of the UK Offshore Wind Worker Concession: What happens next?, 02/03/2023

Recommendation 7

The UK Government should develop a long-term clean energy workforce strategy, with significant investment into STEM education and technical training. It should support industry in their efforts to retrain and retain skilled workers.

At the 2026 UK-EU Summit, the UK Government and EU should explore a targeted business mobility route for strategically important energy and offshore roles where there are skills shortages. This should include appropriate labour protections.

4. Delivering the benefits

Deeper UK-EU energy cooperation could deliver economic and strategic benefits. These benefits can be categorised into the different aspects of the 'energy trilemma', a common framework used in energy policy design which consists of: affordability (reducing costs); security (ensuring a secure and reliable supply); and sustainability (decarbonising energy).[42] ETS linkage and an electricity agreement should deliver benefits across all three.

4.1. Affordability

The cost of living remains a highly salient political issue. Best for Britain polling conducted in November 2025 found that most Brits identified cost of living as the most important issue facing the UK.

Which of the following do you think are the most and least important issues facing the country at this time?

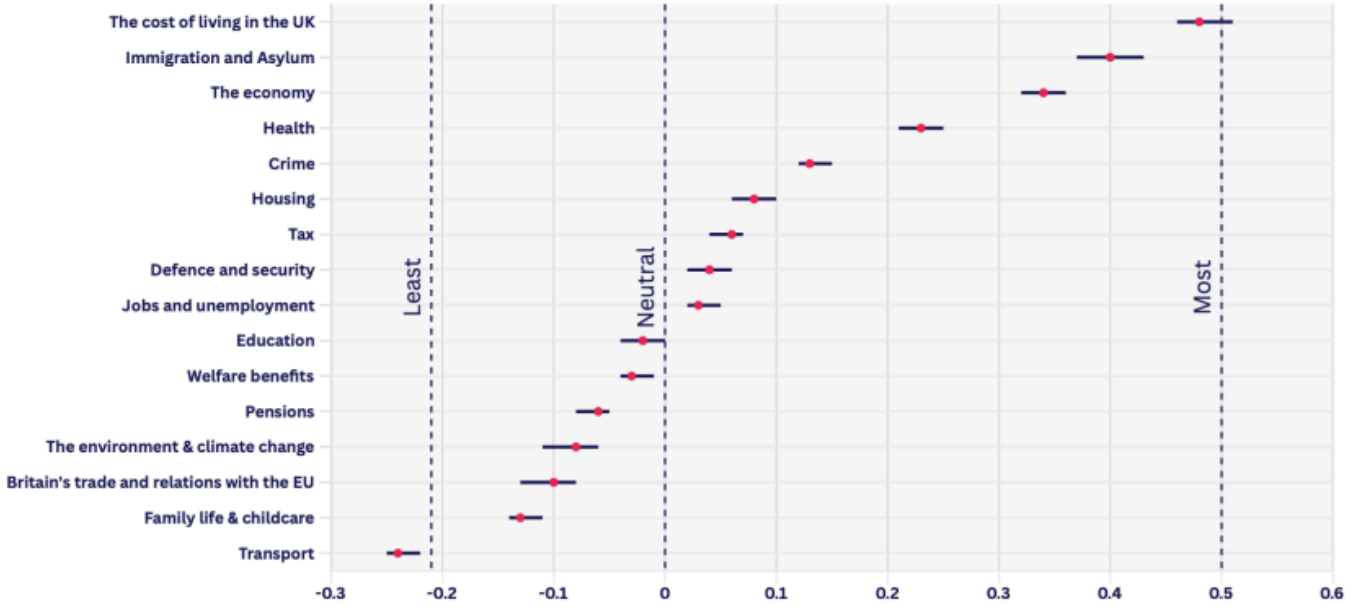

Figure 1: Most important issues facing the UK, Max-Diff analysis results[43]

Within the category of 'cost of living', respondents were then asked which were the most important issues underpinning the cost of living crisis. Best for Britain research found that the cost of the food shop and energy/utility bills were the most important driver of their concerns. There was notable cross-party consensus: around nine in ten (90%) of respondents - of any political persuasion - cited these as the most important factors.

[42] UK Parliament, Tackling the energy trilemma, 22/03/2023
[43] Best for Britain, The UK's biggest challenges: Public attitudes towards the most important issues facing the UK and local communities, 04/11/2025. *All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,368 adults. Fieldwork was undertaken between 5th-10th September 2025. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).*

Thinking specifically about the cost of living, which of these are the most important issues (selecting up to three options)?

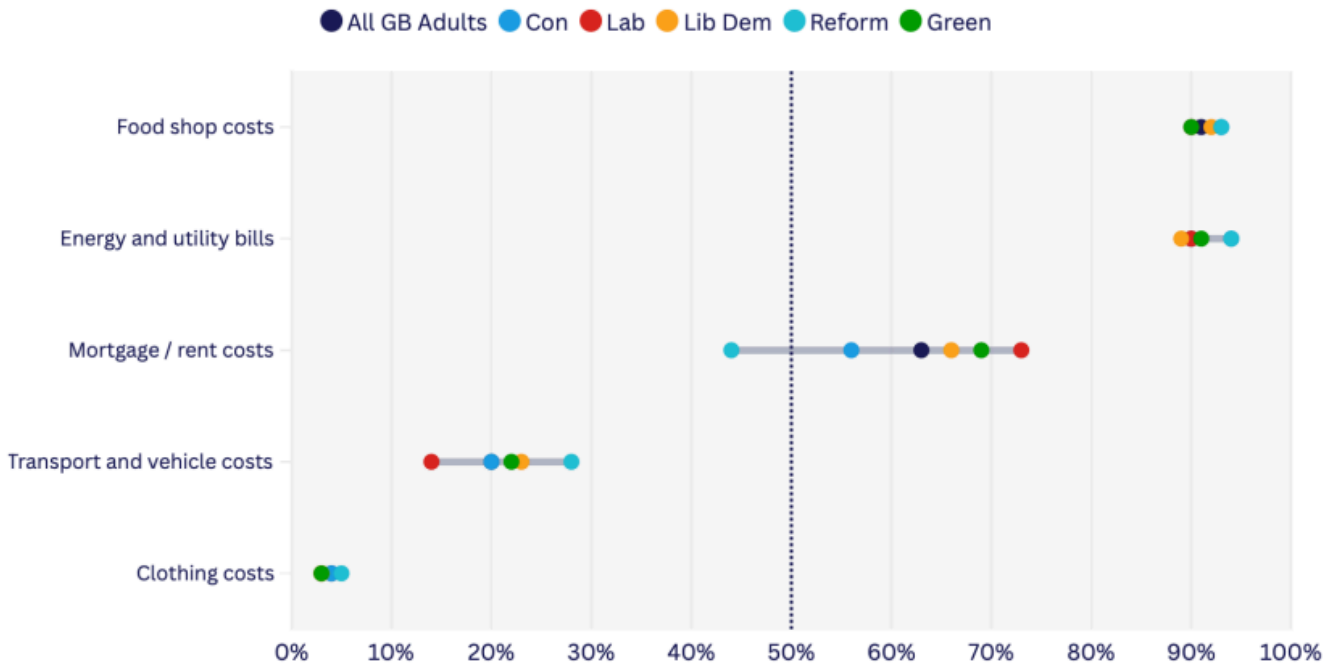

Figure 2: What drives voters' concerns on the cost of living[44]

Closer UK-EU cooperation on energy - especially UK participation in the EU IEM - could lower household energy bills. While no single agreement would eliminate exposure to global energy market volatility, improved market integration, reduced trade friction and more efficient cross-border energy trading could help place downward pressure on costs over time.

Given the data indicating strong public support for measures to reduce energy bills, UK Government communications surrounding UK-EU energy cooperation should focus on the impact on consumer energy bills and wider cost of living to build cross-party support.

> *[I]t comes down to having a broader narrative about why the government is making these choices. Why are we leaning on EU alignment? Because there are benefits. There is a positive story to tell here, this is a fundamental change that the government is pursuing. And it does align with what the government is trying to do on cost of living as well, but it will have to make some of those political choices and will have to tell that political story."*
>
> - **Jonny Peters, Chief of Staff, E3G**

4.2 Security

Two recent events highlight how closely the UK and EU energy systems are interlinked: Russia's 2022 invasion of Ukraine and the Strait of Hormuz crisis. UK-EU energy cooperation could therefore deliver

[44] Best for Britain, The UK's biggest challenges: Public attitudes towards the most important issues facing the UK and local communities, 04/11/ 2025

mutual benefits across three key energy security issues: diversifying from volatile gas supplies, strengthening supply chain resilience, and protecting critical infrastructure.

On gas diversification, the pivot away from Russian gas has increased Europe's reliance on US liquefied natural gas (LNG) imports. The US's share of EU LNG imports could increase from 27% in 2025 to 40% by 2030[45], which would increase Europe's vulnerability to US political and market dynamics[46]. UK participation in the IEM would help insulate both sides from volatile gas prices. By sharing surplus power and balancing intermittency[47], it would reduce structural dependence on gas and make renewable deployment cheaper.

On supply chains, stakeholders noted China's dominance across critical minerals, batteries, wind turbines, and solar panels. Without effectively managing the risks, transitioning to Net Zero can reduce domestic industrial competitiveness and create new trade dependencies in key goods. The UK Government's Critical Minerals Strategy published in January 2026 outlines plans to secure supply of minerals optimising domestic resources and enhancing international collaboration. The EU's *'Critical Raw Materials Act'* outlines a similar ambition to diversify supply chains[48]. However, in reducing reliance on potentially unreliable partners, the UK and the EU should also ensure they do not erect new trade barriers between each other, which recent EU proposals such as the Industrial Accelerator Act have threatened to do in the automotive sector. Energy supply chains should be retained domestically or within trusted strategic partners and allies.

Finally, in a less secure world, the protection of strategic infrastructure from physical and cyber threats has increased in importance. There is growing concern about the vulnerability of energy systems to both state and non-state actors. Assets at risk include subsea cables, offshore wind installations, and interconnectors in the North Sea. NATO's invitation to participate in the North Sea Summit in Hamburg illustrated this new dynamic in energy security cooperation. Similarly, the recent UK-Poland Defence and Security Treaty (May 2026) commits both countries to collaborate on protecting maritime critical energy infrastructure[49]. The UK and EU should build on this momentum and explore further tools to collaborate on protecting critical energy assets. This would be a structured annual meeting between the European Commission and the UK Government to discuss economic security cooperation. A similar mechanism already exists between the UK and Germany under the Kensington Treaty[50], providing a useful precedent on which an EU–UK dialogue could be modelled.

[45] Institute for Energy Economics and Financial Analysis, EU risks new energy dependence as US could supply 80% of its LNG imports by 2030, 19/01/2026
[46] The Royal United Services Institute for Defence and Security Studies, Energy and Russian Aggression: Challenges for the UK, 30/10/2025
[47] Energy UK, Rebuilding energy ties: why the UK-EU reset matters for energy security and resilience, 20/04/2026
[48] European Commission, Critical Raw Materials Act - Internal Market, Industry, Entrepreneurship and SMEs, accessed 15/05/2026
[49] UK Government, Treaty between the Republic of Poland and the United Kingdom of Great Britain and Northern Ireland on a Security and Defence Partnership, 27/05/2026
[50] UK Government, Treaty between the United Kingdom of Great Britain and Northern Ireland and the Federal Republic of Germany on friendship and bilateral cooperation, 17/07/2025

Recommendation 8

The UK and EU should create a new Economic Security Dialogue to drive closer cooperation on industrial strategy, supply chains, and energy security.

4.3 Sustainability

Deeper UK-EU cooperation could support the development of strategic industries linked to electrification, hydrogen, carbon capture and storage, battery manufacturing and clean technology supply chains.

Linking the UK and EU ETS would lower the overall cost of decarbonising by increasing the number of operators buying and selling permits within the ETS, allowing for more efficient price discovery and making trade easier[51]. Meanwhile, integrating the UK and EU electricity markets would support deeper North Sea cooperation. The Hamburg Summit in January 2026 marked the beginning of a more collaborative UK-EU approach to North Sea development, with joint work on offshore wind deployment targeted 300GW by 2050 to maximise the clean energy benefits of this shared resource[52].

[51] UK in a changing Europe, UK and EU Emissions Trading Schemes – drifting in different directions?, 11/09/2024
[52] Energy UK, Rebuilding energy ties: why the UK-EU reset matters for energy security and resilience, 20/04/2026y

5. Conclusion: securing a competitive and resilient energy future

The evidence gathered by the UK Trade and Business Commission indicates substantial support among industry stakeholders and energy organisations for closer UK-EU cooperation on emissions trading, energy markets and industrial resilience. While important considerations remain around governance arrangements, sovereignty, implementation and long-term alignment, the economic and strategic costs of continued divergence are likely to grow over time.

An ETS agreement and wider energy cooperation would not, in themselves, resolve all of the structural challenges facing the UK economy. However, deeper cooperation has the potential to reduce trade frictions, strengthen energy security, support strategic industries and enhance resilience during a period of increasing geopolitical uncertainty and industrial transformation.

The broader challenge for the UK Government will be ensuring that any agreement forms part of a coherent long-term strategy capable of supporting industrial competitiveness, accelerating the transition to clean energy and delivering tangible benefits for businesses and households. Achieving these objectives will require close cooperation with the European Union. The UK and EU face many of the same challenges, including decarbonisation, energy security risks and the need to build resilient supply chains for industry. Given these shared challenges and increasingly interconnected economic and energy systems, sustained UK-EU cooperation will be essential to securing a competitive, secure and resilient energy future. As energy, economic security and geopolitical resilience become increasingly intertwined, the future direction of UK-EU cooperation in this area is likely to carry significance well beyond energy policy alone.

The UK Trade and Business Commission

The UK Trade and Business Commission brings together MPs from across Westminster and from all four nations of the UK, along with business leaders and expert economists to provide independent scrutiny of the UK's trade deals and provide recommendations to the Government.

Peter Norris - Peter Norris has chaired Virgin Group since 2009, is Chair for Virgin Atlantic and Virgin Hotels and sits on the board of Best for Britain and is Chair of the UK Trade and Business Commission.

Jonathan Faull - Sir Jonathan Faull is Chair of European Public Affairs at the Brunswick Group and was previously Director General in various departments at the European Commission.

Baroness Ros Altmann - Baroness Altmann is a non-affiliated peer in the House of Lords, former Minister of State for Pensions in Lord David Cameron's Government and now emeritus governor and Visiting Professor at London School of Economics.

Layla Moran MP - Layla Moran is Liberal Democrat Member of Parliament for Oxford West & Abingdon and Chair of the Health and Social Care Select Committee.

Eman Martin-Vignerte - Eman Martin-Vignerte is the Director of External Affairs and Government Relations at Bosch UK.

Claire Hanna MP - Claire Hanna is the SDLP Member of Parliament for Belfast South and Mid Down and currently sits on the Commons' Northern Ireland Affairs Committee.

Lord Kim Darroch - Lord Darroch has served as the British Ambassador to the United States and was previously National Security Adviser and the UK's Permanent Representative to the European Union.

Liz Saville Roberts MP - Liz Saville Roberts is leader of the Plaid Cymru group of MPs in Westminster and Plaid's Spokesperson for Home Affairs, Justice, Business and Equality.

Stephen Kinsella - Stephen Kinsella has practised for 40 years as an EU competition lawyer, and is now deputy chair of anti death penalty organisation Reprieve, founder of campaigning groups Clean Up The Internet and Law For Change, and chair of the Press Justice Project.

Sir Simon Hughes - Simon Hughes was a Liberal Democrat MP for Southwark and Bermondsey from 1983 to 2015 and is now Chancellor of London South Bank University.

James MacCleary MP - James MacCleary is the Liberal Democrat Member of Parliament for Lewes and his party's spokesperson on Defence.

Tamara Cincik - Tamara Cincik is the founder of Fashion Roundtable, and holds over 20 years of experience working internationally in the fashion industry.

Carma Elliot - Carma Elliot is a former senior British diplomat of over 30 years, with postings in China, the EU and the Middle East, focused on trade and investment; education and culture; and wider people to people relations.

Ellie Chowns MP - Ellie Chowns is the Green MP for North Herefordshire and is the Green Party's spokesperson on Foreign Affairs and Housing and Communities; and the Green Parliamentary Lead on Education, Defence, Business and Trade, Social Care, and Constitutional Affairs.

Uma Kumaran MP - Uma Kumaran is the Labour MP for Stratford and Bow and is a member of the Foreign Affairs Select Committee and the UK-EU Parliamentary Partnership Assembly.

Deborah Annetts - Deborah Annetts leads The Independent Society of Musicians as Chief Executive and is currently Chair of the broadcast licensing body ERA and Honorary Research Fellow at Queen Mary University.

John Alistair Clarke - John Clarke is a former EU Diplomat and trade negotiator, and now sits as a Fellow of Maastricht University, Fellow of the Royal Asiatic Society, and Fellow of the British Institute of International and Comparative Law.

Dr Geoff Mackey - Geoff Mackey has over 30 years working internationally in the chemical industries; he is a Fellow of the Royal Society of Chemistry and IEMA (the Institute of Environmental Management & Accounting); and sits on the board of the Triumverate and Rotary UK&I.

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