Written evidence submitted by Energy UK, relating to the operation of The Windsor Framework [OWF0016]

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses. We do not represent the energy industry in Northern Ireland, but our members export electricity from Great Britain to the Single Electricity Market.

The sector invests £13bn annually and delivers nearly £30bn in gross value - on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100bn over the course of this decade in new energy sources. The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, which has over 2,000 members representing over 350 organisations, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Executive Summary

The EU's Carbon Border Adjustment Mechanism (CBAM) is due to be implemented on 1 January 2026 and will affect goods exported from Great Britain to the EU at risk of carbon leakage including steel, cement and, critically, electricity. With an EU CBAM in place, electricity exported from GB to the Republic of Ireland, and potentially Northern Ireland, will be subject to an additional fee based on the carbon price differential between the UK's and EU's separate emissions trading schemes (ETS). Our understanding is that the EU is very likely to request the application of the EU CBAM in Northern Ireland, which would require following the process laid out under Article 13(4) of the Windsor Framework.

The implications of the EU CBAM on Northern Ireland are likely to be disruptive, expensive, and highly controversial. These could potentially include:

- Higher energy bills on the island of Ireland – equivalent to £45/year per household in Northern Ireland.
- New payments of up to £200 million annually – equivalent to £1bn over the course of a Parliament – on trade between Great Britain and Northern Ireland.
- More than 1,100 Northern Irish jobs are vulnerable to the EU CBAM, more jobs than were secured in the recent purchase of the Harland & Wolff shipyard.

Linking the EU Emissions Trading Scheme with the UK Emissions Trading Scheme is a politically inexpensive, industry-backed and simple solution:

- Linking the EU and UK carbon markets would remove carbon borders between both jurisdictions. ETS linkage should be a top priority for the UK Government and European Commission to provide certainty for investment and protect consumers in Northern Ireland.
- The Trade and Cooperation Agreement requires the UK and EU to give 'serious consideration' to linking carbon markets.
- The EU has previously linked its carbon market to Switzerland. The similarity of both carbon markets and matching levels of decarbonisation ambition mean that linkage negotiations should be able to proceed at pace, particularly compared to previous EU linkage negotiations.
- Most importantly, by creating a combined carbon market, the carbon price in the UK and EU will end up becoming the same. This removes the need for CBAM payments from the UK to EU. With a linked carbon market, the administrative burden of filling in CBAM paperwork may also disappear.
- A linked UK-EU carbon market would go a long way to showing the UK Government is resetting its relationship with the European Union. It is also supported across the economy in the UK and Europe.

The impact of the EU CBAM on the energy sector

The EU CBAM will be fully financially implemented on 1 January 2026 and will affect goods imported into the EU at risk from carbon leakage including steel, cement and electricity. The EU's CBAM aims to maintain the competitiveness of domestic European production and prevent carbon leakage and works by ensuring that imported goods pay an equivalent carbon price to what would be paid had that product been produced domestically. This price is calculated based on the difference between carbon prices in the EU (using the EU Emissions Trading System, or EU ETS) and other jurisdictions. The UK introduced its own ETS following Brexit. The UK ETS remains structurally similar to the EU ETS but has traded at a significant discount since 2023[1] although future prices are uncertain and could change. The UK Government has announced it will introduce its own CBAM from 1 January 2027, but this will not include electricity.

Energy UK has previously raised concerns about the EU CBAM's impact on the energy sector.[2] With the EU CBAM in place, any electricity exported from Great Britain to the Republic of Ireland will have to pay an additional fee based on the carbon price differential between the UK's and EU's emissions trading schemes. If the EU CBAM were to be applied in Northern Ireland this would also apply to electricity exported from Great Britain to Northern Ireland. Our members also have significant concerns about the EU CBAM methodology for electricity, and we believe that the EU CBAM risks deterring investment in clean homegrown energy in any market connected to GB and raising bills across the UK and EU with limited environmental benefit.[3]

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[1] Energy UK (2024) UK Emissions Trading Scheme.
[2] Energy UK (2023) UK-EU Energy and Climate Cooperation: Why heightened engagement is imperative for Net Zero.
[3] Afry (2024) EU CBAM impact study.

Uncertainty about the application of the EU CBAM in Northern Ireland

Northern Ireland and the Republic of Ireland operate as a Single Electricity Market (SEM). To ensure the functioning of the SEM, specific provisions to maintain its operation were included in the SEM Annex of the Northern Ireland Protocol of the UK's Withdrawal Agreement with the EU. As an example, thermal electricity generation in Northern Ireland pays into the EU ETS rather than the UK ETS.

The energy sector is concerned by ongoing uncertainty about the interaction between respective UK and EU CBAMs in Northern Ireland. We believe that the EU is likely to insist on the application of its CBAM in Northern Ireland, which will have both cost and administrative implications for wider trade between Great Britain and Northern Ireland, as well as between Northern Ireland and the Republic of Ireland and countries in the European Single Market.[4]

The previous Government stated that any consideration of the EU CBAM's application in Northern Ireland would be subject to agreement under the Article 13(4) process and followed by a vote in the Northern Ireland Assembly on the matter.[5] However, subsequent to the previous Government's Command Paper on 'Safeguarding the Union' in January 2024, there has been a lack of clarity for the industry on this issue, with as yet no statement by the new Government. If the UK Government was to block the EU CBAM being applied, there is a risk of destabilising the UK-EU relationship, damaging the SEM on the island of Ireland, and retaliatory tariffs from the EU on UK goods. As a result, although the EU CBAM will be applied in full on electricity exported from GB to the EU in less than 12 months, there is no certainty about whether, and how, CBAM charges would be paid on electricity exported to Northern Ireland.

The consequences of this uncertainty are stark. Recent Energy UK analysis, detailed in our paper Borderline Confusion: Carbon Border Adjustment Mechanisms in Northern Ireland finds that this risks deterring investment in clean energy, creating unnecessary additional CO_2 emissions and raising wholesale prices by up to £130 million annually across the SEM by the mid-2030s – the equivalent of an increase of £45 annually per household in Northern Ireland. Uncertainty also creates trading risks that may pass additional unnecessary costs onto consumers via energy bills.

Should the EU CBAM be applied in Northern Ireland, our analysis suggests that it could increase the cost of building a wind turbine in Northern Ireland by 5% if components/materials shipped from GB are subject to the EU CBAM – increasing the cost of delivering Northern Ireland's expected 2030 renewable energy capacity by up to £125m.[6] Energy UK believes that a solution must be found that avoids the imposition of a carbon border across either the Irish Sea or on the island of Ireland.

[4] Energy UK (2025) Borderline Confusion: Carbon Border Adjustment Mechanisms in Northern Ireland.
[5] UK Government (2024) Safeguarding the Union.
[6] Energy UK (2025) Borderline Confusion: Carbon Border Adjustment Mechanisms in Northern Ireland.

Resolving uncertainty for the energy sector in Northern Ireland

The only way that uncertainty about the EU CBAM can be resolved in a satisfactory way for all participants is to link the EU ETS and the UK ETS. This would create a combined UK-EU carbon market that would replace potential carbon border tariffs on trade between the two jurisdictions and is something that both sides have committed to 'seriously consider' in the UK-EU Trade and Cooperation Agreement.[7] Whilst a linkage agreement would need to be negotiated by the UK and EU and subject to its own treaty between the two parties, the similarities in scheme design, equivalent legally binding commitments from both sides to Net Zero, and a stated desire to reset the UK-EU relationship mean that a negotiation could be concluded rapidly. This could be coupled with a bespoke UK-EU CBAM agreement covering the interim period between the EU and UK CBAMs entering into force and the finalisation of an agreement on linkage.

Linking carbon markets would be popular and is supported by industry, trade unions and civil society from across the UK and EU.[8] A combined carbon market would bring significant benefits to ETS market participants in the UK, adding significant amounts of liquidity and ensuring that the UK maintains a robust carbon price that promotes investment in clean technologies. Finally, linkage would also contribute significantly to the UK avoiding missing out up to £10bn in revenues over the next Parliament caused solely by the current UK-EU energy relationship.[9]

An announcement by the UK Government committing to a linked carbon market is the only way to prevent CBAM uncertainty in Northern Ireland. We would urge the UK Government to announce its intention to initiate ETS linking negotiations at the upcoming EU-UK Summit, with the aim of concluding negotiations by the end of 2025. This will avoid the damage to Northern Ireland's economy, and higher prices for Northern Irish consumers.

January 2025

[7] UK Government and European Commission (2020) Trade and Cooperation Agreement.
[8] UK and EU Domestic Advisory Groups to the UK-EU Trade and Cooperation Agreement (2024) Joint Statement.
[9] Energy UK (2024) Energy UK Explains: the cost of the UK-EU relationship for energy.