Response to consultation on UK ETS scope expansion: maritime sector

Summary

- Logistics UK welcomes the opportunity to respond to this consultation on behalf of our membership.
- The logistics industry is committed to decarbonising, but particular challenges pertain to maritime, which need to be considered within the context of the expansion and application of the UK ETS.
- Logistics UK continues to monitor progress by the IMO in this area. There is no case for the 'double taxation' of shipping emissions, given increased costs are largely passed on to others in the maritime supply chain, particularly UK importers, exporters, and consumers.
- Logistics UK would encourage the UK ETS Authority to consider use of the following criteria in its consideration of the matters raised in this consultation: precedence, compatibility, and consistency.
- It is important that government publishes an accompanying impact assessment on these proposals, as well as details of the post implementation impact assessment that will be carried out.
- We would also urge government to ring fence finances raised from the UK ETS for use to support the decarbonisation of maritime.

About Logistics UK

Logistics UK is one of the country's largest business groups, and the only trade association which represents all of logistics. Our mission is to support, shape and stand up for safe and efficient logistics. Our membership of more than 20,000 includes global, national and regional businesses and SMEs spanning road, rail, inland waterways, sea and air as well as the customers of freight services, such as retailers and manufacturers. We deliver services, representation and thought leadership, helping members and policy makers to seize new opportunities for the sector and the economy as a whole.

The logistics sector

Logistics underpins our economy and is fundamental to our way of life. It supplies our hospitals, schools, factories and shops with everything they need, everywhere, every day – nothing moves without it.

The efficiency of logistics and the productivity of the economy are completely intertwined. Due to this relationship, Oxford Economics found in 2023 that getting the policy and infrastructure environment right for logistics would unlock up to £8 billion a year in productivity-led growth by 2030.

However, we are not currently going in the right direction. The UK fell from 4th to 19th place in the World Bank Logistics Performance index over the past decade, largely as a result of border friction and underinvestment in transport corridors.

Logistics is a major sector in its own right. It contributes £185 billion to the economy each year (12% of UK non-financial GVA), is one of the UK's largest employers, providing good jobs with strong career progression – 2.7 million people (8% of the UK workforce) are employed in logistics roles, and its key hubs provide a catalyst for further growth and investment, helping places to thrive.

Logistics has transformed the UK and is now delivering for the future. It helped deliver the country's canals, roads, railways, airports and ports, has driven revolutions in global trade and e-commerce and is now innovating to deliver decarbonisation and even greater efficiency.

Consultation response

Logistics UK welcomes the opportunity to respond to this consultation on behalf of our membership. Please find below responses to a series of questions posed in this consultation. In addition to the views expressed in this submission, Logistics UK would urge government to publish an accompanying impact assessment on these proposals, as well as details of the post implementation impact assessment that will be carried out. We also note that finances raised from the UK ETS are set to go to Treasury and treated as non-ring fenced funding. We would urge government to ring fence this finance for use to support the decarbonisation of the maritime sector.

Q4. Do you agree with the inclusion of emissions at berth in a UK port from vessels performing both domestic and international voyages?

No. If the scope of the ETS is for domestic maritime only, then the inclusion of at-berth emissions for international voyages should be outside of scope.

Logistics UK disagrees with the inclusion of emissions at berth in a UK port from ships performing both domestic and international voyages.

The consultation outlines how including emissions at berth at UK ports, and all emissions from movements within UK ports, will incentivise investment in and planning for emissions reductions at port. Logistics UK does not believe this will be the case. The logistics sector is committed to decarbonising, however, the industry operates on tight margins. Any additional taxes, such as for emissions at berth, will negatively impact the sector's capacity to invest in future low or zero carbon fuels, thereby making it harder for the sector to reach net zero ambitions.

The uptake in shore power is dependent on many factors, including new infrastructure, increased grid capacity and technological advancement. The UK ETS must therefore be implemented as part of a package of levers to help with the net zero transition, or it risks undermining progress and the IMO's direction of travel.

Q5. Do you agree with our position that routes between Northern Ireland and Great Britain should face equivalent carbon pricing obligations to that between the Republic of Ireland and Great Britain?

Yes. Any disparity in carbon pricing obligations will result in trade diversion and rerouting in favour of the most cost competitive route.

Q6. Do you agree that subjecting in-scope ships on voyages between Northern Ireland and Great Britain to 50% (as opposed to 100%) of their carbon pricing obligation under the UK ETS would be suitable for ensuring carbon pricing obligation equivalence and emissions coverage equivalence between Northern Ireland and Republic of Ireland?

Yes. If the UK ETS applies 100% coverage to GB-NI routes, and 50% is applied on voyages between the Republic of Ireland (RoI) and GB via the EU ETS, this disparity will result in trade diversion and rerouting via RoI to the detriment of NI ports and businesses. Precedence from the EU ETS shows that ETS costs are to some extent passed on to shippers. It is important to note in the consideration of the UK ETS, that there are already additional costs faced by hauliers moving goods from GB to NI as a result of the necessity of crossing the Irish Sea and in meeting the requirements of the Windsor Framework. The GB NI route is also subject to the critical pressure, post EU Exit, of a growing shortage of domestic seafaring crew. With the logistics sector already operating on extremely narrow margins – often only 2.5% - further additional costs will be difficult to absorb and if they cannot be passed on to NI consumers, who have the lowest disposable income compared to any part of the UK, this will heighten the risk of business closure for smaller logistics operators in Northern Ireland.

Q6a. Should this option be time limited or exist for as long as there remains a disparity in the carbon pricing obligation on these routes?

To avoid trade diversion and rerouting via RoI, and for the reasons above, this option should exist for as long as there remains a disparity in the carbon pricing obligation on these routes. Consideration should also be given to wider economic and political conditions impacting the GB NI route.

Q7. Do you believe expanding the scope of the UK ETS to include 50% emissions coverage on UK-EEA routes could a) lead to better decarbonisation outcomes for the sector and b) be a suitable alternative approach to ensuing equivalence in carbon pricing obligations to that outlined in Question 6 above.

Yes. If equivalence between GB NI and RoI GB routes is pursued to address the concerns highlighted in the response to question 6 above, this will necessarily serve as a precedent for when the UK ETS is applied to 'international' shipping, which will include all services between the UK and the rest of the EU. Having UK ETS and EU ETS equivalency on emissions coverage on the wider scale of UK-EEA routes, in the absence of IMO progress, would address concerns about trade diversion away from NI and in favour of GB RoI routes and would also reduce the administrative and cost burden on UK businesses trading with the EEA.

Q16. Do you think an exemption is necessary for specific ferry services serving island communities in Scotland?

Yes. The proposal to exempt governmental non-commercial maritime activity is akin to exempting ferry services to island and remote communities in Scotland. Island communities have no alternatives for travel to the mainland, and remote peninsular communities face considerable journey times. It would seem counterintuitive to overly burden these services. Incentives for efficiency savings and low carbon fuel uptake should be considered instead. Logistics UK would support the Authority's proposal to exempt island and peninsular routes at this time.

Q17. Do you think an exemption is necessary for specific ferry services serving peninsular communities in Scotland? If so, what would be a suitable definition of remote peninsular communities?

Yes, as set out above.

Q35. Does the section above capture all relevant short and long term decarbonisation impacts of the UK ETS?

The maritime sector is still waiting for clear targets within the route to net zero, including phase out dates, a defined fuel of the future and standardisation of equipment. Logistics UK is calling for certainty over the future for maritime decarbonisation and a roadmap of how shore power can be achieved at all UK ports.

Whilst is it proposed the UK ETS will help to strengthen incentives to adopt low carbon fuels and support the deployment of fuel-efficient technologies and the introduction of fuel-efficient operating practices, industry needs certainty on the future of maritime decarbonisation in order to take initiatives and new technologies forward.

As outlined in the answer to question 4, consideration must be given to how industry can fund decarbonisation efforts. Any additional costs will likely slow progress. Logistics UK recommends finances raised from the UK ETS are ring fenced for use to support the decarbonisation of maritime.

Q38. Do you consider that application of the UK ETS will lead to any adverse impacts for any particular communities or regions, or sub-sectors of the maritime economy?

Yes. Whereas most of the requirements and obligations arising from the expansion of the UK ETS to the maritime sector will fall on the ship owner/operator, there are significant concerns among other parties in the maritime supply chain, particularly UK shippers, about the consequential impacts via recovery charges, adding inflationary pressures to the economy and ultimately impacting UK consumers.

Q39. Do you consider that application of the UK ETS will lead to any carbon leakage or modal shift to other transport types?

Yes. There is a danger that the unintended consequence of the ETS on maritime transport will lead to a change in transport modes. At the EU level there is little alternative to using short sea shipping to bring goods in and out of the UK. However, within the UK, with the exception of islands communities and GB-NI routes, road and rail remain easy and viable alternatives. Moving more goods by coastal routes is a way to build resilience into the supply chain and reduce the burden on already busy transport corridors. This could lead to lack of investment in maritime logistics.

Q47. Should the UK ETS be expanded to include emissions from all international voyages starting or ending in the UK in future?

There was an expectation from many within industry that this consultation would include measures to expand the UK ETS to cover international shipping to mirror the expansion of the EU ETS, which was applied to international shipping from 1 January 2024.

Logistics UK would encourage the UK ETS Authority to consider use of the following criteria when deciding on whether to expand the scope of the UK ETS to international shipping in future:

- *Precedence:* The UK ETS should not be applied to any activities covered by the International Maritime Organisation MARPOL Convention measures. There is no case for the 'double taxation' of shipping emissions which would, as a consequence, add to the costs of others in the maritime supply chain, particularly UK importers, exporters and consumers.

- *Compatibility:* the UK ETS should use the same thresholds, scope and calculations as are used in the EU scheme. This will minimize the scope for gaming of the system and provide transparency for all involved including carriers, collection authorities and shippers.

- *Consistency:* The volume of allowances available and the cost of carbon credits in the UK should be the same as the EU Scheme to avoid arbitrage between the two and potential gaming at the expense of one or other scheme. If UK credits do float independently of EU credits, consideration should be given to prohibiting the use of EU credits, which are currently cheaper than UK ones, to pay UK charges.

Q48. If you agree with the above, do you think 50% of emissions from voyages by in-scope ships making an international voyage which starts or ends in the UK from overseas should be covered?

See above.

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