EU and UK to link carbon markets: a linked ETS from 2028 and a path to CBAM relief

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Prelims: ETS, CBAM, EU-UK agreements



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Why in news

At the EU-UK bilateral summit on 20 November 2026, the two sides announced the conclusion of negotiations on an agreement to link their respective **Emissions Trading Systems (ETS)**. Both are committed to applying the agreement **from 1 January 2028**, subject to ratification. The intention to link was announced at the first EU-UK Summit in May 2025.

Key features of the agreement

- **Linked but separate systems**: the UK ETS and EU ETS remain two separate but linked systems; from 1 January 2028, allowances issued under either system can be used for compliance in both - including for emissions of the 2027 scheme year.
- **UK expansion**: the UK will expand the scope of its ETS, including aviation and maritime, bringing over 10 million tonnes of additional CO2 into the system; both systems will monitor aviation's non-CO2 climate effects.
- **Possible CBAM relief**: once fully operational, the link provides the basis for a possible **mutual exemption from the respective carbon border adjustment mechanisms (CBAM)**, cutting red tape and costs.
- **Bigger market**: a common set of rules creates a level playing field, a larger and more liquid carbon market and a more stable carbon price. The UK government estimates up to £3.8 billion a year for the UK economy by 2040, and EU CBAM exemption for £6.5 billion worth of UK exports.
- **Precedent**: the EU ETS has been linked to Switzerland's ETS since 1 January 2020; that link stays. A Joint Committee on ETS Linking will manage future changes.

What it means for India

The EU's CBAM is a key issue for India's steel and aluminium exports. An ETS link opening the door to CBAM relief shows that domestic carbon-pricing systems and international carbon-market links can become the key to trade exemptions - a relevant lesson for India's Carbon Credit Trading Scheme (CCTS), which is being operationalised.

Prelims practice questions

Question 1: Consider the following statements:
Statement 1: The EU and UK aim to apply their ETS-linking agreement from 1 January 2028
Statement 2: The EU ETS has been linked to Switzerland's ETS since 1 January 2020

Which of the above statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

▼ Answer and explanation

Answer: (c) Both statements are correct.

Question 2: With reference to the EU-UK ETS linking agreement, choose the correct statement:

(a) The two systems will merge into a single ETS

(b) The UK will expand the scope of its ETS, including aviation and maritime

(c) The agreement has no connection with CBAM

(d) This is the first time the EU ETS is linking to another system

▼ Answer and explanation

Answer: (b) The UK will expand coverage, including aviation and maritime, bringing over 10 million tonnes of additional CO2 into the system; the systems stay separate; the link forms the basis for CBAM relief; the Switzerland link dates to 2020.

Mains practice question

Question: "The international linking of carbon markets is emerging as a new framework for both climate action and trade." Comment with reference to the EU-UK ETS linking and bring out its implications for India. (250 words, 15 marks)

Answer outline
Introduction - the concepts of ETS and CBAM.
Main body - key features of the agreement; liquidity and stability in carbon pricing; the trade dimension of CBAM relief; India's CCTS and export interests.
Conclusion - India's strategy in a world moving towards linked carbon markets.

FAQ

In short: the EU and UK have concluded an agreement to link their emissions trading systems, targeted to apply from 1 January 2028, with a possible mutual CBAM exemption.

Q: What is an ETS?

An emissions trading system - a market-based tool that caps emission rights (allowances) and lets them be traded to cut emissions.

Q: What is CBAM?

The carbon border adjustment mechanism - a charge on imports of carbon-intensive goods equal to the domestic carbon price, to prevent "carbon leakage".

Q: When does the agreement take effect?

Both sides are committed to applying it from 1 January 2028, after ratification.

Sources

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2. UK Government, ETS linking agreement explainer, 20 November 2026: https://www.gov.uk/government/publications/uk-eu-linking-agreement-explainer/uk-eu-linking-agreement-explainer