PROSPERITY INSTITUTE

Not Zero

How Green Taxes Put British Energy Bills in the Red

David Turver
with Emmanuel Igwe



Contents

About the authors 4
Endorsements 5
Glossary 6
Executive summary 7
1. Introduction: Britain's carbon taxes 9
2. Impact of carbon and energy taxes on industry 14
3. Impact of carbon and energy taxes on electricity 18
4. Potential impact of EU Reset 25
5. Impact of UK CBAM 28
6. The benefits of abolishing carbon taxes 30
7. Conclusion 34
Annex: Methodology for calculating the benefits of abolishing carbon taxes 35
Bibliography 40

About the authors

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Emmanuel Igwe is an Economist at the Prosperity Institute. He is the co-author of the reports *A Road to Nowhere: Why the UK-EU Reset is Not the Answer* and *The Case for Freezing the National Living Wage*.

Endorsements

"Ever-higher carbon taxes risk making Britain less competitive at a time when stronger economic growth is badly needed. This new report highlights how they have negatively impacted Britain's competitiveness, investment, and growth.

"Instead of crawling back to the EU and handing over control of carbon taxes and energy prices, the Government should be taking advantage of our Brexit freedoms to cut costs.

"At a time when Britain is struggling to accelerate growth, the Conservatives have set out a Cheap Power Plan that will lower bills for households and businesses. As this report shows, cheaper energy and not carbon taxes are the way forward."

—Andrew Griffith MP, Shadow Chancellor of the Exchequer

"Britain once built things the rest of the world wanted to buy. Today, industries like steel and manufacturing are being squeezed by energy costs while investment goes elsewhere. As David Turver's report shows, carbon taxes are weakening our competitiveness and standing in the way of reindustrialisation. If we want more British jobs and a growing economy, we need cheap, plentiful energy once again.

"Yet rather than addressing these concerns, the Government wants to increase British energy costs and hand control of them to the EU. That would leave British businesses and households at the mercy of carbon prices set in Brussels, pushing already sky-high energy costs even higher. At a time when we should be using national independence to dismantle the carbon tax regime and to remove policy costs to make Britain more competitive, this report proves closer alignment with the EU would entrench the very policies that caused Britain's industrial decline."

—Richard Tice MP, Reform UK Deputy Leader

"You cannot tax your way to prosperity. As this new report from the Prosperity Institute shows, carbon taxes are making energy more expensive for families, manufacturers and businesses across the country. Cheap and abundant energy is the lifeblood of the modern economy and Britain should have a tax regime which makes it competitive for businesses and households to generate and purchase the energy they need to keep the lights on and keep Britain's economy growing. If Britain is serious about growth, jobs and energy security, we must be willing to challenge policies that make us poorer and less competitive. This report offers a roadmap to making this a reality once again."

—Andrew Bowie MP, Shadow Secretary of State for Energy Security

"Reform UK has consistently opposed Net Zero zealotry of both parties. This new report from the Prosperity Institute demonstrates just how hard carbon taxes are hitting households and industry. As I laid out in our Economic Rescue Plan, we'd scrap them and cut bills for families and businesses."

—The Rt Hon Robert Jenrick MP, Reform UK Treasury Spokesperson

Glossary

CBAM: Carbon Border Adjustment Mechanism

CCA: Climate Change Act

CCAs: Climate Change Agreements

CCC: Climate Change Committee

CCGT: Combined Cycle Gas Turbine

CCL: Climate Change Levy

CfDs: Contracts for Difference

CO2e: Carbon Dioxide Equivalent

CPF: Carbon Price Floor

CPS: Carbon Price Support

DESNZ: Department for Energy Security and Net Zero

DUKES: Digest of United Kingdom Energy Statistics

ECO: Energy Company Obligation

ETS: Emissions Trading Scheme

ETS2: EU Emissions Trading Scheme 2

EV: Electric Vehicle

FiT: Feed-in Tariff

GDP: Gross domestic product

GVA: Gross value added

kWh: Kilowatt-hour

LPG: Liquefied Petroleum Gas

mtoe: Million tonnes of oil equivalent

MWh: Megawatt-hour

NESO: National Energy System Operator

OBR: Office for Budget Responsibility

ONS: Office for National Statistics

REDIII: Renewable Energy Directive III

RER: Renewable Electricity Register (Ofgem)

RO: Renewables Obligation

TWh: Terawatt-hour

UK ETS: UK Emissions Trading Scheme

WHD: Warm Homes Discount

Executive summary

Carbon taxes are the other side of the renewables subsidy coin. Alongside the charges levied on bill payers to prop up green energy initiatives and integration costs, a series of environmental taxes have been imposed to deliberately increase the price of hydrocarbon energy and incentivise the lower-carbon alternatives.

This paper looks at the impact of the Climate Change Levy (CCL), Carbon Price Support (CPS), the UK Emissions Trading Scheme (ETS), and Fuel Duty, quantifying their scale and tracing their effects on energy costs, industrial competitiveness, electricity prices, and overall economic performance.

Since 2001 the CCL (including CPS) has raised substantial revenue, peaking above £2bn per year before settling around £1.8bn. The ETS has cost far more, with costs surging to almost £6bn in 2023 before falling back to £2.4bn in 2025. Fuel Duty remains the largest single item, consistently delivering over £24bn annually. Together these taxes place a disproportionately heavy burden on sectors that produce basic materials, manufacture goods, or transport physical goods. In 2023 energy taxes cost 1.3 per cent of whole-economy gross value added (GVA) but reached 6.3 per cent in transport, 3.8 per cent in agriculture, and 1.4 per cent in manufacturing—foundational industries, whose costs are passed on down the line to other industries and ultimately to ordinary consumers. Most service sectors bore costs of only 0.3 per cent.

High energy prices have played their part in reducing total energy consumption by more than 20 per cent since 2005. Within that, industrial energy consumption has almost halved. Electricity consumption is down 21 per cent and domestic generation has fallen even further. Carbon costs embedded in wholesale power prices have frequently added £20–40/MWh, increasing bills for households as well as industry. Consumer energy debt and arrears have risen sharply. Productivity in the electricity sector itself has more than halved as measured by TWh generated per hour worked.

Britain's steep reduction in energy use per person has been accompanied by weaker per-capita GDP growth than in the United States, Japan, or the EU-27. Other countries such as China, South Korea, and India have increased energy use and have accordingly grown much faster. The impact of this reduction in energy use can be seen in Britain's sectoral productivity figures. The highest-productivity sectors, such as manufacturing and mining, have grown far more slowly than the economy as a whole while lower-productivity services have expanded faster.

The upcoming reset of the relationship between the UK and EU could make these problems even worse. Linkage of the UK and EU ETS is likely to push UK carbon prices upward toward higher European levels, raising wholesale electricity and industrial heat costs across the economy. British participation in the EU electricity market signs Britain up to unachievable renewables targets. The Carbon Border Adjustment Mechanism (CBAM), due in 2027, will tax imports of basic aluminium, steel, cement, fertiliser, and hydrogen. Yet many of the UK's primary producers in these sectors have already closed. CBAM will therefore raise costs for the remaining downstream manufacturers

of complex goods (cars, aircraft components, etc.) while leaving imports of finished products untouched, further eroding competitiveness.

Recommendations

This paper recommends abolishing the following taxes:

1. Climate Change Levy
2. Carbon Price Support
3. UK Emissions Trading Scheme
4. The proposed UK Carbon Border Adjustment Mechanism

By abolishing the main rates of the CCL, the CPS, and the UK ETS, energy users would see their bills cut by £7.2bn a year. This is equivalent to around £250 per household, including around £60 directly off household energy bills, at a gross cost of £4.2bn to the Exchequer and resulting in a long-run GDP boost of £5.7bn per year in our central estimate, and up to £7.4bn in an upper estimate. Furthermore, even if ETS repeal resulted in greater exposure to the EU CBAM for British exporters, for every £1 of ETS receipts given up, energy users will gain almost £2, with ETS savings exceeding CBAM-related costs by at least £10.4bn between 2026 and 2034 in a cautious estimate, and around £14.4bn in a central estimate.

1. Introduction: Britain's carbon taxes

Main points

- Carbon taxes were designed to raise the price of hydrocarbons and push consumers onto costlier low-carbon substitutes.
- The Carbon Price Support does not support those who pay it. It supports Net Zero targets and the Treasury.
- Carbon taxes total £28bn each year, with Fuel Duty the largest contributor bringing in £24bn annually.

An earlier Prosperity Institute paper, *Good Money After Bad*, examined the impact of renewables subsidies and the cost of integrating intermittent wind and solar power into the grid.[1] However, these costs are just one side of the cost-of-Net-Zero coin; the other side is carbon taxes designed to make hydrocarbon energy more expensive. This paper examines the impact of carbon taxes on bill payers, the economy in general, and the knock-on effects on industrial competitiveness.

What are carbon taxes?

The Climate Change Act (CCA) and associated Carbon Budgets set by the Climate Change Committee (CCC) set out the framework for the UK to reduce carbon dioxide emissions to Net Zero by 2050. **To support this drive, a series of energy taxes have been imposed to make the consumption of hydrocarbons more expensive and thus incentivise more expensive, low-carbon alternatives.** The ONS defines several of these taxes as 'Energy Taxes' in its environmental taxes data, including the Climate Change Levy (CCL), the Carbon Price Support (CPS) mechanism, the Emissions Trading Scheme (ETS), and Fuel Duty, which will be covered in this paper.[2] There are other levies classified as energy taxes such as the Renewables Obligation (RO) and Contracts for Difference (CfDs) covered in the earlier paper. In addition, there was the Carbon Reduction Commitment that stopped collecting revenue in 2021, so is not covered in either paper.

Climate Change Levy and Carbon Price Support

The CCL is a levy on the use of energy by businesses and was announced in the 1999 Budget by then-Chancellor Gordon Brown. The levy came into force from 1 April 2001 and was charged on electricity, gas, liquefied petroleum gas (LPG), and solid fuels when supplied to businesses.[3]

1 David Turver, *Good Money After Bad: The Spiralling Costs of British Green Energy Initiatives and What We Can Do About It* (London: Prosperity Institute, 2026). (link)

2 ONS, "Environmental taxes", June 2026. (link)

3 House of Commons Library, "Climate Change Levy" 20 November 2009, 1. (link)

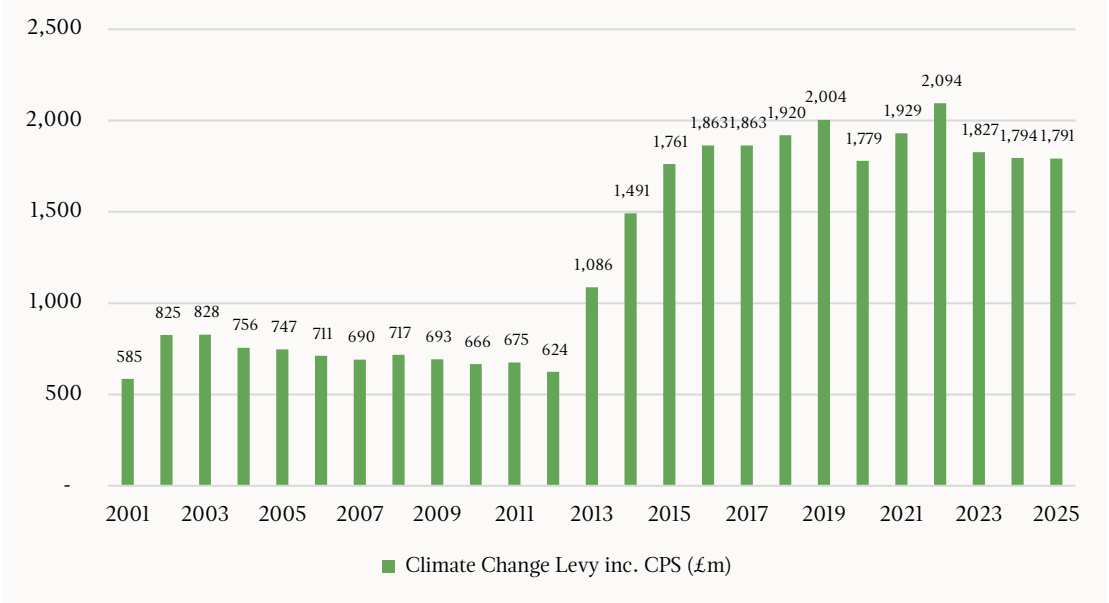
In April 2001 the levy rates started at 0.43p/kWh of electricity, 0.15p/kWh for gas, and 0.96p/kg of LPG. By April 2025 the rates had risen to 0.75p/kWh for both gas and electricity and 2.175p/kg of LPG.[4]

The Carbon Price Floor (CPF) was introduced in 2013 by the Conservative-Liberal Democrat coalition Government, and its main operational mechanism is the misleadingly named CPS. **The CPS effectively replaces the CCL for coal and gas-fired electricity generation, and the price has been set at £18/t since 2016.**[5] **It does not "support" those who pay it; rather, it supports the Government's Net Zero goals and tax revenues**. Even more misleadingly, the CPS is often termed a "top up", which suggests both variability and benefit to those implicated in it. But it does not top up *to* any set amount from a company's existing spend; rather, it is a flat additional tax added onto any amount of carbon used by the tonne. The only thing it tops up is the Treasury's tax intake. The Government manages the CPS as part of the CCL and the costs of the CCL as reported by the ONS include the CPS.

At the outset of the CCL, it was recognised that the CCL would damage industrial competitiveness.[6] In response, the Government introduced Climate Change Agreements (CCAs) that allowed certain energy-intensive industries to claim up to 80 per cent discounts on the CCL in return for making energy-saving improvements.[7]

Using data from the ONS, Figure 1 shows the tax take from the CCL (including CPS) since inception in 2001.[8]

Figure 1: *Climate Change Levy tax receipts (£m). Source: ONS.*



From 2001, the CCL tax-take fluctuated in the £585–828m range before rising substantially to £2.094bn in 2022. Since then, the cost of this levy has dropped back somewhat to around £1.8bn

4 HMRC, "Environmental Taxes Bulletin historical rates". (link)
5 House of Commons Library, "Carbon Price Floor (CPF) and the price support mechanism", 8 January 2018. (link)
6 HMRC, "Environmental Taxes Bulletin historical rates", 5-6.
7 HMRC, "Environmental Taxes Bulletin historical rates", 13.
8 ONS, "Environmental taxes", June 2026

despite the levy rate for gas rising from 0.568p/kWh in April 2022 to 0.775p/kWh in April 2025.

The Government has recently announced the CPS will be removed from April 2028, saying it has done its job by driving coal from the electricity grid.[9] Theoretically, this will reduce business energy bills and will likely be accompanied by Government fanfare to that effect. However, this will simply mean that bills are only slightly lower than they would otherwise have been. As will be shown below, the removal of CPS will likely be replaced by increased costs from the ETS if the linkage of the UK and EU schemes goes ahead.

Emissions Trading Scheme

Emissions trading schemes work on the cap-and-trade principle. The government sets a legal limit, the cap, on the total emissions of greenhouse gases by the sectors covered by the scheme. The cap is reduced every year, forcing emissions to reduce over time. Some companies in vulnerable industries receive their allowances for free and the rest are auctioned off. Companies may trade their allowances with each other as required.[10]

The UK began participation in Phase 1 of the EU ETS on 1 January 2005. This phase which ran up to 31 December 2007.[11] This phase covered only carbon dioxide emissions from power generators and energy-intensive industries. Almost all allowances were given for free and because allowances exceeded emissions, the price of allowances fell to zero.[12]

During Phase 2 from 2008 to 2012, the cap was lowered, the free allocation of allowances was reduced, and the penalty for non-compliance with the scheme was increased. The aviation sector was brought into the scheme in 2012, but this was not applied to non-European countries.[13]

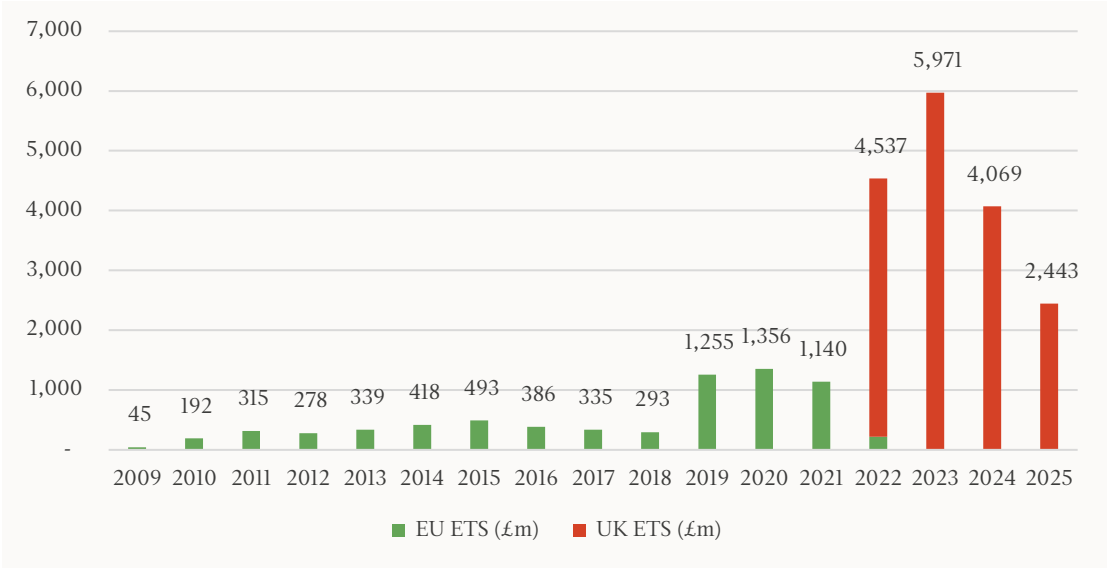
Phase 3 of the scheme ran from 2013 to 2020 and saw many changes introduced. An EU-wide cap on emissions was introduced in place of national caps, and auctioning of allowances became the default method for allocating allowances instead of free allocation.[14] More sectors, such as aluminium, ammonia, and petrochemicals were added to the scheme which also expanded to include extra gases such as nitrous oxide.[15]

The UK ETS superseded the EU ETS on 1 January 2021. The UK scheme now covers aviation, electricity generation, energy-intensive industry, and some maritime activity.[16]

Using data from the ONS, Figure 2 shows the tax take from the UK and EU ETS since the first receipt in 2009.[17]

9 UK Parliament, "Carbon Price Support", written statement, 16 April 2026, UIN HCWS1519. (link)
10 European Commission, "About the EU ETS", accessed 10 November 2026. (link)
11 Department of Energy and Climate Change, "EU ETS Phase 1 (2005-2007)", UK Government Web Archive, 24 October 2012. (link)
12 European Commission, "Development of the EU ETS (2005-2020)", accessed 10 November 2026. (link)
13 European Commission. "Development of the EU ETS (2005-2020)".
14 European Commission. "Development of the EU ETS (2005-2020)".
15 EUR-Lex, "Directive 2009/29/EC", 23 April 2009. (link)
16 DESNZ, "Participating in the UK ETS", accessed 10 November 2026. (link)
17 ONS, "Environmental taxes".

Figure 2: *EU and UK ETS tax receipts (£m). Source: ONS.*



The EU ETS cost less than £500m per year from 2009 until 2018. The costs then rose sharply to £1.356bn in 2020. The cost of the UK ETS began in 2022, when costs rose to £4.537bn and then again to £5.971bn in 2023. Since then, costs have fallen back to £2.443bn in 2025.

Fuel Duty

Fuel Duty is a tax on petrol and diesel which adds to transportation costs. Fuel Duty is currently levied at 52.95p/l on petrol and diesel and 38.2p/l on aviation fuel (although airlines are exempt from Fuel Duty, paying under the ETS instead). In 1992, Fuel Duty was levied at a rate of 23.42p/l on petrol and 22.85p/l on diesel.[18] **The Fuel Duty escalator was introduced in 1993 to increase this fuel tax by 3 per cent above inflation.** Gordon Brown increased this figure to 6 per cent above inflation.[19] Rates for both fuels reached 57.95p/l in March 2011 and remained at that level until March 2022 when a "temporary" 5p/l cut was introduced to offset higher fuel prices caused by the Russian invasion of Ukraine. Fuel Duty rates are scheduled to rise back to 57.95p/l by 1 March 2027.[20] Figure 3 shows the tax take from Fuel Duty since 1997.[21]

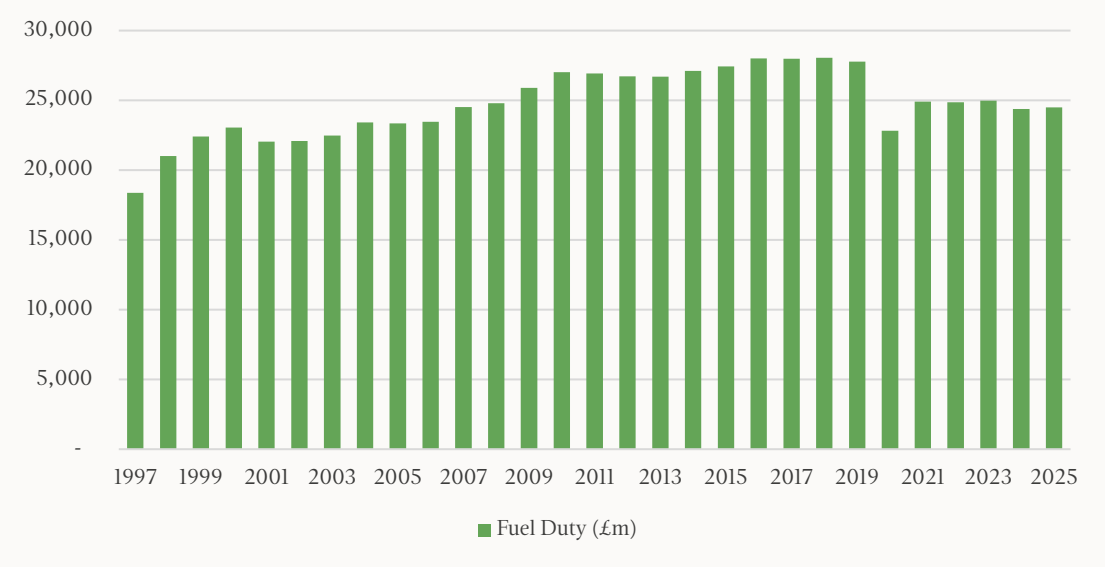
18 HMRC, "Historical hydrocarbon oils duty rates", accessed 10 November 2026. (link)

19 The NX Group, "Fuel Tax in the UK", accessed 10 November 2026. (link)

20 HM Revenue and Customs, "Amended fuel duty rates: 2026 to 2027", 22 May 2026. (link)

21 ONS, "Environmental taxes".

Figure 3: *Fuel Duty tax receipts (£m). Source: ONS.*



The tax take from Fuel Duty fluctuates and rose from £23.041bn in 2000 to a peak of £28.035bn in 2018, before falling back sharply in the COVID year of 2020 to £22.818bn and then fluctuating in a new range just over £24bn.

2. Impact of carbon and energy taxes on industry

Main points

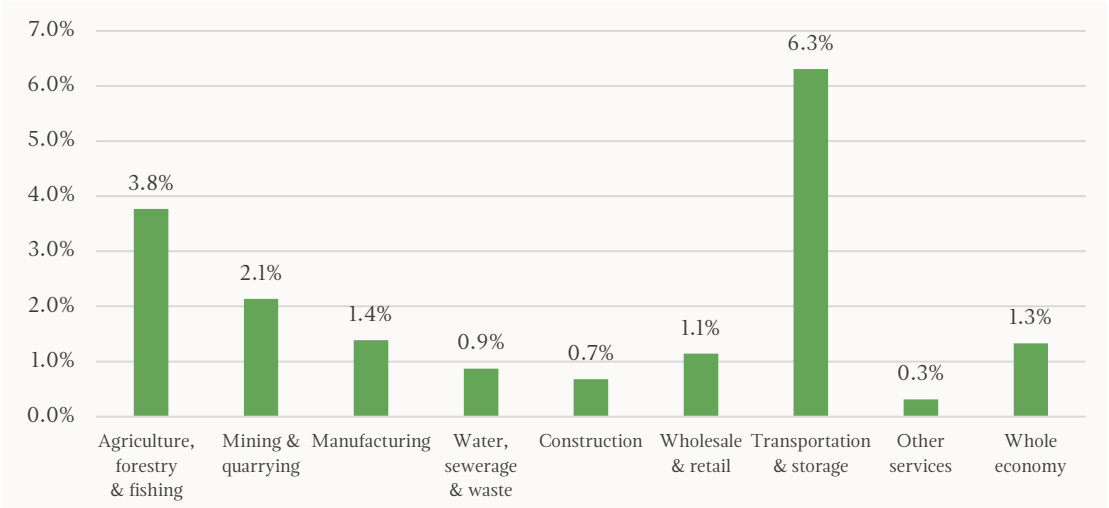
- The sectors that produce, make, and move physical goods carry the burden of carbon taxes. The knock-on effect is economy-wide, as these are foundational sectors.
- Industrial energy use has almost halved since 2003, largely due to deindustrialisation rather than efficiency.
- Carbon taxes and other Net Zero costs have impacted growth. Britain cut energy use per person faster than the US, Japan, and the EU-27 and grew more slowly than all three.

This chapter will examine the effects these £28+bn of carbon taxes have on industry, outlining the scale of these taxes and their damaging impact on energy consumption, overall economic growth, and key sectors of the economy.

Scale of carbon and energy taxes

The ONS provides a breakdown of energy taxes by sector that can be compared to the gross value added (GVA) of each sector to identify which sectors bear the greatest burden as shown in Figure 4.[22,23]

Figure 4: *Energy taxes as % of GVA 2023. Source: ONS.*



The ONS breakdown of energy taxes for 2023, the latest year available, includes Fuel Duty, CCL, CPS, ETS, RO, and CfDs. The burden of these taxes on the whole economy is 1.3 per cent of GVA.

22 ONS, "Environmental taxes".

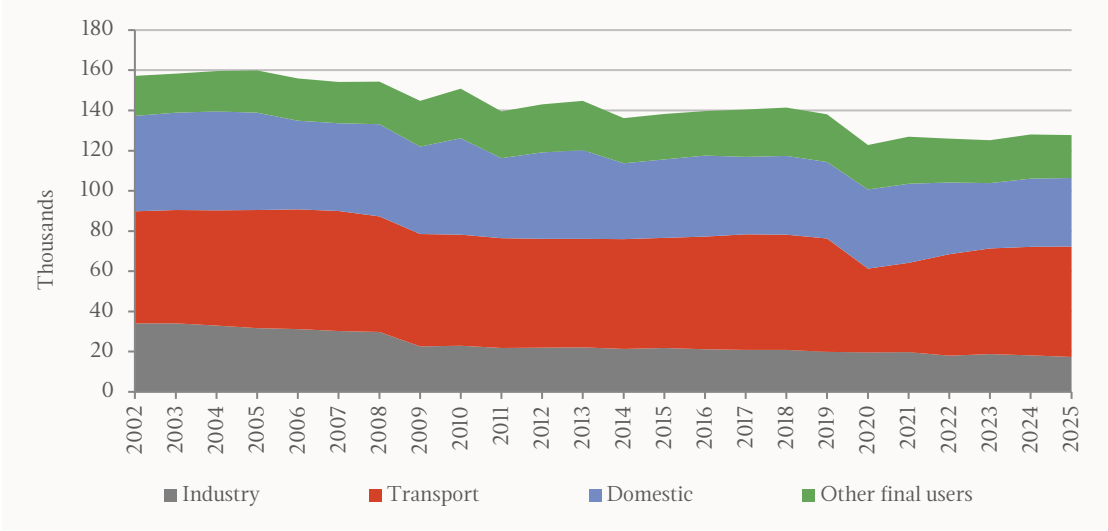
23 ONS, "Output per hour worked", accessed 10 November 2026. (link)

The burden on service industries (excluding wholesale and retail, and transport and storage) is just 0.3 per cent of GVA. **By contrast, most of the sectors involved in producing, making, or moving physical goods bear a much higher burden of energy taxes. Transport is loaded with 6.3 per cent of energy taxes as a proportion of GVA, agriculture 3.8 per cent, mining 2.1 per cent, and manufacturing as a whole 1.4 per cent. These are foundational industries whose costs are passed on to other industries and ultimately to consumers.** The Prosperity Institute's report *Destroying the Foundations* has dubbed many of these energy-intensive manufacturing industries the "foundational industrial economy", due to the way in which they underlie all other kinds of production.[24]

Declining overall energy consumption

The impact of energy taxes and other levies on Britain's overall energy consumption has been dramatic as shown in Figure 5.[25]

Figure 5: *Total final energy consumption by sector (mtoe). Source: DESNZ Energy Trends.*



Overall energy consumption peaked in 2005 and had fallen 20.1 per cent by 2025. Within that, industrial energy consumption peaked in 2003 and had almost halved by 2025. Domestic consumption has fallen by over 30 per cent since peaking in 2004. Energy consumption by other final users (mostly the service sector) has declined 13.2 per cent since peaking in 2010 and transport energy consumption has fallen by 8 per cent since its peak in 2007.

Impact of declining energy consumption on growth

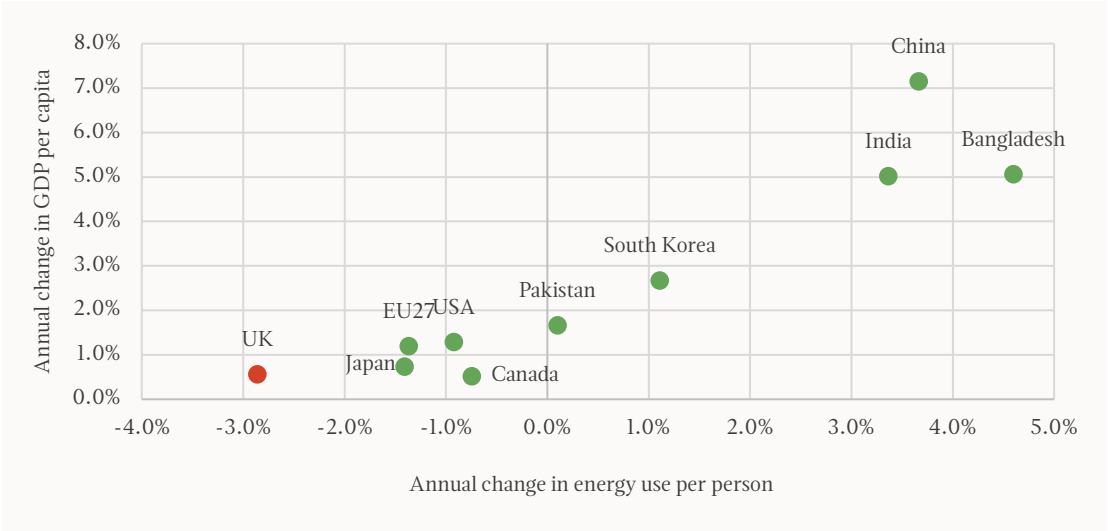
Such a dramatic decrease in industrial energy use cannot be simply explained by efficiency improvements, because other countries will have experienced similar improvements such as LED lightbulbs and more efficient internal combustion engines. Figure 6 shows the correlation between declining energy consumption and economic growth.[26]

24 Rian Whitton, *Destroying the Foundations: How Net Zero Could Wreck British Industry for Good* (London: Prosperity Institute, 2025), 8. (link)

25 DESNZ, "Energy Trends ET1.3", accessed July 2026. (link)

26 Our World in Data, "Energy use per person vs GDP per Capita 2005-2025", accessed 10 November 2026. (link)

Figure 6: *Energy use per person vs GDP per capita*

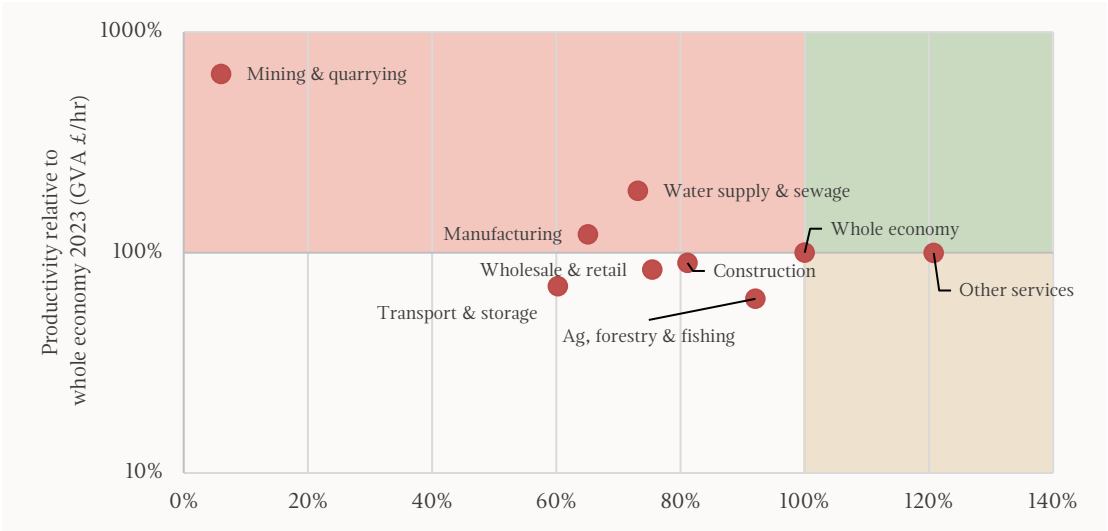


Since the overall energy consumption peak in 2005, Britain's energy use per person has declined by 2.9 per cent per annum and growth has virtually stagnated with per capita growth of just 0.6 per cent per annum. **Britain has reduced its energy consumption by more than other comparable countries and growth has been slower than all but Canada.** By contrast, other developed nations such as the US, Japan, and the EU-27 have seen smaller reductions in energy consumption and have grown faster. Developing nations such as South Korea, India, Bangladesh, and China have all increased energy consumption and grown faster still.

High taxes impact high-productivity industries

The burden of slower growth has fallen disproportionately on the sectors of the economy that produce, make, and move physical goods as shown in Figure 7.[27]

Figure 7: *Productivity vs Relative GVA growth by industry sector (2008–2023) Source: Our World in Data.*



The x-axis shows the relative growth rate of different industry sectors over the period. The mid-

27 ONS, "Output per hour worked".

point of 100 per cent represents the whole economy growth rate over the period. The y-axis shows the relative productivity of each sector in 2023 on a log scale, with the mid-point of 100 per cent representing the whole economy.

The chart is divided into four quadrants. **The green quadrant represents sectors growing faster than the whole economy and with above-average productivity. Unfortunately, on the sector breakdown used by the ONS for energy taxes, not a single sector in Britain fits into this quadrant**. The yellow quadrant shows the "other services" sector with productivity slightly lower than the whole economy but growing at a rate that is 121 per cent of the whole economy.

In the white quadrant we can see sectors such as construction, wholesale and retail, agriculture, forestry and fishing, and transport and storage are all growing more slowly than the whole economy and have below-average productivity measured by gross value-added per hour worked.

Finally, the red quadrant shows sectors with above-average productivity growing more slowly than the whole economy. The manufacturing sector has grown at 65 per cent of the rate of the whole economy, but the sector's productivity is 121 per cent of the average. This section also includes the mining and quarrying sector, which includes oil and gas extraction where GVA has grown at just 6 per cent of the whole economy over the period, yet productivity is 645 per cent of the average.

Looking in more detail, hours worked are down 10 per cent in manufacturing which includes the oil refining, petrochemicals, chemicals, and motor manufacturing sub-sectors. Hours worked are also down 2 per cent in mining and quarrying.

The productive sectors of the economy tend to be energy-intensive and have been made less competitive by the imposition of carbon and energy taxes. Moreover, these industries tend by their nature to be capital-intensive. Expensive energy and high taxes have led companies such as Ineos to abandon new investment in the UK.[28] As these companies move abroad Britain also loses out on investment that would lead to further growth.

28 Jonathan Leake, "Jim Ratcliffe's energy empire abandons UK investment over North Sea tax", *The Telegraph,* 8 September 2025. (link)

3. Impact of carbon and energy taxes on electricity

Main points

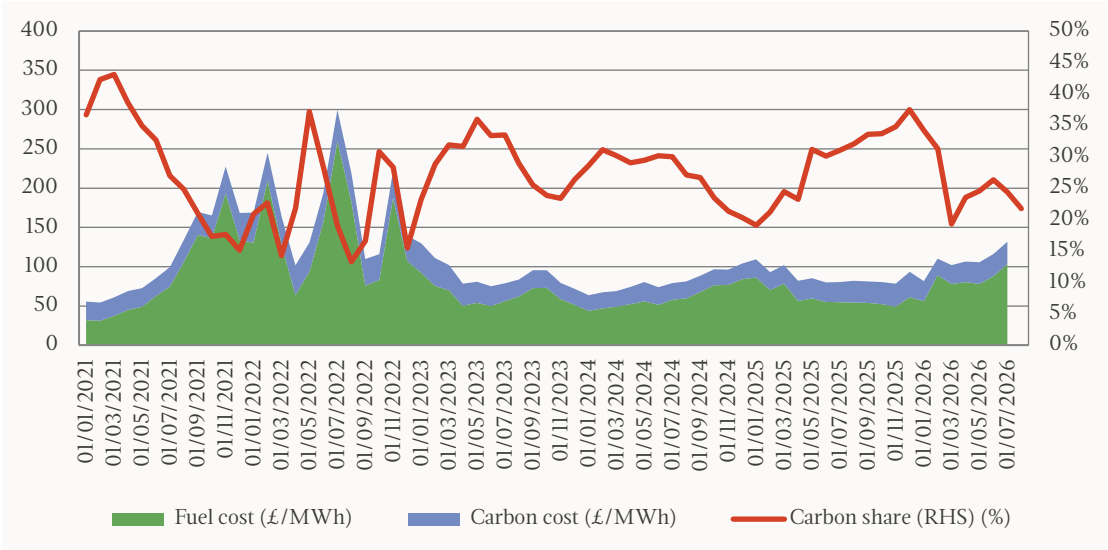
- Carbon costs have often added £20–40/MWh to wholesale power prices. Since gas usually sets the price, this raises the prices of nuclear, hydro, and RO-funded power as well.
- Electricity consumption is down 21 per cent since 2005. Domestic generation has fallen even further.
- It now takes 2.4 times as many hours of work to generate a TWh of electricity as it did in 2004.

Carbon and energy taxes have also had a direct impact on electricity. This chapter will examine the impact of carbon taxes on electricity prices, electricity consumption and generation, the productivity of the electricity sector, and household finances.

Carbon taxes increase electricity bills

The carbon taxes levied on coal and gas-fired electricity generation have a significant impact by raising wholesale power prices. Carbon costs comprise two elements. The first is the Carbon Price Support mechanism, where prices have been held at £18/t since 2016. The second part is the carbon cost arising from the UK ETS and these costs fluctuate significantly as shown in Figure 8.[29]

Figure 8: *Fuel and carbon costs (£ per MWh) and carbon share (%). Source: Ember.*



29 Ember, "European electricity prices and costs", accessed November 10 2026. (link)

The total carbon costs were relatively stable at around £23–24/MWh from the beginning of 2021 and then began rising, fluctuating in a £35–40/MWh range from the beginning of 2022 to March 2023 before falling steadily to under £20/MWh in January 2025. Carbon costs then began rising again to reach almost £32/MWh in January 2026, before falling back slightly. The increase in early 2025 coincided with rumours that Keir Starmer was looking to link the UK and EU ETS as part of his EU Reset discussions.[30] Carbon costs then fell back until March 2026 after Chancellor Merz of Germany said the EU ETS "should be revised or postponed if it undermines industrial competitiveness".[31] However, carbon taxes have risen again, reaching £28.38/MWh in July 2026, or just less than a quarter of the cost of wholesale electricity.

The impact of carbon taxes on the cost of electricity is two-fold. First, they act directly on the cost of electricity produced from gas.

Second, these taxes also impact the price of electricity from other generators such as nuclear, hydro, storage, and RO-funded renewables, because the clearing price of these is set by the price of gas and generators price their carbon costs into these prices. From NESO's (National Energy System Operator) generation mix and from Ofgem's RER database, it can be calculated that a total of 182.5 TWh of electricity was generated by these sources in calendar year 2025 (excluding Drax ROs that will soon all be included in CfD costs).[32] Assuming carbon costs of approximately £25/MWh for 2025, per Ember, the total carbon costs of electricity generation can be estimated at about £4.6bn per year.[33]This is an upper-bound estimate, as gas does not set the wholesale price every hour.

Impact on electricity consumption and generation

Using the same method as in Figure 4, energy taxes on electricity were 22.6 per cent of GVA in 2023. Energy taxes have taken their toll on both electricity consumption and generation. As shown in Figure 9, overall electricity consumption has fallen 21 per cent since peaking in 2005.[34]

30 George Parker, Peter Foster, and Andy Bounds, "Keir Starmer looks to link UK and EU emission trading schemes", *Financial Times*, 28 January 2025. (link)

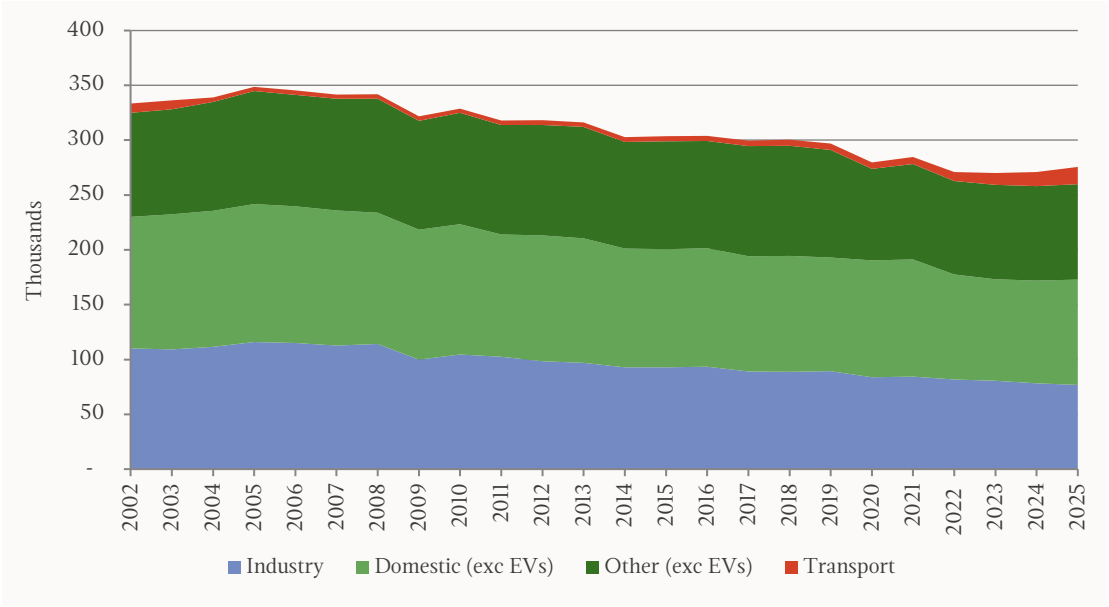
31 S&P Global, "European carbon prices slide as Germany's Merz says EU ETS may need revamping". (link)

32 NESO, "Historic GB generation mix" (link); Ofgem, RER Dashboard (link).

33 Ember, "European electricity prices and costs".

34 DESNZ, "Energy Trends: UK Electricity ET5.2", accessed July 2026. (link)

Figure 9: *Electricity consumption by sector (TWh). Source: DESNZ Energy Trends.*



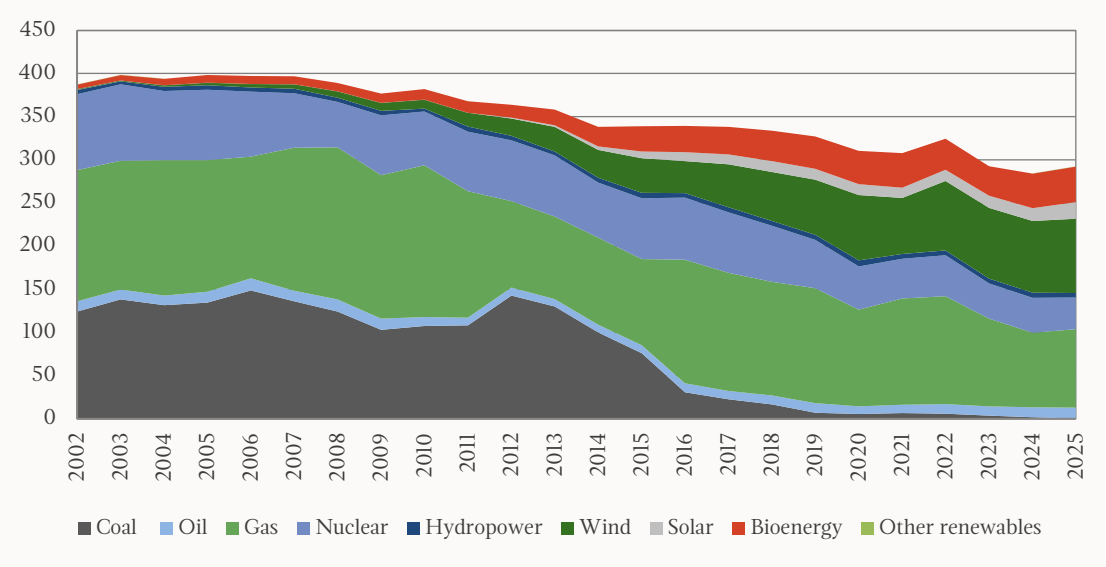
This analysis is in line with Rupert Darwall's report *It's Broke, Fix It*, which shows electricity consumption falling 17 per cent between 2010 and 2024.[35] Within that, consumption by industry has fallen 33.9 per cent from 116 TWh in 2005 to 76.7 TWh in 2025. Domestic consumption has fallen 23.5 per cent over the same period and consumption by other sectors has fallen by 16.2 per cent since peaking in 2008. Transport consumption has increased steadily as the number of electric vehicles (EVs) on the road has gone up.

Electricity generation has fallen even more dramatically as shown in Figure 10.[36]

35 Rupert Darwall, *It's Broke, Fix It: Where British Energy Policy Went Wrong and How to Get It Right* (London: Prosperity Institute, 2026). (link)

36 Our World in Data, "What sources does the United Kingdom get its energy from?", accessed 10 November 2026. (link)

Figure 10: *UK electricity generation by source (TWh). Source: Our World in Data.*

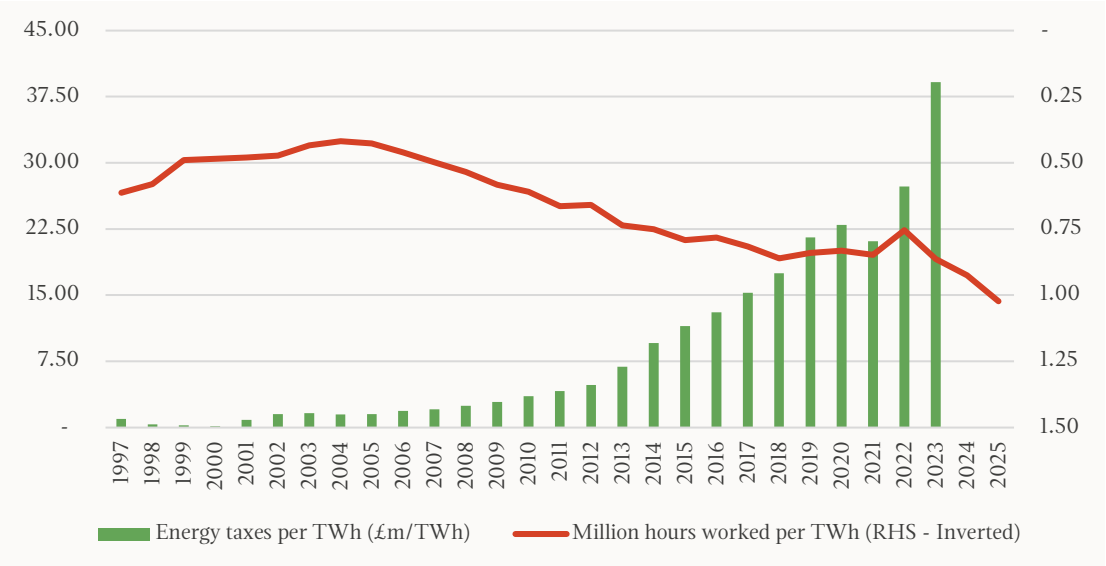


Overall domestic generation has fallen 26.6 per cent from the peak in 2005. The steeper fall in generation compared to consumption reflects an increase in net imports.

Impact on electricity sector productivity

The impact of higher taxes on electricity has also affected the productivity of the electricity sector, as measured by hours worked per TWh of generation as shown in Figure 11.[37,38,39]

Figure 11: *Energy taxes per TWh (£m per TWh) vs Electricity productivity (m hrs per TWh) . Sources: ONS, Our World in Data.*



Energy taxes on electricity generated have risen from £0.15m/TWh in 2000 to £39.13m/TWh (or £0.15/MWh to £39.13/MWh) in 2023, the latest year for which data is available. By contrast,

37 ONS, "Environmental taxes".

38 ONS, "Output per hour worked".

39 Our World in Data, "What sources does the United Kingdom get its energy from?"

productivity in the Electricity, Gas, Steam and Air Conditioning sector (used as a proxy for electricity generation) has fallen. In 2004 it took just 0.42m hours of work to generate 1 TWh of electricity. By 2025 that had risen to 1.02m hours, meaning productivity in the sector has fallen by a factor of 2.4.

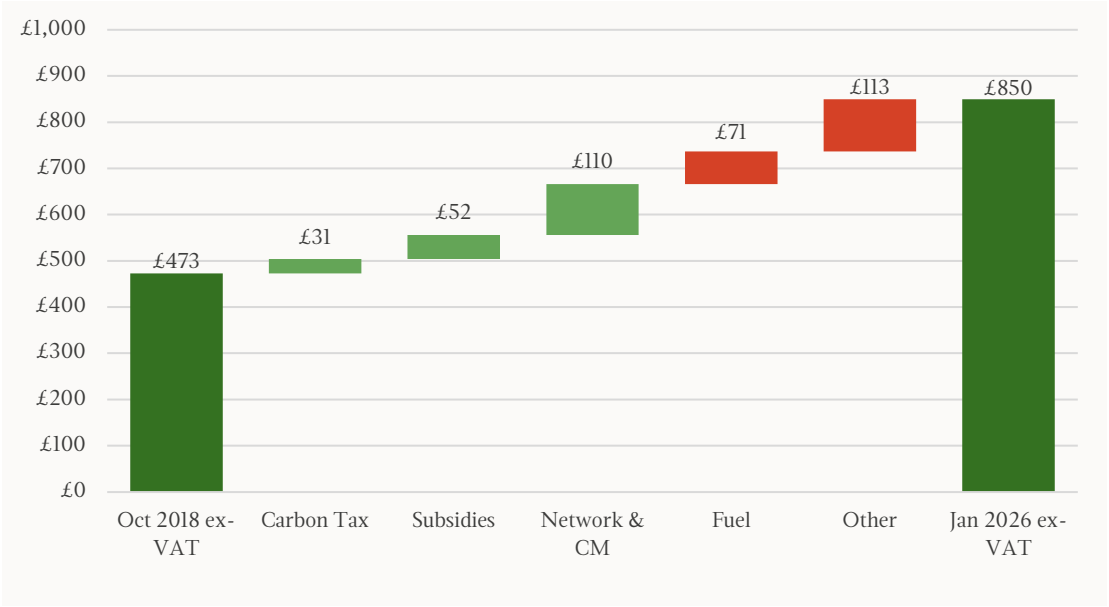
Impact of high energy costs on consumers

Energy and carbon taxes impact on consumers in three ways. First, in combination with renewables subsidies outlined in *Good Money After Bad*, carbon taxes on energy have increased energy bills. Second, rising energy bills have increased energy debt, pushing up energy bills for everyone else. Third, high Fuel Duty makes transport of physical goods more expensive, which impacts consumers, and of course Fuel Duty increases the cost of personal travel.

Impact on electricity bills

Analysis of the latest price cap data shown in Figure 12 demonstrates that Net Zero policies including carbon taxes, renewables subsidies, and the increase in network costs have driven the vast bulk of the increase in electricity bills from the October 2018–March 2019 price cap to the January to March 2026 period.[40]

Figure 12: *Electricity bill (ex-VAT) waterfall chart, Oct 2018 to Jan 2026 (£). Source: Ofgem.*



In October 2018, the total ex-VAT electricity bill was £473 using Ofgem's latest average household consumption of 2,500kWh per year. **For the January to March 2026 period, electricity bills had risen by £377 to £850 per year.** The Net Zero-related elements of electricity bills have risen the most over the period, rising by £193. Carbon costs have been estimated using the average carbon cost in £ per MWh for the months in question multiplied by the annual usage. Carbon taxes have increased by £31 over the period to £66. The cost of subsidies in the form of RO, CfDs, and Feed-in Tariffs (FiTs) has gone up £52 to £133. Network costs including backup from the capacity market have almost doubled, rising by £110 to £228.

40 Ofgem, "Energy price cap (default tariff) levels", accessed 10 November 2026. (link)

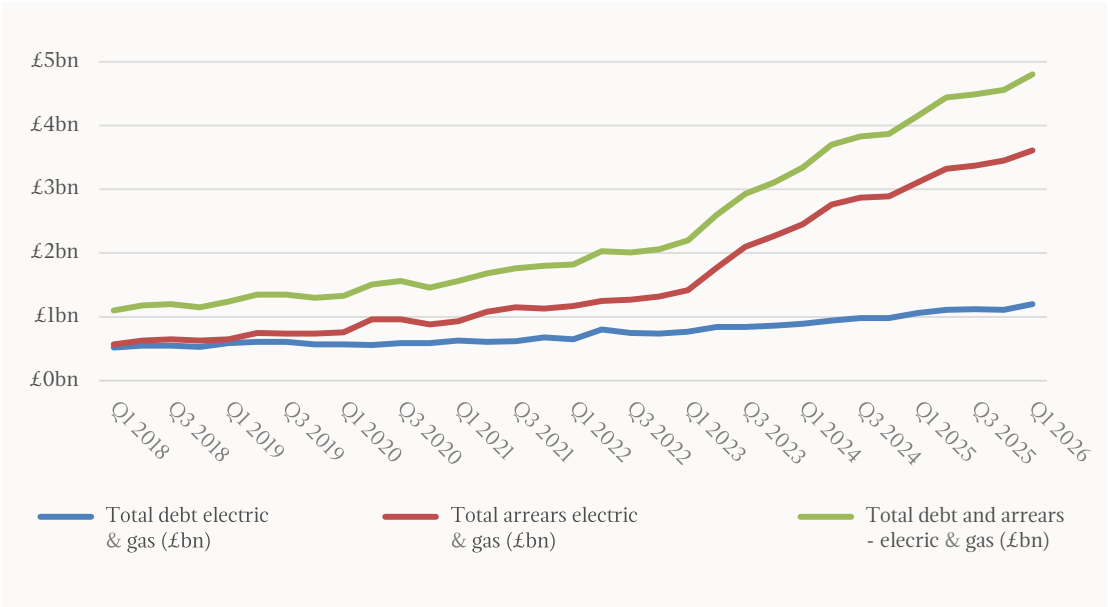
Other costs, including the Warm Homes Discount (WHD), Energy Company Obligation (ECO), smart meters, supplier operating costs, debt costs, and profit, have also risen substantially, by £113 to £233. Arguably the ECO could be counted as a Net Zero cost item and it could be argued the WHD is a response to higher prices driven by Net Zero. Fuel costs (excluding carbon taxes) have risen by £71 to £190, reflecting higher gas prices. By these measures Net Zero has been the most significant driver of higher electricity bills.

Since the January to March 2026 price cap, several changes have been made to muddy the waters. First, three-quarters of the cost of the RO scheme has been moved from domestic bills onto general taxation. While this change has not reduced the overall cost of the scheme, it has reduced electricity bills by ~£62. Second, the scope of the WHD has been expanded but now the cost of the scheme is recovered through unit rates rather than the standard charge, reducing costs for low-usage customers and increasing costs for high-usage households. Finally, the ECO scheme has been scrapped, with support for energy-saving measures now being funded from taxation through the government's Warm Homes Plan. Carbon taxes and gas prices have also risen, but these increases do not alter the overall picture of Net Zero-related items being the biggest driver of higher electricity system costs.

Impact on consumer energy debt

The impact of high energy costs is felt by domestic consumers as well as businesses. Data from Ofgem, reproduced in Figure 13, shows that total consumer debt and arrears are soaring.[41]

Figure 13: *Total consumer debt and arrears (£bn). Source: Ofgem.*



Total debt has more than doubled from just over £0.53bn in 2018 to £1.19bn in early 2026. Arrears have risen even more sharply going up more than sixfold from £0.56bn to £3.6bn over the same period. The cost of this debt is recovered from other customers through an entry in the price cap, £26.67 ex-VAT in Jan–Mar 2026.

41 Ofgem, "Debt and arrears indicators", 27 June 2025. (link)

Impact on transport costs

The impact of Fuel Duty on petrol and diesel costs is considerable. According to the RAC, **the wholesale cost of petrol is only about 35 per cent of the pump price**. Taxes in the form of Fuel Duty (33 per cent) and VAT (17 per cent) make up half the pump price. **The wholesale price of diesel represents 38 per cent of the pump price** with Fuel Duty coming in at 29 per cent and VAT at 17 per cent.[42]

These costs impact ordinary consumers in two ways. First, **the direct cost makes everyday activities such as driving to work or going shopping more expensive.** Leisure activities such as a driving staycation or road trips are also made much more expensive by Fuel Duty.

Second, consumers are also impacted indirectly by the cost of Fuel Duty. **All physical goods that are transported around the country are made more expensive by high Fuel Duty.** Moreover, high transport costs make Britain less attractive as an investment destination.

| 42 RAC, "Fuel Watch", accessed 10 November 2026. (link)

4. Potential impact of EU Reset

Main points

- ETS linkage is sold as an £800m saving for exporters. But the same Government-approved analysis shows the economy taking a £3.5–8bn hit from avoidable carbon taxes.
- Dynamic alignment means the UK is merely consulted, with Brussels deciding and the European Court having the last word.
- Joining the EU electricity market signs Britain up to a totally unachievable 42.5 per cent renewables target for total energy.

The EU and UK are in the midst of negotiations to reset their post-Brexit relationship. There are several elements to this negotiation including aligning the UK and EU ETS and British participation in the EU electricity market.[43]

UK-EU ETS linkage

The British Government has claimed that UK-EU ETS linkage will save British exporters £800m because they will not have to pay into the EU CBAM scheme.[44] This claim arises from a 2024 Frontier Economics report that justified the UK-EU ETS linkage on the basis that lower carbon prices in the UK ETS could lead to British businesses paying £0.2–0.8bn into the EU budget as CBAM costs over the period 2026–2030.[45] The £0.2bn figure was based on British carbon prices being £13/t lower than EU levels and the £0.8bn estimate was based on the gap between UK and EU prices widening to £31/t.

However, **the claimed benefits are an illusion**. The same Frontier Economics paper undermined its own argument by analysing the impact of lower British carbon prices on Treasury tax revenues if the ETS schemes remained separate. They calculated that if the £13/t gap persists, the Treasury would forgo £3.5bn in revenues over the period 2025-2030 and £8bn if the gap widens to £31/t. In other words, if the gap persists at £13/t, British business would be better off to the tune of £3.5bn in avoidable ETS taxes; if the gap widens to £31/t, the amount would be £8bn. Both these savings to the whole economy far exceed the alleged cost to exporters of £0.2–£0.8bn. This demonstrates that the claimed benefits of UK-EU ETS alignment are illusory.

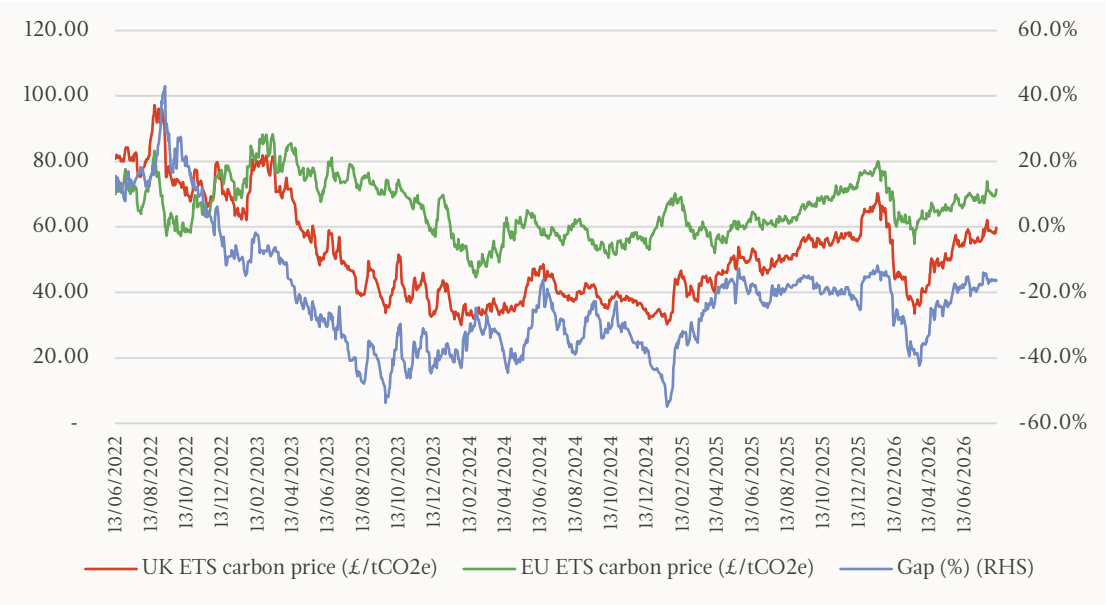
To emphasise the point, **for most of the time the UK ETS has been in place, British carbon prices have been lower than those in the EU** as shown in Figure 14.

43 Cabinet Office, "UK-EU Summit Explainer", 19 May 2025. (link)

44 Cabinet Office, "UK-EU Summit Explainer".

45 Frontier Economics, *Linking UK and EU carbon markets*, 6 August 2024. (link)

Figure 14: *UK and EU ETS carbon prices (£per tonne CO2e) and gap (%). Source: TradingView.*



The green line shows the UK carbon price (UKA1!) in £ per tonne CO_2e and the orange line shows the EU carbon price (ECF1!) adjusted by the exchange rate between the pound and the euro so also in £ per tonne CO_2e.[46] After falling from a premium, British carbon prices fluctuated in a range of roughly 20–50 per cent below EU prices from April 2023 to late December 2024. Then the gap widened and had reached almost 55 per cent in mid-January 2025. Then rumours of linking the UK and EU schemes began to surface and the gap closed to less than 13 per cent by late May 2025. The gap has since fluctuated but has averaged around 24 per cent in the first half of 2026. **If UK-EU ETS linkage goes ahead, it is to be expected that British carbon prices will converge towards EU prices and to close the gap prices will need to rise by around 32 per cent to meet EU levels.** This increase will impact the whole economy by increasing wholesale electricity prices, the cost of industrial heat, flights, and potentially other sectors such as road transport and domestic heating if the EU scheme is expanded under ETS2.[47]

The Common Understanding between the EU and UK says there would be dynamic alignment of UK and relevant EU ETS rules. This means **the UK would be consulted in the early stages of any proposals to change the ETS rules, but importantly the UK would not participate in the decision-making process.** The agreement will be subject to a joint governance mechanism, but crucially the dispute resolution mechanism will be subordinate to the Court of Justice of the EU and EU law. Any agreement should also provide for "an appropriate financial contribution from the United Kingdom" to support the EU's costs in this policy area.[48]

British participation in EU electricity market

The Common Understanding also sets out the parameters to explore the UK's participation in the EU's internal electricity market. It is proposed that the UK be allowed to participate in the European

46 Data from TradingView. (link)

47 European Commission, "ETS2 buildings, road transport and additional sectors", accessed 10 November 2026. (link)

48 European Commission, "A renewed agenda for European Union – United Kingdom cooperation and common understanding", 19 May 2025. (link)

Union's electricity platforms and the UK will commit to dynamic alignment with the relevant EU rules.[49]

However, there are several potential negative impacts of British participation in the EU internal electricity market. First, the EU negotiating mandate calls for dynamic alignment with EU laws promoting renewable energy.[50] This includes setting an indicative global target for the share of renewable energy in gross final energy consumption to ensure the UK is not put in a more advantageous position than EU member states. **This is a reference to the EU's third Renewable Energy Directive (REDIII) that calls for a renewable energy target of 42.5 per cent by 2030, with an aspirational goal of 45 per cent.**[51] **This is an unrealistic target because the UK is not on track to achieve anywhere near that level of renewable energy**.[52] British renewable share has risen steadily from 16.8 per cent in 2016 to 22 per cent in 2025. Extrapolating the trend sees the share rising to 25 per cent by 2030, 17.5 percentage points short of the target. This puts Britain at risk of fines if it fails to achieve the unachievable target and thus adds to the pressure to pursue renewables even more aggressively.

Second, **the agreement risks making Britain a supplicant to the EU in electricity supply.** The UK's gas-fired generation fleet is ageing and most nuclear power plants are scheduled to close over the coming years which means that the UK's firm power capacity is set to fall sharply.[53] In addition, net imports of electricity over the interconnectors are on a rising trend.[54] Greater reliance on interconnectors to Europe to keep the lights on instead of building new firm power plants puts Britain in a very weak position. We need look no further than France's threat to cut power to Jersey in a dispute about fishing rights to see the risk this poses.[55] Energy independence is a matter of national security as well as economic prosperity.

49 European Commission. "A renewed agenda for European Union – United Kingdom cooperation and common understanding".

50 EUR-Lex, "Recommendation for a council decision authorising the opening of negotiations on UK participation in the EU internal electricity market", 22 December 2025. (link)

51 EUR-Lex, "Directive (EU) 2023/2413 of the European Parliament", 18 October 2023. (link)

52 DESNZ, "Energy trends: UK total energy, Table ET1.3".

53 David Turver, "Coal Not Cold", *Eigen Values*, 5 April 2026. (link)

54 DESNZ, "Energy Trends: UK Electricity" ET5.2 July 2026.

55 BBC, "France threatens to cut power to Jersey amid fishing row", 4 May 2021. (link)

5. Impact of UK CBAM

Main points

- A border carbon tax cannot protect industries that have already closed.
- UK CBAM hits simple products such as imported bars and billets but leaves imported cars and aircraft parts untouched, damaging British competitiveness.
- Britain's last ammonia plant is gone. CBAM will raise fertiliser costs and make British food more expensive and less competitive than imports grown with cheaper inputs.

It is worth briefly covering one domestic carbon tax which has yet to come into effect. **The UK Carbon Border Adjustment Mechanism (CBAM) is a new tax designed to ensure that carbon-intensive goods imported into the UK face a comparable carbon price to that paid by manufacturers producing the same goods in the UK.** The CBAM will apply from 1 January 2027 to businesses importing more than £50,000 of specified goods from the aluminium, cement, fertiliser, hydrogen, and iron and steel sectors.[56] The CBAM only applies to simple products with specific commodity codes, meaning that complex products such as cars, aircraft, or their components are excluded from CBAM.[57]

The CBAM is supposed to protect basic industries from overseas competition with lower carbon taxes—so-called carbon leakage. However, such a policy can only be effective if there is domestic industry left to protect. The destruction wrought on these industries has been detailed extensively in the Prosperity Institute's *Destroying the Foundations* report.[58] We can consider two specifically.

Ammonia

Ammonia is a key ingredient in the manufacture of nitrogen fertiliser. Britain's last ammonia plant closed in 2023 due to high energy costs and now fertiliser is made using imported ammonia which will be subject to CBAM.[59] The CBAM will not protect the now non-existent ammonia industry but will instead push up the costs of fertiliser, thus making food more expensive. This will make domestic produce (grown using expensive imported fertiliser) less competitive than imports because the imported food (grown with cheaper fertiliser) will not be subject to CBAM.

Aluminium

Britain now makes very little aluminium, with the remaining primary smelter having a capacity of

56 HMRC, "Carbon Border Adjustment Mechanism", 26 November 2025. (link)

57 HM Treasury and HMRC, "Consultation on the introduction of a UK CBAM", Consultation Outcome, Annexe B, 21 March 2024. (link)

58 Whitton, *Destroying the Foundations*.

59 NFU, "CF Fertiliser announces closure of Billingham ammonia plant", 26 July 2023. (link)

48,000 tonnes, or about 4 per cent of total consumption.[60, 61] However, basic aluminium products such as bars, rods, wires, plates, tubes, and pipes imported from abroad will be subject to CBAM. This means that British manufacturers of complex automotive and aerospace components from aluminium will face extra CBAM costs, but imports of similar components will not face equivalent costs because complex products are exempt from CBAM, drastically undermining the ability of British firms to compete.

In effect, CBAM will increase costs and decrease the competitiveness of what remains of British industry without saving our energy-intensive basic industries because many of them have already closed. It should not be implemented.

60 Alvance, "How primary aluminium is made in Lochaber", 11 February 2026. (link)

61 Next MSC, "UK Aluminium Market", accessed 10 November 2026. (link)

6. The benefits of abolishing carbon taxes

Main points

- Abolishing the UK ETS, CPS, and CCL main rates would cut energy users' bills by £7.2bn a year, at a gross cost to the Exchequer of £4.2bn. This is equivalent to over £250 per household, including around £60 directly off household energy bills.
- Energy users would gain almost £2 for every £1 of ETS receipts the Treasury gives up, because carbon costs lift the price of all electricity, not just gas-fired power. Long-run GDP would benefit by £5.7bn a year (up to £7.4bn in an upper estimate).
- Even on cautious assumptions, the savings from ETS repeal far outweigh the EU CBAM charges British exporters would face, leaving Britain's energy users at least £10.4bn better off over 2026–34, after deducting exporters' CBAM costs on our high estimate.

We must now ask: what would the economic benefits be to households, businesses, and the economy as a whole from abolishing the carbon taxes covered in this paper?

We have chosen not to consider the benefits of Fuel Duty abolition. Although it has become a carbon tax, it is of a different kind to the others under consideration in that it does not relate directly to energy bills. It is also likely that, even in a future scenario of widespread abolition of Net Zero commitments, Fuel Duty would be outside the scope of such reforms or would be revised along with other road and vehicle-related taxes, especially as EVs increase their share of the market. Given the importance of Fuel Duty to high-productivity sectors (as discussed above), it would be sensible for a future government to use some of the economic benefits outlined in this chapter to eventually reduce Fuel Duty, stimulating those sectors even further.

This chapter focuses on the economic benefits of repealing the CCL, the CPS, and the ETS, and refutes the suggestion that abolition of the UK ETS would leave Britain worse off due to increased exposure to the EU CBAM. As we are making the case for an abolition scenario, we have also not considered the possible effects of the UK CBAM once it comes into effect. All figures are annual and in 2025 prices unless otherwise stated.

Who benefits from abolition?

Lower bills for energy users

Abolishing the CCL, CPS, and UK ETS would cut bills for energy users by £7.2bn a year, while the Exchequer would give up £4.2bn in receipts. Energy users would therefore save £3bn more than the Treasury loses.

As explained in Chapter 3, the gap arises because the wholesale price of electricity is mostly set by gas-fired plants. The gap here is smaller than the £4.6bn upper bound in Chapter 3 for two reasons. First, although we use a carbon cost of £25/MWh as earlier stated, we assume here that gas sets the electricity price 85 per cent of the time rather than 100 per cent of the time. Second, we estimate approximately £0.8bn of extra CfD payments: as prices fall, generators on CfD would receive higher top-up payments to reach their strike price. Energy users fund these through CfD

levy and we have assumed these rises in Table 1.[62] A carbon charge on gas lifts the price of all electricity, including power from nuclear, wind, solar, and other generators that pay no carbon costs. Removing the charge lowers the whole wholesale price, so bills fall by more than the tax collected. Table 1 shows how this relief would be distributed.

Table 1: *Relief to energy users from abolishing carbon levies (per year, 2025 prices and carbon costs). Figures may not sum due to rounding.*

Levy	Receipts forgone	Household relief	Public sector and business relief	Total relief to energy users
UK ETS: power	£1.2bn	£1.3bn	£2.2bn	£3.4bn
UK ETS: other sectors	£1.2bn	£0bn	£1.2bn	£1.2bn
CPS	£0.4bn	£0.5bn	£0.8bn	£1.3bn
CCL main rates	£1.4bn	£0bn	£1.4bn	£1.4bn
Total	**£4.2bn**	**£1.7bn**	**£5.5bn**	**£7.2bn**

Based on ONS figures for 2025, abolishing the UK ETS alone would cost the Exchequer £2.4bn, while bills would fall by £4.6bn. **Energy users would therefore gain almost £2 for every £1 of tax the Exchequer gives up.**

Households would save around £1.7bn a year from the abolition of the ETS and CPS, mainly through lower electricity bills. **This is equivalent to a direct saving of around £60 per household** per year, consistent with the £66 of carbon taxes in the average household electricity bill identified in Chapter 3.

The remaining £5.5bn would go to businesses and the public sector. £2.9bn of this would come from cheaper electricity which is shared in proportion to electricity use: industry £1.4bn, commercial users £1.2bn, the public sector £0.3bn, and agriculture £0.1bn. The other £2.6bn would go to firms that pay the CCL (£1.4bn) and ETS outside the power sector (£1.2bn) directly, mainly in heavy industry. These costs are usually passed on to consumers and taxpayers through higher prices and taxes, and so removing these costs ultimately represents a saving to households as well.

In total, the £7.2bn of relief is equivalent to over £250 per household per year, spread across energy bills and lower prices elsewhere.

For a more detailed breakdown of these figures, see the Annex.

Long-run GDP boost

Cheaper energy for business would also raise long-run GDP, returning part of the cost to the Exchequer.

Lower energy costs encourage firms to invest in more capital equipment, pay higher wages, and create more jobs. **Based on our central estimate, businesses (excluding the public sector) would save £5.2bn per year, raising long-run GDP by approximately £5.7bn a year in a central**

62 The cost of CfDs and other green initiatives for energy users, and the benefits and necessity of their abolition is covered in *Good Money After Bad.*

estimate, consisting of £0.9bn from extra investment and £4.8bn from more hours worked. Given the current average tax take of 36 per cent of GDP, this would return approximately £2.1bn a year to the Treasury (see the Annex for the method).

An upper bound estimate yields a long-run GDP boost of up to £7.4bn.

Offsetting Treasury costs with Net Zero cuts

If so desired, after the projected post-abolition £2.1bn in tax receipts, the remaining £2.1bn of the £4.2bn Treasury loss could be almost entirely recouped by cuts to day-to-day Net Zero spending. The Annex lists £8.3bn of potential Net Zero savings, £1.8bn of which could come from day-to-day savings in line with the current Government's fiscal rules, and some non-nuclear capital spending cuts could also be undertaken to supplement this.

The compensation made to energy-intensive businesses for CPS and ETS costs (£0.2bn) would no longer be needed once those taxes have been abolished. £0.8bn would be saved by ending EV subsidies. The Treasury would save £0.6bn by scaling back on international climate finance. Furthermore, by restructuring DESNZ, abolishing the Climate Change Committee, and cutting the Energy Catapults, there would be additional savings of £0.2bn. All these together would add up to £1.8bn a year. In combination with tax revenue due to higher economic growth, this would amount to 90 per cent of the Treasury cost of carbon tax abolition, leaving just £0.3bn to cover (see Table 2).

Separately, scaling back on the non-nuclear components of GB Energy would reduce capital spending by £1.2bn a year. Although this would not offset the remaining current budget cost for the purpose of the fiscal rules, it would reduce borrowing, leaving the overall public finances £0.9bn better off (see Table 2).

Some of the costs are already planned for as the Government plans to remove the CPS in April 2028—beyond this period, the cost falls to £3.8bn with day-to-day savings from Net Zero spending and broad economic growth covering 95 per cent of the cost.

Table 2: *Covering the cost to the Exchequer (£bn per year, central estimate). Figures may not sum due to rounding.*

	Current budget effect	April 2028 budget effect
Lost CCL, CPS, and ETS receipts	-£4.2bn	-£3.8bn
Tax from additional growth (central estimate)	£2.1bn	£1.8bn
Day-to-day Net Zero savings	£1.8bn	£1.8bn
Remaining budget cost	**£0.3bn**	**£0.2bn**
Scaling back GB Energy	£1.2bn	£1.2bn
Overall fiscal improvement	**£0.9bn**	**£1.0bn**

Would EU CBAM charges undo the gains of ETS repeal?

As shown in Chapter 4, the Government's case for ETS linkage rests on avoiding EU CBAM charges on British exports. The same objection could be raised against repealing the scheme: if the UK ETS were abolished, EU importers of British goods would become fully liable for CBAM, making affected British goods less competitive in the EU.

Strictly speaking, the charge is not paid by British firms but by the EU importer, who must buy CBAM certificates priced in line with the EU ETS for the carbon embedded in the goods. In practice, however, much of the cost would fall on British exporters, who would lower prices to stay competitive and would have to supply verified emissions data.

With UK-EU ETS linkage reportedly already agreed by Prime Minister Andy Burnham, it is vital that we calculate whether the losses of CBAM exposure outweigh the benefits of ETS repeal.[63] Our estimates assume that British exporters bear the full charge rather than share it with EU buyers. This is a deliberately cautious assumption.

Even so, **the savings from repeal substantially outweigh the CBAM costs.** On our central estimate, CBAM costs borne by British exporters would rise from £0.4bn in 2026 to £0.9bn in 2034, when the EU CBAM is fully phased in, totalling £5.4bn over 2026–34 in our central estimate, with £9.4bn as a high estimate. By contrast, repealing the UK ETS would save British energy users £19.8bn over the same period, as shown in Table 3. **Therefore, even under the high estimate, the savings from ETS repeal would leave energy users £10.4bn better off. In a central estimate, the saving would be around £14.4bn.**

Table 3: *Savings from UK ETS Repeal vs EU CBAM Costs to UK exporters. Selected years shown; totals cover every year from 2026 to 2034.*

Year	Saving from UK ETS repeal	CBAM cost to UK exporters (central)	CBAM cost to UK exporters (high)
2026	£3.9bn	£0.4bn	£0.7bn
2028	£2.6bn	£0.4bn	£0.8bn
2030	£1.6bn	£0.6bn	£1.1bn
2034 (fully phased in)	£1.6bn	£0.9bn	£1.5bn
Total 2026–34	**£19.8bn**	**£5.4bn**	**£9.4bn**

There are two parts to the charge: industrial goods and electricity. On industrial goods, the EU CBAM will phase in gradually as the EU withdraws free allowances, reaching £0.48bn by 2034. The steel industry would bear the brunt, accounting for 79 per cent of the 6.4MtCO_2e embedded in covered exports. On electricity exports, there would be an immediate and steady charge of £0.39bn a year, based on the EU default emissions factor for Britain of 0.43tCO_2/MWh.

The trade-off is clear. On our central estimate, the savings from UK ETS repeal would be nearly ten times the CBAM cost in 2026 and more than 3.5 times as large over 2026–34. By 2034 they would still be nearly twice as large. Even on our highest estimate of CBAM costs, the savings from repeal are greater in every year through 2034. The gap narrows over time because gas is projected to set electricity prices less often in future. If new gas capacity keeps gas at the margin for longer, the saving from repeal will stay larger for longer. None of these figures includes the wider growth benefits of cheaper energy set out in Chapter 6.

The cost of EU CBAM is therefore not a reason to link with the EU ETS. Abolishing the UK ETS, bringing forward the planned removal of the CPS, and abolishing the CCL main rates would deliver far larger gains to British energy users and the wider economy.

63 Danielle Keen, "The Day in Trade: Emissions trading scheme linkage agreed, Burnham in Berlin and French minister says UK can 'come back, anytime' to EU", Chartered Institute of Export & International Trade, 8 October 2026. (link)

7. Conclusion

Main points

- A government seeking economic growth and genuine cost-of-living relief would abolish the CCL, CPS, and ETS, avoid the UK CBAM, and look to reduce Fuel Duty.
- The current Government's commitment to Net Zero levies and the EU Reset will only drive up costs for British energy users.

Government-imposed carbon taxes have increased the cost of energy and electricity over many years. Higher energy prices have had a disproportionate impact on sectors that are involved in producing commodities, manufacturing goods and moving physical goods around the country. High energy prices have reduced demand and resulted in overall economic stagnation.

The obvious answer to this malaise would be to roll back carbon taxes and to make energy cheaper and stimulate economic growth. Instead, successive governments have doubled down, first by considering the CBAM which will push up costs and reduce competitiveness and second by resetting the relationship with the EU. UK and EU ETS linkage will increase UK carbon costs and reduce domestic flexibility because of dynamic alignment to EU rules. Participation in the EU electricity market signs Britain up to unattainable EU renewables rules and risks making Britain a supplicant to the EU in electricity supply.

Instead of working on policies that will further increase the burden on businesses, the Government should be doing the opposite. The Climate Change Levy and Carbon Price Support mechanism should be abolished along with the UK ETS. This will reduce Treasury revenue by £4.2bn per year. However, the benefit to the economy will be larger because carbon taxes on electricity have the impact of pushing up the wholesale prices from other sources of generation.

We estimate that bills for energy users would fall by £7.2bn a year, representing a saving equivalent to £250 per household, including around £60 directly off energy bills. This would result in a long-run GDP gain of £5.7bn in a central estimate, and up to £7.4bn in an upper estimate. The savings from ETS repeal meanwhile would exceed EU CBAM costs faced by exporters by at least £10.4bn between 2026 and 2034, with a central estimate of £14.4bn.

Moreover, reduced carbon taxes will bear down on inflation and have a positive impact on growth of high-productivity sectors. In the fullness of time, these proceeds of growth could be used to reduce Fuel Duty to stimulate further growth and reduce the cost of physical goods. The UK CBAM should also not be implemented. It will raise costs, reduce competitiveness, and fail to protect the industries it is designed to protect since they are already being destroyed by domestic energy policy.

The new Prime Minister, Andy Burnham, has an opportunity to roll back carbon taxes as part of his plans to tackle the cost of living.[64] Only time will tell if he takes his opportunity.

64 Felicity Hannah and Emer Moreau, "PM admits cost of living help is not enough and hints at further support", BBC, 12 August 2026. (link)

Annex: Methodology for calculating the benefits of abolishing carbon taxes

Overview

In Chapter 6, we estimated the economic benefits of abolishing the CCL, the CPS, and UK ETS. We considered these questions:

1. Who receives the relief that comes from abolition of these taxes?
2. What would be the cost of abolishing these taxes to the Exchequer?
3. How would abolishing these taxes impact long-run economic output as well as the public finances?
4. Would the EU Carbon Border Adjustment Mechanism (EU CBAM) undo any gains that may arise from the abolition of carbon taxes in Britain?

We exclude subsidy-related levies such as Renewables Obligations (ROs) and Contracts for Difference (CfD) as well as Fuel Duty. Welfare and distributional effects are also outside the scope of this report.

Data

Table 4 lists the core inputs to the model.

Table 4: *Core model inputs*

Input	Value	Source
UK ETS receipts 2025	£2.443bn	ONS, Environmental taxes[65]
CCL receipts including CPS, 2025	£1.8bn	ONS, Environmental taxes
CPS receipts	£0.44bn	Centre for British Progress[66]
Carbon cost on gas-fired power, 2025	£25/MWh	Ember[67]
CPS rate	£18/tCO_2	HM Treasury[68]

65 Office for National Statistics, "Environmental taxes".
66 Centre for British Progress, "Cut bills & boost electrification by removing carbon price support", 22 October 2025. (link)
67 Ember, "European electricity prices and costs".
68 HM Treasury, "Budget 2025", 28 November 2025. (link)

Input	Value	Source
Implied UK ETS price	£48.8/tCO_2	Derived from row below
Emission intensity of gas power	0.374 tCO_2/MWh	DESNZ emission factor 0.183/CCGT efficiency 48.9% (DUKES)[69]
Share of hours gas sets the price	85% (2024), 16% (2030/31)	House of Lords[70], Centre for British Progress[71]
EU ETS price	€87.6/t (range is from €60–145)	Market prices; £1 = €1.17
Tax receipts as a share of GDP	36.3%	OBR, March 2026[72]
UK households	28.6 million	ONS, Families and households 2024[73]
GVA; household consumption	£2,561bn; £1,706bn	ONS[74]
Non-domestic electricity price	£195/MWh	DESNZ Quarterly Energy Prices[75]
Household electricity price	£340/MWh	£850 ex-VAT bill at 2,500 kWh (see Chapter 3)
Electricity demand	252.5 TWh (households 94 TWh and Industry 76.7 TWh)	DESNZ, Energy Consumption in the UK 2025[76]

How the £7.2bn of relief is derived

The relief consists of four parts.

The fall in electricity bills

The wholesale electricity price is currently set by gas-fired plants for 85 per cent of the time. Every generator must receive that price. By removing the carbon charge on gas, the price of electricity is reduced significantly. We follow the method from the Centre for British Progress to derive our gross saving:

> *Gross saving = Electricity Demand × carbon cost per MWh of gas power × share of hours gas sets the price*

The £25/MWh splits into £18.27 from UK ETS and £6.73 from CPS (£18/t*0.374t/MWh). Given that gas sets the electricity price for 85 per cent of the time and 252.5 TWh of demand, the gross saving is £3.92bn from the UK ETS and £1.45bn from CPS. This brings the total fall in electricity bills to £5.37bn.

69 DESNZ, "Greenhouse gas reporting: conversion factors 2025", 10 June 2025. (link)
70 House of Lords Library, "Electricity prices in Great Britain", 1 June 2026. (link)
71 Centre for British Progress, "A budget for progress", 25 November 2025. (link)
72 OBR, "Economic and fiscal outlook – March 2026", 3 March 2026. (link)
73 ONS, "Families and households in the UK: 2024", 23 July 2025. (link)
74 ONS, "UK National Accounts, The Blue Book time series", 30 October 2026. (link)
75 DESNZ, "Gas and electricity prices in the non-domestic sector", accessed 10 November 2026. (link)
76 DESNZ, "Energy Consumption in the UK 2025", 25 September 2025 (link)

Extra CfD Payments

Generators on CfDs are paid according to fixed strike price. Thus, when wholesale price falls, their top-up payments increase by the same amount below the strike price. In 2025, they produced 14.2 per cent of demand (i.e. 35.8 TWh). Therefore, top-ups rose by about £0.76bn (calculated as: 85 per cent*£25/MWh*35.8 TWh).[77] Bill payers fund this rise because the CfD levy is on their electricity bills and it is netted off, leaving a net power-sector saving of £4.6bn (£3.36bn from the UK ETS and £1.24bn from CPS). These extra CfD payments are assumed in Table 1 in Chapter 6.

Who receives electricity savings

Net savings are shared in proportion to energy use. As households use 37.2 per cent of electricity, they will receive £1.71bn in relief. The remainder is split between business and the public sector (collectively receiving £2.89bn). We see this split in Table 5:[78]

Table 5: *Distribution of electricity savings to businesses and the public sector (£bn per year)*

User	Electricity use (TWh)	Share of non-household use	Saving (£bn)
Agriculture	3.9	2%	£0.1bn
Public sector	15.5	10%	£0.28bn
Commercial	62.4	39%	£1.14bn
Industry	76.7	48%	£1.4bn
Total	158.5	100%	£2.9bn

Taxes paid by businesses

Businesses outside the power sector directly pay UK ETS and the CCL main rates (£1.8bn of CCL receipts minus £0.44bn of CPS = £1.36bn). Therefore, the relief is equal to the receipts forgone and goes directly back to businesses. Power-sector ETS costs are estimated through assuming CPS and the ETS fall on the same tonnes, therefore they equal CPS receipts * (£48.8/£18) = £1.19bn. This leaves £1.25bn for other sectors. Altogether, the direct taxes are worth £2.61bn.

In total, businesses and the public sector receive £5.5bn (£2.89bn+£2.61bn) and households receive £1.71bn. This brings the overall total to £7.21bn. The Exchequer forgoes £4.24bn of tax receipts. Older renewable generators, hydro and nuclear cover the £2.97bn outside the CfD scheme, which lose the carbon element of the price they are paid. This value is below the £4.6bn upper bound noted in Chapter 3 because it assumes that gas sets electricity prices 85 per cent of the time and CfD generators are kept whole by higher top-ups. The total is worth £252 a year per household with a direct household saving of £60. Repealing UK ETS alone gives up £2.44bn of receipts and cuts bills by £4.61bn, so energy users gain £1.89 for every £1 of tax.

How the £5.7bn long-run GDP gain and £2.1bn tax return are derived

Our growth estimates are long-run and supply-side only. We assume firms produce output based on energy, labour, capital, and materials. Labour responds to real after-tax wages, and capital adjusts until its return matches the global rate. We do not account for a demand boost, and we do not assume tax rises.

77 Low Carbon Contracts Company, "CfD Historical Data", accessed 9 November 2026. (link)

78 DESNZ, "Energy Consumption in the UK 2025".

There are £5.22bn of business savings, consisting of £2.61bn of electricity savings after excluding the £0.28bn public-sector share, plus £2.61bn of direct tax savings.

- **More investment:** Investment raises GDP by £0.92bn which arises due to cheaper energy prices raising the return to capital. As a result, firms invest until the return falls back. GDP rises by the ratio of capital to labour income:

  Investment gain = (0.68) × energy substitution elasticity (0.26) × £5.22bn = £0.92bn

- **Labour increase** (more hours worked): We assume business savings are ultimately passed on to workers as higher real wages. The £5.22bn is equivalent to a rise of about 0.34 per cent in total labour income (59.5 per cent of £2,561bn GVA). Because labour supply responds to wages, hours worked rise by about 0.19 per cent (0.55 × 0.34 per cent). Assuming capital grows at the same rate, GDP rises in the same proportion, by approximately £4.83bn:

  Labour gain = 0.55 × £5.22bn ÷ 0.595 ≈ £4.83bn

The total gives £5.74bn a year based on the central estimate, or about £1.10 of GDP for every £1 saved by business.

The above capital-to-labour ratio in the investment formula and labour share in the labour gain calculation are taken from the ONS.[79] Chetty et al. derive a long-run Hicksian elasticity of aggregate hours we use for our labour supply elasticity.[80] Bobbio et al. provide the long-run price elasticity of electricity demand we use.[81]

Savings from cutting Net Zero spending

We have identified £8.3bn a year worth of savings from cutting spending on Net Zero programmes based on the 2025 Spending Review and departmental accounts.[82]

We have selected only those that are suitable for offsetting a loss to tax receipts. Eligibility here largely consists of items that fall within day-to-day spending, grants, and administration and as such are not affected by the Government's fiscal rules.[83]

79 ONS, "Trends in the UK Labour Share: 1997 to 2023", 25 November 2024. (link)

80 Raj Chetty, Adam Guren, Day Manoli and Andrea Weber, "Does Indivisible Labor Explain the Difference Between Micro and Macro Elasticities? A Meta-Analysis of Extensive Margin Elasticities", NBER Working Paper 16729 (Cambridge, MA: National Bureau of Economic Research, January 2011). (link)

81 Emmanuele Bobbio et al, "Price Responsive Demand in Britain's Electricity Market." ECONtribute Discussion Paper 185. Bonn and Cologne: ECONtribute, August 2022. (link)

82 HM Treasury, "Spending Review 2025", 11 June 2025. (link)

83 David Turver, "What To Do About Net Zero", *Eigen Values*, 6 September 2026. (link)

Table 6: *Potential savings from cutting Net Zero spending (£bn per year)*

Saving	£bn a year	Classification	Used as
Energy-intensive industries compensation scheme	£0.23bn	Day-to-day spending; automatically unnecessary once ETS and CPS end	Offset
EV subsidies (Electric Car Grant and related reliefs)	£0.8bn	Day-to-day spending and tax reliefs	Offset
International climate finance (DESNZ)	£0.6bn	Day-to-day spending (aid)	Offset
Restructure DESNZ	£0.14bn	Administration	Offset
Energy Systems and Offshore Renewable Energy Catapults	£0.04bn	Grants	Offset
Abolish the Climate Change Committee	£0.01bn	Administration	Offset
GB Energy (non-nuclear)	£1.2bn	Capital, including equity and loans	Reserve
Ofgem; NESO	£0.11bn	Funded by charges on bills, not the Treasury	Not counted
Warm Homes and Heat Decarbonisation	£2.6bn	Capital, partly loans	Not counted
Carbon capture, usage and storage	£1.9bn	Capital, long-term contracts	Not counted
DfT decarbonise transport; charging infrastructure	£0.6bn	Capital	Not counted
Green hydrogen	£0.1bn	Contracted revenue support	Not counted
Total	**£8.33bn**		

Would EU CBAM charges undo the gains of UK ETS repeal?

In order to calculate whether the benefits of UK ETS repeal would outweigh the costs of increased EU CBAM exposure, we considered the following:[84]

- **On industrial goods:** We calculate embedded emissions by multiplying 2025 HMRC export tonnages to the EU for iron and steel, aluminium, cement, fertilisers, and hydrogen by the EU CBAM default emissions values for each product. We then multiply these embedded emissions by the EU ETS price and the CBAM phase-in share to give the charge.

  CBAM charge on industrial goods = embedded emissions × EU ETS price × CBAM phase-in share

- **For electricity:** Given that most British electricity exports go to the EU (with the remainder going to Norway, which is not distinguished), we multiply the full exports of 12 TWh a year by the EU CBAM default emissions factor for Great Britain (0.43 tCO_2/MWh) and the EU ETS price.

  CBAM charge on electricity = exports × default emissions factor × EU ETS price

We cautiously assume that British exporters bear the costs by lowering the prices of their goods so that they can be competitive in the EU. Low and high cases vary the EU ETS prices and the electricity emissions factor.

84 Figures taken from EUR-Lex, "Commission Implementing Regulation (EU) 2025/2621 of 16 December 2025 Laying Down Rules for the Application of Regulation (EU) 2023/956 of the European Parliament and of the Council as Regards the Establishment of Default Values", Annex III, 31 December 2025 (link); DESNZ, "Quarterly Energy Prices: September 2026", 29 September 2026. (link)

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en/statement_25_1267

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