

Mr. Frans Timmermans
Executive Vice President for EU Green Deal
European Commission

27 October 2022

Dear Executive Vice President for the European Green Deal Timmermans,

Open letter on EU Emissions Trading System reform and the Carbon Border Adjustment Mechanism

As the CEO of the Institutional Investors Group on Climate Change (IIGCC), I am writing to emphasise our strong support for an ambitious and speedy resolution to the ongoing trilogue negotiations on the reform of the EU Emissions Trading System (ETS) and on the new Carbon Border Adjustment Mechanism (CBAM). This letter builds upon our letters sent earlier this year to [Member State Leaders and Ministers](#) and [Commission Executive Vice President Timmermans on the wider Fit for 55 package](#).

IIGCC is the leading European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 375 members, mainly pension funds and asset managers, across 23 countries, with well over €51 trillion in assets under management. We play a leading role in a number of net zero alliances and corporate engagement initiatives, including the [Paris Aligned Investment Initiative](#), [Net Zero Asset Managers Initiative](#), and [Climate Action 100+](#).

Investors support a fair, transparent and effective regime for carbon pricing in Europe, underpinned by an EU ETS and CBAM that maintain high climate ambition and market integrity. Now is the time to incentivise investment in industrial green innovation through robust carbon pricing. Doing so will send powerful market signals to help accelerate investment in decarbonisation in support of the wider Fit for 55 package and its overarching emissions reduction target, as well as the EU's energy security objectives.

An EU ETS with ambitious emission reduction targets is likely to increase market transparency and investor confidence in the low-carbon transition. This should be achieved by an approach which most closely aligns with the overarching goal of 55% greenhouse gas emissions reduction by 2030, which IIGCC feels is best represented by the European Parliament's positions relating to:

- **A strong linear reduction factor¹;**
- **A 'rebasings' reduction of the ETS cap²** to start to bring the cap closer to a value consistent with actual emissions. Doing so at the beginning of the next ETS phase would also send a solid and certain initial market signal.

¹ For example, starting at 4.4% in 2024 and steadily rising to 4.6% by 2029.

² Ideally by 120 million allowances.

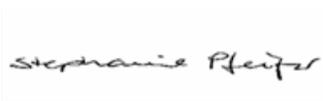
Additionally, a rapid phase-out of free allowances is needed to uphold environmental integrity and therefore investor confidence in the system. It is critical that the CBAM is designed and swiftly implemented as a replacement for the existing EU ETS carbon leakage rules. This includes free allocation which must now be rapidly phased out entirely, as proposed by the European Parliament, in line with the polluter pays principle. Doing so will further incentivise investments into industry decarbonisation. To ensure clarity and robustness in European industry's trajectory towards net zero, there should be no carve outs for specific sectors or companies. Such an approach would also ensure that the CBAM is applied in line with WTO international trade rules, which is critical given the EU's important role in upholding the rules-based international system. Given the strong links between the EU ETS and CBAM, we support concluding negotiations on these two files jointly.

Energy security must remain a key political priority without undermining carbon market integrity. There are clear mutual benefits to acting jointly on energy security and the climate crisis, and as such IIGCC stresses that maintaining the integrity of carbon pricing mechanisms will send a clear investment signal on these twin priorities. Doing so further would strengthen the deployment of complementary solutions like energy efficiency and renewable energies.

Finally, we support diversity of participation in the ETS in order to support liquidity and reduce price volatility, and therefore urge against restricting market access.

IIGCC is deeply committed to supporting the EU in its climate ambitions, in order to ensure that the physical and transition risks posed by climate change are mitigated, and that the economic and financial opportunities offered by new technologies and business models are fully exploited. As the cornerstone of EU climate policy, the EU ETS must send the strongest possible signals to support these objectives. Investors stand ready to discuss directly with EU negotiators the best way to leverage private capital to deliver these aims. Additionally, IIGCC and investors are also seeking to engage major European companies based on our position set out in this letter.

Yours sincerely on behalf of IIGCC,



Stephanie Pfeifer

IIGCC CEO

Contact: spfeifer@iigcc.org

Disclaimer: *This letter was developed in collaboration with a number of IIGCC members but does not necessarily represent the views of the entire membership, either individually or collectively.*