

The Rt Hon Boris Johnson MP
Prime Minister
10 Downing Street
London
SW1A 2AA

CC: The Rt Hon Rishi Sunak MP, Chancellor of the Exchequer, HM Treasury
The Rt Hon Michael Gove MP, Chancellor of the Duchy of Lancaster
The Rt Hon Lord Frost, Minister of State, Cabinet Office, Co-Chair of the EU-UK Joint Committee
The Rt Hon Kwasi Kwarteng MP, Secretary of State, BEIS
The Rt Hon Anne-Marie Trevelyan MP, Minister for Business, Energy and Clean Growth, BEIS
Kemi Badenoch MP, Exchequer Secretary, HM Treasury
The Rt Hon Alok Sharma MP, COP26 President

14th April 2021

THE IMPORTANCE OF LINKING THE UK ETS WITH THE EU ETS AHEAD OF COP26

Dear Prime Minister,

On behalf of over 40 leading industry bodies, we urge the UK Government to start the process of linking the new UK Emissions Trading System (UK ETS) with the EU's Emissions Trading System (EU ETS) as soon as practicable. We welcome the commitment to 'serious consideration' which the UK and EU have given to linking their respective carbon pricing systems in the Trade and Cooperation Agreement (TCA), and believe that linkage negotiations should begin as soon as possible.¹

Linkage will benefit both parties, and allow the UK to reach Net Zero faster and more cost effectively.² The advantages of linkage are clear in terms of liquidity, price discovery, and the ability to attract abatement from across Europe rather than just the UK. It would also create a level playing field in terms of carbon pricing, avoiding competitive distortions, and leading to aligned cost implications for industry across the UK and the European Economic Area (EEA). This would be beneficial for international commerce, minimise the risk of carbon leakage, and lower the costs of achieving Net Zero, thereby facilitating trade and investment between the Parties as per the objective of the Chapter on energy in the TCA.

Linking the UK and EU ETS ahead of COP 26 would reaffirm the UK and the EU as climate leaders, and show that the UK remains a strong advocate for international carbon markets. A linking agreement with the EU would display UK commitment to Article 6 of the Paris Agreement during a year in which the UK hopes to finalise the Article 6 framework as a key outcome of COP 26, thus ensuring that a post-Brexit UK is no less bold in its ambition to lead by example in respect to the international climate agenda.

Linkage requires two crucial elements; political will, and alignment on environmental ambitions. Given the similarities between the UK and EU's carbon trading regimes, there should be no two Emissions Trading Systems that are easier to link. Linkage constitutes an international trade mechanism that retains full use of revenues and ability to set the majority of the rules. This would ensure that such a mechanism is beneficial both for UK's economy and sovereignty.

¹ UK & EU: "*Trade and Cooperation Agreement*" (2020), Article 7.3

² IETA & Carbon Pricing Leadership Coalition: "*The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges*" (2019)

A linkage between the UK and EU ETS would align decarbonisation pathways, create a stable environment for investment into low-carbon alternatives, and show continued UK leadership in tackling climate change.

We would be delighted to discuss our views on this issue at more length. We very much look forward to hearing from you.



Confederation of British Industry



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United Kingdom
Petroleum Industry Association
UK Petroleum Industry
Association



The Association for
Decentralised Energy

The Association for Decentralised
Energy



Carbon Capture & Storage
Association



Electricity Association of
Ireland



Irish Business & Employers
Confederation



British Glass
British Glass



Chemical Industries
Association



British Ceramic Confederation



Cerame Unie – The European
Ceramic Industry Association



Confederation of Paper
Industries



Confederation of European Paper Industries



Eurometaux
European Association of Metals

Eurometaux: The European Association of Metals



Confederation of British Metalforming



European Lime Association



Mineral Products Association
The Trade Association for the Aggregates, Asphalt, Cement, Concrete, Dimension Stone, Lime, Mortar and Silica Sand Industries

Mineral Products Association



techUK



The Food & Drink Federation



Foodchain & Biomass Renewables Association



Catapult Energy Systems



The Institutional Investors Group on Climate Change
The Institutional Investors Group on Climate Change



Futures Industry Association



International Swaps & Derivatives Association



Association of European Energy Exchanges



European Federation of Energy Traders



International Emissions Trading Association



London Energy Brokers' Association



Global Infrastructure Investor Association



Climate Markets & Investment Association



Aldersgate Group



THE PRINCE OF WALES'S
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Corporate Leaders Group Europe