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.

 $^{^{\}rm 1}$ 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.









The Food & Drink Federation





Association of European Energy Exchanges





Aldersgate Group





Eurometaux: The European Association of Metals

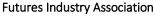


Mineral Products Association The Trade Association for the Aggregates, Asphalt, Cement, Concrete, Dimension Stone, Lime, Mortar and Silica Sand Industries Mineral Products Association



Foodchain & Biomass Renewables Association









European Federation of Energy Traders



Global Infrastructure Investor Association



THE PRINCE OF WALES'S CORPORATE LEADERS GROUP The Princes of Wales Corporate Leaders Group



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Safe, Efficient Markets

International Swaps & Derivatives Association



International Emissions Trading Association



Climate Markets & Investment Association

Climate Markets & Investment Association

