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Rt Hon Alok Sharma, MP
Secretary of State for Business, Energy and Industrial
Strategy
Department for Business, Energy and Industrial
Strategy
1 Victoria Street
London
SW1H 0ET

14 May 2020

By email

**Could you please reply by
email to the ETG Secretariat
at john.craven@etg.uk.com**

Dear Secretary of State,

INDUSTRY'S URGENT NEED FOR CLARITY ON UK CARBON PRICING POLICY TO OPERATE FROM 1 JANUARY 2021

- The purpose of this letter is to draw your attention to industry's urgent need for clarity on the UK carbon pricing policy to operate from 1 January 2021, 12 months having now elapsed since the publication of the Government consultation.
- Whatever arrangements are to be introduced from 1 January 2021, there is a rapidly closing window for timely completion of the necessary preparations, both for Government and industry.
- The UK Government interest in a new UK Emissions Trading System (UK ETS) linked to Phase 4 of the EU Emissions Trading System (EU ETS) requires detailed negotiation with the EU. Such negotiation must be a high priority in the Brexit transition discussions due to be completed by 31 December - and it is clearly important that the process is not side-tracked by the Covid-19 emergency.

Background

As a business-led organisation comprising some 60 organisations, the UK Emissions Trading Group (ETG) has worked closely with the UK Government since 1999 on emissions trading policy and implementation issues and also on UK domestic climate change measures.

Following the EU Referendum, the ETG reviewed options for UK measures to drive carbon reductions once the UK had left the EU. These options were shared with Ministers and officials, and subsequently reflected in our response to the Government consultation published 12 months ago on 'The future of UK carbon pricing'.

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We were encouraged to see that the UK negotiating mandate with the EU committed to carbon pricing as a decarbonisation tool and would be open to considering a link between any future UK ETS and the EU ETS if it suited both sides' interests. It was noted that linking could provide for mutual recognition of allowances enabling their use in either system; establish processes through which relevant information would be exchanged; and set out essential criteria that would ensure that each trading system is suitably compatible with the other to enable the link to operate.

Such ambitions point up the need for urgent ongoing detailed technical co-operation between the UK and the EU to ensure the continued integrity and efficient functioning of a new UK ETS and its linkage to Phase 4 of the EU ETS, due to commence on 1 January 2021.

Furthermore, it is important that the UK, which holds the COP26 Presidency, is seen to be pursuing - in an active and timely manner - market mechanisms which will be the major focus for negotiations under Article 6 of the Paris Agreement.

Finally, the UK had proposed a Carbon Emissions Tax (CET) in the event of a no-deal Brexit to replace the EU ETS. In Budget 2020 it was announced that a consultation on a revised CET would be forthcoming, in case this was needed to replace the ETS, even as an interim measure. This consultation has not yet appeared.

We look forward to your response.

Yours sincerely,

A handwritten signature in blue ink that reads "Paul Dawson".

Paul Dawson
Chair UK ETG