



Paul Dawson

ETG Secretariat

Golden Cross House
8 Duncannon Street
London WC2N 4JF

Tel: 020 7484 5274

Email: john.craven@etg.uk.com

Web Site: www.etg.uk.com

1 March 2021

By email

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

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

The Rt Hon Jesse Norman MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Rd
London SW1A 2HQ

Lord Frost CMG
Minister of State for the Cabinet Office
& UK chair of the UK-EU Partnership Council
Cabinet Office
70 Whitehall
London SW1A 2AS

Dear Ministers,

Linking the UK and EU Emissions Trading Schemes

The UK Emissions Trading Group¹ (UK ETG) can see many advantages - and no reason to delay - the commencement of negotiations on linking of the UK and EU Emissions Trading Schemes (ETS). This is supported by our members who cover over 90% of UK ETS industry and power generation CO₂ emissions.

On the basis of the provisions of the December 2020 EU-UK Trade and Cooperation Agreement and the UK Government's Energy White Paper (see Annex 2 of this letter), the UK Government is also in favour of linking the UK ETS and the EU ETS.

¹ The UK Emissions Trading Group (UK ETG) is the principal stakeholder forum to facilitate communication, discussion and resolution on all aspects of emissions trading between commerce, industry, regulators and Government in the UK. Further details can be found in Annex 1.

Given this alignment, we ask the UK government to demonstrate its ‘*serious consideration*’ agreed under the terms of the 2020 EU-UK Trade and Cooperation Agreement and commit to negotiations now with the European Union with a view to linking the two ETS systems. An Agreement before the 30 April 2022 deadline for both UK and EU ETS compliance would have a number of additional practical advantages for regulators and market participants alike - including preventing the need for any emergency market intervention in the case of a runaway UK market price.

We set out below five advantages of linking and the need for a declaration on meaningful negotiations:

1. Linking the two systems would allow UK Installations and Aviation Operators to be part of a larger more liquid market, give better carbon price discovery, and allow UK operators to have a level playing field on carbon with their largest market and, for some sectors, greatest source of competition.
2. Linking the two systems would also reduce cross-channel electricity market carbon price distortions that increase costs and contract duration optionality including the severe limitation of future electricity contracts for UK electricity customers.
3. As President of the UNFCCC COP 26 meeting later this year in Glasgow, the UK is looking to improve international climate cooperation. Given that the design of the UK ETS closely mirrors that of the EU ETS, the EU is the obvious linking partner to showcase a tangible example of international climate policy cooperation.
4. A declaration to meaningful negotiations to link the UK and EU ETS systems as soon as possible would assist with the market formation of the UK ETS. At present UK installations are experiencing regulatory uncertainty with the implementation of the UK ETS:
 - the auction reserve price of £15 has been increased to £22 per allowance which is also remarkably close to the EUA 2-year average price demonstrating Government interest in a broad price alignment with EU ETS allowances.
 - while an automatic floor has been applied, its corollary - a ceiling price - has only discretionary application under the Cost Containment Mechanism (CCM).
5. Such a declaration would also limit the need for near future UK ETS market intervention as there would be a strong market expectation of price synchronisation between both systems.

We look forward to your response and would be happy to discuss further.

I am copying to The Rt Hon Alok Sharma MP, COP26 President; The Rt Hon Anne-Marie Trevelyan MP, Minister of State for Business, Energy and Clean Growth BEIS; Frans Timmermans, Executive Vice-President of the European Commission for European Green Deal; Maroš Šefčovič, Vice-President of the European Commission for Interinstitutional Relations and Foresight; and Simonetta Sommaruga, conseillère fédérale, Département fédéral de l'Environnement des Transports, de l'Energie et de la Communication, Switzerland.

Yours sincerely,



Chair, UK Emissions Trading Group

ETG SUBSCRIBING MEMBERS - 2021

The ETG is a pan-industry business-led organisation founded in 1999 when it set out outline proposals which formed the basis of the first UK ETS. It comprises some 60 organisations - industrial companies, trade associations and service providers - representing 90% of UK emissions. We have a long history of working closely with the UK government, both on emissions trading and other UK domestic climate change measures, and more recently on the UK government's plans for carbon pricing and reduction post Brexit.

Corporate members

BP
 British Steel
 British Sugar
 BSI Management Systems
 BVQI UK
 Carbon Clear
 Cemex
 Centrica Energy
 c:sense verification
 Catalyst Commodities
 ConocoPhillips
 DNV Certification
 Drax Power
 Uniper
 EDF Energy
 Energy Intelligence Centre
 EN-Vision UK
 E.ON UK
 ERM CVS
 Evantage
 ExxonMobil
 Hanson UK
 Hurley Palmer Flatt
 InterGen (UK)
 Jacobs
 LRQA
 Lucideon CICS
 Lux Nova Partners
 National Grid
 NERA Consulting
 Phillips 66
 Planet and Prosperity
 Redshaw Advisors
 RWE Generation UK
 Schneider Electric
 SGS United Kingdom
 Shell U.K.
 SLR Consulting
 Swan Energy
 Tarmac
 Tata Steel
 Tech UK
 Total

Trade Association members

Association for Decentralised Energy
 British Ceramic Confederation
 British Glass Manufacturers' Confederation
 British Plastics Federation
 Chemical Industries Association
 Confederation of British Metalforming
 Confederation of Paper Industries
 Construction Products Association
 Dairy UK
 Energy UK
 Food and Drink Federation
 The Maltsters' Association of Great Britain
 Mineral Products Association
 Oil & Gas UK
 Scotch Whisky Association
 Society of Motor Manufacturers and Traders
 Tech UK
 UK Petroleum Industry Association
 UK Steel
 Wood Panel Industries Federation

References to Government Policy on Linking

In the December 2020 EU-UK Trade and Cooperation Agreement², both UK Government and the EU negotiators agreed the importance of carbon pricing in Article 7.3. However, the Agreement goes further in Article 7.3 Paragraph 6 binding parties to not only cooperate on carbon pricing, but to give serious consideration to linking their respective carbon pricing systems:

6. The Parties shall cooperate on carbon pricing. They shall give serious consideration to linking their respective carbon pricing systems in a way that preserves the integrity of these systems and provides for the possibility to increase their effectiveness.

The UK Government's Energy White Paper³ also refers to linking in that '*the UK is open to linking the UK ETS internationally in principle and we are considering a range of options, but no decision on our preferred linking partners has yet been made.*'. However, since the white paper predates the final EU-UK Trade and Cooperation Agreement text, we assume that the EU-UK agreement marks a further evolution of the Government's position on linking.

² Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part (Dec 2020)

³ Energy White Paper - Powering our Net Zero Future (December 2020 - CP 337)