

Ursula Von der Leyen
President of the European Commission
European Commission

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14th April 2021

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

Dear President Von der Leyen,

On behalf of over 40 leading industries bodies, we urge the EU to start the process of linking the EU Emissions Trading System (EU ETS) with the new UK Emissions Trading System (UK 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

We believe that an EU ETS linked with the UK strengthens the integrity of, and confidence in, Europe's carbon market. Central to this belief is the principle that all allowances are treated equally, and that they remain fungible between installations and preferably across borders. Linkage will benefit both parties, and allow the EU 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 a larger area. 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 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.

Linking the UK and EU ETS ahead of COP 26 would reaffirm the UK and EU as climate leaders, and demonstrate strong advocacy for international carbon markets. A linking agreement between the UK and EU would show commitment to Article 6 of the Paris Agreement during a year in which the EU hopes to help finalise the Article 6 framework as a key outcome of COP 26, thus ensuring that the EU can lead by example in respect to the international climate agenda.

Linkage requires two crucial elements; political will, and alignment on environmental ambition. 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. The European Commission has gained valuable experience through linking the EU ETS and Swiss ETS, and this linkage agreement will be instrumental in providing a broad framework for similar negotiations with the UK.

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 once again align decarbonisation pathways, create a stable environment for investment into low-carbon alternatives, and show continued European 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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Cerame Unie – The European Ceramic Industry Association



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Confederation of European Paper Industries



Eurometaux: The European Association of Metals



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European Lime Association



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



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