



**Paul Dawson**

ETG Secretariat  
Golden Cross House  
8 Duncannon Street  
London WC2N 4JF

Tel: 020 7484 5274

Email: [john.craven@etg.uk.com](mailto:john.craven@etg.uk.com)  
Web Site: [www.etg.uk.com](http://www.etg.uk.com)

19 July 2023

By email

**Could you please reply by email to the ETG Secretariat at [john.craven@etg.uk.com](mailto:john.craven@etg.uk.com)**

Rt Hon Grant Shapps MP  
Secretary of State for the Department for Energy  
Security and Net Zero  
1 Victoria Street,  
London SW1H 0ET

Rt Hon Kemi Badenoch MP  
Secretary of State for Business and Trade  
Old Admiralty Building, Admiralty Pl, London SW1A  
2DY

Dear Secretaries of State,

### **Linking the UK and EU Emissions Trading Schemes**

This letter sets out the ETG case for the early linking of the UK and EU Emissions Trading Schemes. The time for linking is now.

#### The ETG

The UK Emissions Trading Group's (ETG) members represent a high proportion of the UK businesses covered by the UK Emissions Trading Scheme (UK ETS) and, until 2020, the EU Emissions Trading System (EU ETS). The ETG provides a forum for discussion and resolution of all aspects of emissions trading and associated policy matters; and uniquely it provides a regular forum for communication to take place between commerce and industry, the UK Government, Devolved Authorities, and regulators.

#### Seize the negotiating opportunity to link now

ETG members have noted the UK Government's negotiations earlier this year with the EU resulting in the Windsor Framework aimed at resolving the practical difficulties with trading under the Northern Ireland protocol. We believe that such negotiations can set a precedent for the UK and EU to streamline trade further by fulfilling their commitments in the Trade and Cooperation Agreement to "give serious consideration to linking their respective carbon pricing systems".

#### Negotiate linking now – likely future divergence will make linking more difficult

Linking the UK and EU emissions trading schemes will allow installations as well as aviation operators and shipping companies to be part of a larger more liquid market, giving better carbon price discovery and allowing participants to manage their carbon risks more effectively and cheaply while providing a level playing field on carbon costs and sector competition within our largest respective linked markets. Establishing a link sooner rather than later further enables the mutual development of the schemes to address important questions on the caps to deliver on net zero, free allocation, aviation and expansion to new sectors, i.e. the overall framework for carbon removals - and avoids divergence that will make linking harder in future.

## Avoid unnecessary UK costs on administration of the EU Carbon Border Adjustment Mechanism (CBAM)

As noted in the ETG response to the HMT / DESNZ Consultation on Addressing Carbon Leakage Risk to Support Decarbonisation, linking the UK and EU emission trading schemes would render the UK outside of the scope of the EU CBAM, in the same way that Switzerland is already exempt. This would enable UK businesses producing goods covered by the EU CBAM to avoid the significant compliance costs starting on 1 October 2023 when exporting to the EU, including manufacturers in Northern Ireland trading with the Republic of Ireland.

In the absence of linking, while CBAM declarants may avoid paying the border adjustment for goods exported from the UK – under mutual recognition provisions with regard to the equivalence of their respective carbon pricing systems - they would nevertheless still face 100% of administrative costs to calculate the “taxable value” of carbon. They would also have to submit regular CBAM reports including information on the total quantity of each type of goods, the total embedded emissions, the total indirect emissions, and the carbon price due in a country of origin, taking into account any rebate or other form of compensation available. From the year 2026 CBAM declarations will also have to include copies of verification reports as well as the total number of CBAM certificates **to** be surrendered, taking into account the carbon price paid in the country of origin for the declared embedded emissions.

### The time for Linking is now

For all these reasons, the time for linking is now. Linking now allows the UK and EU to adopt a coordinated approach to carbon pricing, decarbonisation and leakage. Failing to deliver on the UK and EU commitment to explore linking is sending a negative worldwide message. Linking would be major pillar in the UK and EU’s joint ambition to extend carbon pricing globally, thereby promoting a positive signal to other jurisdictions enhancing the credibility of the UK and the EU as climate leaders.

I am copying to Rt Hon Graham Stuart MP.

We look forward to your response.

Yours sincerely,



**Paul Dawson, Chair UK ETG**