

24 April 2017
By email

The Rt Honourable Nick Hurd, MP
Minister of State
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H 0ET

RE: THE UK'S PARTICIPATION IN THE EU EMISSIONS TRADING SYSTEM

Dear Minister,

We, the CEO and Chairman of the International Emissions Trading Association (IETA), are contacting you regarding the implications of Brexit on the EU Emissions Trading System (EU ETS). IETA takes very seriously the implications of Brexit on climate policy and emissions trading, as there are many risks to UK businesses and their European counterparts if the UK were to no longer participate in the EU ETS. With this in mind, we would like to convey our thoughts on Brexit and carbon markets for your direct consideration.

- As the Brexit negotiations will likely require the UK to leave the EU by March 2019, we are concerned about potential market disruption from the timing mismatch. IETA strongly recommends that the UK continue its participation in the EU ETS, particularly through the current phase ending in 2020.
- Many companies in the UK and Europe purchase up two to three years in advance to hedge compliance costs. Therefore, we urge that the UK and the EU agree early in their deliberations on a transitional phase for the UK's participation during the remainder of phase 3 of the EU ETS.
- We believe that an early agreement between the UK and the EU on maintaining the UK's participation in Phase 3 of the EU ETS is critical in order to prevent serious negative impacts to meeting the UK's carbon budget, to UK operators' financial performance, and to the overall environmental objective of the carbon market.
- We strongly recommend that the UK closely align its overall climate policies with the EU, including rules governing Phase 4 of the EU ETS that will be finalised at the culmination of the Brexit negotiations.

In this regard, we would be pleased to meet with you at any time to develop any of the issues listed in this letter and to hear from you on your latest thinking of these matters. We have included an annex to this letter for DBEIS officials with our additional views on this matter. A copy of this letter has also been sent to Rt Hon David Jones, MP at the Department for Exiting the European Union.

With sincere regards,

Dirk Forrister
President and CEO, IETA

Paul Dawson
Chairman of the Board, IETA

Annex for DBEIS



Carbon trading is an important instrument for enabling energy and industrial firms in the UK and Europe to meet their climate targets at least possible cost, ensuring environmental performance whilst reducing concerns about industrial competitiveness. It is beneficial for businesses across the EU and the UK to have access to a common carbon price of the ETS, because it reduces the overall compliance cost by allowing reductions to be achieved at the most cost effective locations across participating countries. These features become even more important when viewed in the context of the UK's long-term climate goals, where concerns about economic efficiency and competitiveness grow even stronger.

IETA appreciates the UK's important leadership in advancing a vision of linkages between carbon markets. We have shared the UK's recognition that international markets would be essential in mobilizing business to deliver the technology and finance required to achieve the 2°C level of climate protection. We applauded the UK when it launched the first national carbon market in Europe, because it helped inspire its European colleagues to adopt the EU ETS as the centrepiece of Europe's climate policy. The UK has promoted carbon market solutions at the United Nations as well as in China, Korea, Brazil, Mexico and numerous other countries. Last year, it signed the New Zealand Declaration on Carbon Markets. We hope the UK will maintain this leadership.

The EU ETS is a unique environmental program, in that it is driven by policy – including the phasing of reductions over pre-defined multi-year target periods. The current “Phase 3” of the ETS runs until the end of 2020. UK-based operators would face serious disruptions if the UK were no longer a participant in the EU ETS. Access to emissions registry accounts, meeting existing emissions trade contracts with EU counterparts, and settling open trades would all be put at risk if the UK no longer maintained its participation in the EU ETS. However, we are concerned that there is inadequate time before the end of Phase 3 for the UK to implement parallel provisions. Contracts worth tens of millions of pounds and many carbon market jobs in London and across the country would be put at risk, because EU ETS operators trade in advance of the next compliance year. This is why we strongly encourage the UK to stay in the EU ETS throughout Phase 3 and to seek an early agreement in the EU negotiations on this matter.

To mitigate this, IETA is developing a list of elements of EU ETS implementing legislation that will need to be addressed by the UK in the form of statutes for both EU ETS Phase 3 (2013-2020) and Phase 4 (2021-2030). We would be delighted to share this work with your team at DBEIS. In addition, we are evaluating further options for the UK to continue its participation in the EU ETS.

We recognise that the UK government might be willing to see the final elements of Phase 4 review before making its decision on the future arrangements after 2020. We are also aware of issues pertaining to the single market and trade, but believe that continued participation in EU ETS beyond 2020 would enable the UK to maintain economic competitiveness and meet its carbon budget at the lowest cost.

About IETA

IETA is a not-for-profit association dedicated to climate protection and establishment of effective market-based trading systems for greenhouse gas emissions. It is the leading voice of the business community on the subject of carbon markets. IETA's over 130 member companies include some of the world's leading corporations in oil, electricity, cement, aluminium, chemical, and other industrial sectors; as well as leading firms in the data verification and certification, brokering and trading, legal, finance, and consulting industries. Close to 75% of our members have offices in the UK, as London is now the capital for carbon commerce, where approximately 90% of carbon trading in the EU ETS currently takes place.