

7th September 2017

Certainty on Carbon Pricing

Dear Chancellor,

I am writing to make the case for rapid and clear decision-making on the UK's approach to carbon markets and pricing, both in the Budget and as part of the UK's exit from the European Union. Carbon pricing mechanisms may be somewhat below the radar politically, but they have huge implications for markets, industry, infrastructure investment and of course for the UK meeting its legally-binding emissions reduction obligations. Decisive action now will help to maintain certainty and avoid the manifestation of some very significant risks.

UK Carbon Price Support

In the Spring Budget you set out your intention to provide "further details on carbon prices for the 2020s" in the Autumn Budget. As Sandbag has emphasised before, the Carbon Price Support will be central to delivering the government's coal phase-out commitment, with the benefits that this brings for reducing air pollution and carbon emissions. We urge you to extend the CPS at least to 2021/22.

Coal emissions have fallen by over 80% since 2012, reducing total UK CO₂ emissions by 18% in just four years (see [attached briefing note](#)). The Carbon Price Support and coal phase-out have made the UK an international leader, with France now committed to a carbon tax and Germany investigating one. Many major UK firms support the continuation of the Carbon Price Support. Some other points in its favour:

- Reducing or removing the Carbon Price Support may lead to coal becoming cheaper than gas, which would result in a huge increase in coal generation, and consequently to a huge increase in CO₂ and non-CO₂ pollution.
- The CPS is also continuing to incentivise renewables development, by reducing payments under Contracts for Difference and thus easing the pressure on future financing of low carbon generation.
- The CPS helps incentivise energy efficiency and demand-side response.
- And of course the CPS also brings in a significant annual revenue to the Treasury of around £1 billion (£1049 million in 2015, the latest year for which updated figures are available).

Given the uncertainty created by Brexit for the UK's membership of the EU Emissions Trading System (ETS), we endorse the government's intention to "target a total carbon price"

to give businesses greater clarity on the total cost of carbon pollution over the coming decade. This total price should escalate upwards from €30, to match the increasing emissions reductions required under the UK Climate Change Act, and to match the increasing carbon pricing of jurisdictions around the world, including China, Canada, many US states, and others.

EU Emissions Trading System: post-Brexit membership

Sandbag (among many others) is concerned about the lack of decision-making on Britain's future membership of the EU ETS, and the substantial risks this indecision poses both to the UK and to the rest of the EU.

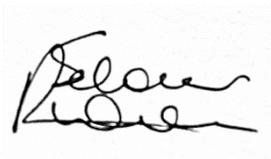
We recognise that this is a complex matter which is consequential on some bigger-picture Brexit decisions. However, if no decision is made and legislated for by the time the UK leaves the EU, we could (for example) be left with a situation in which UK installations crash out of the ETS, but all allowances originating from UK installations remain in it. This would have many and various consequences - for instance: flooding the EU carbon market with unused allowances, thereby undermining both UK and EU efforts to address climate change; losing the City of London's central role in the £multi-billion carbon market; and a substantial loss of ETS auction revenue to the UK Exchequer.

So far, there is no clarity about how this situation would be managed, and the lack of clarity bears large risks both for the integrity of the ETS overall and for the future of participating UK businesses.

The UK has for many years been an international leader on climate policy. With decisive action now, it is still possible to maintain that leadership position.

I am copying this letter to the Secretary of State for Business, Energy and Industrial Strategy.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rachel Solomon Williams', written over a light grey rectangular background.

Rachel Solomon Williams
Managing Director, Sandbag