

20 October 2017

Dear Chancellor,

The importance of carbon pricing for a competitive, productive and sustainable UK economy

We welcome the recent publication of the Government's Clean Growth Strategy. It builds on the UK's leadership position in greening our economy and ensuring energy is at the heart of the UK's industrial strategy.

It reaffirmed that the UK has often taken bold leadership positions to tackle climate change. The UK's Climate Change Act in 2008; the decision to phase out unabated coal-fired power stations by 2025; and the significant increase in the amount of wind and solar in the UK's energy mix.

An equally critical decision, but perhaps less celebrated, has been the UK's leadership on carbon pricing. This started with the UK's role as a key proponent of the EU Emissions Trading Scheme, including the recent reforms to strengthen it, and the decision to introduce a unilateral Carbon Price Floor since 2013. Pricing carbon in this way has provided a striking example of what can happen when a meaningful carbon price is imposed on fossil fuel generation. For example, Carbon Price Support is the major factor why in 2016 coal generation emissions fell by 59% and UK emissions reduced by almost 6%, compared to 2015.

We therefore welcomed the Government's commitment in the clean growth strategy to outline future plans for carbon pricing this autumn and we urge you to ensure the UK has a robust and strong carbon price as we believe carbon pricing will:

- Continue to significantly reduce carbon emissions reductions from the power sector as businesses redirect their investments away from fossil fuels and into cleaner energy options;
- Deliver the government's coal phase out by 2025 without further regulation;
- Accelerate the transition away from subsidies for low-carbon technologies to a market which can support investment in low carbon generation;
- Incentivise low carbon flexibility needed to keep the electricity system secure and in line with meeting carbon budgets.

Momentum is building globally to put a meaningful price on carbon. With other countries such as France and the Netherlands now looking to replicate the UK in having a carbon price. So where once there might have been caution about the UK going further than others; it's now clear that other large industrial nations are following the UK in the wake of the Paris Agreement.

Carbon price clarity beyond 2021 is now required

At the moment the industry only have sight of the carbon price to April 2021. This is welcome but we now need to understand the trajectory of the UK's carbon price into the 2020s, particularly as without it generators have less clarity as they seek to deliver a new generation of efficient gas plant in the next Capacity Market Auction in February 2018.

The Budget announcement on 22nd November presents an opportunity for the Government to reaffirm its commitment to carbon pricing by providing clarity on the UK's carbon price in the 2020s. We urge you to continue the UK's leadership and build on the Clean Growth Strategy.



CC: Claire Perry MP, Minister for Climate Change
Andrew Jones MP, Exchequer Secretary to the Treasury