



Rt Hon Sajid Javid MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

29 October 2019

Dear Chancellor,

Need for carbon pricing clarity at the first 'Net Zero Budget'

We are writing to you to urge you to maintain the UK's robust approach on carbon pricing. The prolonged uncertainty regarding the UK's carbon pricing future as it exits the EU reiterates the need for the upcoming Budget – at whatever final date is chosen – to provide some much-needed certainty in a potentially turbulent period for businesses across the UK.

With its approach to carbon pricing, the Powering Past Coal Alliance and its Net Zero commitment, the UK has been a leader in global efforts to meet the ambition of the Paris Agreement by phasing out coal, as well as incentivising low carbon energy development and helping drive cost reductions. This leadership should continue at the first 'Net Zero Budget'.

As outlined by the Committee on Climate Change in its recent advice to the UK Government on its carbon pricing future¹, reaching net zero *“will require a strong and rising carbon price, in order to induce changes to both short-term behaviour and longer-term investment decisions”*. Importantly, in the run up to COP26 in Glasgow in November 2020, it is important that the UK continues its global leadership and is not perceived to waver on its commitment to tackling climate change.

Given the uncertainty over the UK's exit from the EU there is little clarity on what the carbon pricing mechanism will be in the near term and this is already impacting on the forward pricing of carbon in electricity markets. Therefore, providing **certainty and stability is crucial when the Government sets the Carbon Price Support (CPS) rate for April 2021 and beyond**. Any reduction in CPS rates made in isolation of wider clarity on the UK's carbon pricing arrangements post EU exit risks sending a negative signal to low carbon investors and undermining the continuing need for a strong and rising carbon price.

¹ UK Committee on Climate Change (2019) – [Future of UK Carbon pricing: Letter](#)

In addition to the considerations on the CPS, the Carbon Emissions Tax (CET) – that will replace the EU ETS in the event that the UK leaves the EU without a deal – will need to be set out for 2020 as soon as possible. To minimise the potential divergence between the CET and the EU ETS over 2020 it is vital that the **CET is set a level for 2020 that is comparable with recent EU ETS pricing.**

We look forward to measures to help the UK meet its leading ambitions at the first 'Net Zero Budget', including certainty and stability on the CPS. Further clarity on the UK's carbon pricing future following a successful linking agreement between a UK ETS and the EU ETS to be in place for 2021 should be provided as soon as is practicable.

CC

Simon Clarke MP, Exchequer Secretary to the Treasury

Rt Hon Andrea Leadsom MP, Secretary of State for Business, Energy and Industrial Strategy

Rt Hon Kwasi Kwarteng MP, Minister of State for Business, Energy and Industrial Strategy

Lord Ian Duncan, Parliamentary Under Secretary of State for Business, Energy and Industrial Strategy

Rt Hon Claire Perry O'Neill MP, UNFCCC COP26 President