



THE PRINCE OF WALES'S
CORPORATE LEADERS GROUP

15 December 2016

Dear Minister,

The EU Emissions Trading System (ETS) was designed to be the cornerstone of EU emissions reduction policy in 2005. It is currently the world's largest carbon market and has inspired other carbon pricing actions across the globe. The EU should rightly be proud of its world-leading market-based approach to emissions reductions, but the ETS needs urgent and decisive attention to restore it to its cornerstone role.

As you know, the EU ETS is now being revised for the next phase, covering the period from 2021-2030. As part of this, it is crucial that the historic surplus of emissions allowances in the system is dealt with, restoring the price and political signal the ETS should provide. Failure to do so will weaken EU messages on climate change and will lead to a growing number of other policies filling the gap. These make the policy landscape more complicated and costly for business, inhibiting investment confidence.

Corporate leaders understand the importance and difficulty of getting public facing policy right. The EU ETS has evolved from lessons learned and we have seen emissions fall, far more so than in other countries and regions that lack a carbon price. European climate policy, backed by the ETS, has encouraged some changes in behaviour and efforts to improve efficiency in industrial processes. Europe is showing leadership at a time when other countries are joining the carbon pricing system. This leadership needs to be protected.

However, some elements of the system have focused companies' efforts on maximising their free allocation rather than getting in shape for a zero carbon economy. Now, we need take the opportunity presented by the current review to ensure the EU ETS is fit for purpose.

If the ETS is to be restored to its cornerstone role, then **the fundamental issue of oversupply needs to be addressed by resetting the baseline to current emissions. The sooner the ETS can be put on a more secure footing the better.** The EU needs to demonstrate ambitious domestic action as a matter of urgency in line with the Paris Agreement and consistent with review and ratchet requirements in 2018-2020.

We hope that your discussions and recommendations in the coming weeks and further in to the New Year reflect this ambition.

Yours sincerely,

Philippe Joubert

Chair, The Prince of Wales's Corporate Leaders Group*

*The Prince of Wales's Corporate Leaders Group (CLG) brings together 24 companies. Communications from the CLG benefit from the input of the entire group but do not necessarily require the formal agreement of all member companies.