

# Global companies call for more action

– to support a strong and predictable carbon price

We, the companies that have signed this declaration, reaffirm our intention to proactively and collectively combat climate change through our business activities.

Clear and predictable long-term carbon price signals are widely considered the most cost-efficient way to mitigate global warming and to stimulate climate-friendly decision-making of businesses and consumers. They efficiently incentivise investments in low-carbon solutions at lower cost of capital, leading to more sustainable jobs and economic growth.

A key question is whether the price signal can play a bigger role to drive *additional EU efforts required to live up to the Paris Agreement*.

*Our companies support strengthening the EU Emissions Trading System (EU-ETS) that should be a strong driver of emission reductions. The reform package recently agreed is an important step in that direction. The pace of withdrawal of excess allowances towards the market stability reserve has been accelerated, which has increased trust in a possible allowance shortage in the mid-2020s. These steps have already shown some effect on allowance prices over the last months. This, however, cannot be taken for granted, particularly considering complex interactions to be handled (or accurately set up) between ETS and ambitious targets of the Clean Energy Package. Therefore, higher ETS prices in the short term also means increasing volatility that shows the need for additional tools to secure expectations of economic actors.*

*To complement the EU ETS, our companies support the introduction of a European or regional carbon price floor in the power sector and the reinforcement of cooperation between governments to introduce a carbon price signal, also in non-ETS sectors (notably transport and buildings).*

## **‘Carbon price floor’ (CPF) applied to electricity generators**

Pragmatically, governments could implement initiatives based on concrete models that have already proved effective and discuss their coordination at regional levels. The UK carbon price floor serves as an example as it has successfully led to carbon reductions, coal phase-out and redirection of investments in low-carbon solutions in the power sector, while at the same time adding revenue to foster the low-carbon transition.

The Netherlands seeks to introduce a similar model. Due to high interconnectivity, the group of participating countries should be extended as much as possible to make the initiative more efficient. Over time, more member states could be expected to join the coalition, and the initiatives could be integrated in the EU-ETS framework.

## **Our proposal**

European governments, starting with a group of frontrunners, should cooperate to progressively implement a carbon price floor (CPF) in the power sector to complement an efficient EU-ETS price signal, inspired by the UK example and Dutch government research. Several renewable energy technologies are cost-efficient on market terms when carbon costs are internalised in wholesale electricity prices. A multi-member CPF can secure a credible short and long-term carbon pricing signal to decarbonise the European power sector in a cost-efficient manner. It will do so by eliminating a significant layer of regulatory risk which in turn will reduce the cost of renewables.

A multi-member CPF would reduce revenue uncertainty and thereby help business models and innovation related to the technologies of the energy transition (renewables, energy efficiency, storage, etc.). With robust reform of the ETS, the ETS price would rise above the floor level, and the CPF would hence work as a back-stop against collapsing prices, while still reducing risks. A rising CPF delivers a valuable insurance to guarantee the targets will be met and paves the way to a stronger ambition in line with the Paris Agreement.

## Rising carbon tax on non-ETS sectors, including transport and buildings

Despite a decreasing emissions trend across sectors in Europe, transport, residential and commercial emissions continued to rise over recent years. Quite a few European countries are implementing *carbon taxes that cover a range of fossil fuel usages* in transport and heating. Even though the coverage of emissions is not exhaustive, this is a *significant step towards sending a carbon price signal to the economy as a whole*, not only to the ETS sectors.

Sweden introduced the carbon tax in 1991 and has now reached the highest level in Europe (EUR 120/t). It has significantly reduced GHG emissions without jeopardising national economic growth compared to other economies. Similar taxes have been introduced in France, Finland and Switzerland.

A low-carbon economy requires a shift in the energy model and the redirection of billions of investments. A predictable carbon price is a pragmatic way to stimulate investors', businesses' and consumers' decisions towards emerging clean transport, renewable energy sources for heating, and energy efficiency actions.

As technology evolves, energy needs can be covered by different energy sources. In this context, it is increasingly important that all emissions are under a carbon pricing mechanism providing a level playing field across energy sources (e.g. electric heating with heat pumps is under the ETS, while fossil fuel-based heating is under the Effort Sharing mechanism, with no carbon pricing in place).

### Our proposal

European governments, starting with a group of frontrunners, should cooperate to initiate a trajectory for a rising carbon price on fossil fuels. The rising carbon price should be part of a tax or similar measure on transport and heating fuels paid by all households and businesses.

Significant revenues collected by the governments could be used to mitigate the impacts on most vulnerable consumers but also to foster public policies supporting investments in clean transport and a decarbonised heating/cooling sector.

This consistent package of proposals aims to pave the way to a cost-effective decarbonisation of the European economy which is essential to reconciling competitiveness and sustainable developments.

