CEO Alliance: EU ETS and carbon pricing (short version, communication focus)

We, the CEO Alliance, **strongly support** the **ambition of the EU Green Deal** and of the **Fit for 55% package of the European Commission**. Together with the EU Commission, we have **identified several decisive policy instruments** to achieve the EU's climate targets, e.g. the **EU ETS and carbon pricing,** the **Mobility and Transport Strategy** and the **Renovation Wave.**

Supporting the current discussions in Brussels on **EU ETS and carbon pricing,** we are convinced that a **strong carbon price signal** is one key instrument to achieve the EU's climate targets. The price should be based on emission cap-and-trade schemes as existing and proven approaches (e.g. EU ETS). Since the EU ETS has a limited sector coverage, we strongly support the further development of the EU ETS, to achieve the **2030 targets ("minus 55%").**

In detail, we recommend:

- **Carbon price signal based on cap-and-trade schemes for GHG emissions: The progressive reduction of emission allowances** will result in a **strong carbon price signal** to industry and customers. We do not consider strict top-down price setting (e.g. carbon tax) as helpful. The focus should be on an emission reduction pathway. Overall, we do not consider emission cap-and-trade as a single "silver bullet": for some sectors, we recommend **additional sector-specific instruments**, e.g. funding schemes, renewable energy targets, or fleet emission standards.
- **Sector-specific schemes for Mobility & Transport, and for Buildings:** We support expanding emissions trading to additional sectors, such as mobility & transport (including road transport and shipping) as well as buildings. In the short term, separate sector-specific systems can address differences in terms of maturity of carbon neutral technologies – while in the long run (from 2030 onwards), the systems should converge into a single unified system. Since visible divergent price signals across industrial sectors may lead to the loss of public acceptance, we would recommend ensuring a careful overall steering and coordination in the short-term. In a "net zero carbon future", a cross-sector emission trading system with a common, high carbon price will provide an efficient, effective solution.
- **EU-wide approach:** as a European Alliance of businesses, we recommend an EU-wide perspective, not several parallel schemes for each Member State
- **Short- and long-term options to stabilize carbon price levels:** The carbon price should emerge within the cap-and-trade schemes, driven by demand and supply dynamics. Policy leaders could further strengthen the existing EU ETS, using established instruments, such as the Market Stability Reserve (MSR) and the linear reduction factor (LRF): A careful review of the parameters of these instruments would contribute to stabilizing carbon price signals and to achieving the more ambitious 2030 targets. We also recommend exploring further long-term options, e.g. carbon price floor and ceiling, and assessing their benefits and challenges. An EU-wide carbon price floor increasing over time would provide risk mitigation and long-term planning stability to clean technology investors but it might be challenging in terms of political acceptability. A carbon ceiling would provide a visible signal regarding protection of end customers/ citizens – but it might also be considered as top-down price setting and hence as state intervention.

- **Need for accompanying instruments:** Cap-and-trade schemes are strong instruments, but they should not be viewed as silver bullets to solve all challenges in the run-up to 2050 full decarbonization. Other instruments are also required for a successful transition, e.g. market incentives or technology subsidies (as for renewable power) and performance standards (as CO2 standards for vehicles, minimum mandatory energy efficiency standards for buildings). Hence, we support further instruments, in particular in sectors whose carbon-neutrality technological options are still immature and, hence, have high abatement costs. Also, subsidies that support legacy technologies with high CO2 emissions have to be phased out rapidly.
- **Related regulatory measures:** We recommend to link emission trading schemes and carbon pricing with other measures, i.e. Carbon Border Adjustment Mechanisms (CBAM) to avoid carbon leakage, and to the effort sharing regulation (ESR) and the Energy Taxation Directive for fair distribution of reduction efforts among sectors.

Finally, we emphasize the importance of two key factors for a successful implementation:

- **Industry competitiveness:** A rapidly increasing carbon price might challenge the views of heavy industry sectors (e.g. steel, cement) or the key interests of EU Member States. We recommend supporting the transformation of carbon-intensive industries and of regions relying on coal mining and gas extraction across Europe, through well-targeted instruments.
- **Protection of citizens:** The transition to net zero carbon through carbon pricing, requires a compelling story, considerate implementation and transparent communication to the citizens, to minimize negative impacts on the most exposed segments of societies and avoid the risk of raising social tension. Hence, we recommend using revenues generated by emission trading to give back to citizens and ensure a Just Transition, e.g. via reduction of taxes on low income, or taxes and levies on power and heat.

ABB	AkzoNobel	enel	e.on
Björn Rosengren	Thierry Vanlancker	Francesco Starace	Leonhard Birnbaum
ERICSSON	H2 green steel	IBERDROLA	PHILIPS
Börje Ekholm	Henrik Henriksson	Ignacio Galán	Frans van Houten
SAP	SCANIA	Schneider Electric	VOLKSWAGEN AKTIENGESELLSCHAFT
Christian Klein	Christian Levin	Jean-Pascal Tricoire	Herbert Diess