<u>Consultation on structural options to strengthen the EU Emissions Trading System</u>

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The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output. CoalPro is pleased to respond to this consultation and our comments on each of the options identified by the Commission are set out below, followed by some general remarks.

Option a: Increasing the EU reduction target to 30% in 2020

The EU had made provision for increasing the reduction target to 30%, but only if there is a binding international agreement on climate change. Any such change would need to be accompanied by the necessary legislative procedure to amend the ETS Directive and a renegotiation of the targets adopted under the Effort Sharing Decision. **No such international agreement has been reached and hence the Directive does not permit this option.**

Option b: Retiring a number of allowances in phase 3

The Commission's main concern appears to be that the current economic difficulties have resulted in a fall in the demand for electricity, a fall in carbon emissions and a consequent reduction in the carbon price under the Scheme. However, the purpose of the Scheme was not to achieve any given carbon price but to achieve the reduction in carbon emissions implied by the phase 3 cap at minimum cost. It has been a resounding success. Emissions reductions down to, or below, the level of the cap will be achieved at a cost significantly below what was anticipated. Furthermore, any tightening of the cap will fall disproportionably on the ETS sectors. **There is thus no justification whatsoever for option b as all targets will be met.**

Option c: Early revision of the annual linear reduction factor

The objective behind this decision would seem to be the same as that behind option b, and has the same flaws. The EU is already committed to a review of the annual linear reduction with a view to achieving agreement by 2025. **There is absolutely no justification for bringing this revision forward and it is not what the Member States agreed to.**

Option d: Extension of the Scope of the EU ETS to other sectors

This option has some merit. If there is agreement amongst the Member States to action designed to have an impact, extending the scheme to other sectors would avoid a disproportionate impact on the ETS sectors. In any event, an extension of the Scheme, or the development of phase 4 of the Scheme, should incorporate other sectors. **The option has attractions and should certainly be incorporated into an agreement on phase 4 of the Scheme.**

Option e: Limit access to international credits

Phase 3 of the Scheme was conceived against the background of the EU taking leadership in reducing carbon emissions with the implication that the rest of the world would follow. As such, access to international credits is an integral part of the Scheme. Seeking to limit such access now sends entirely the wrong message and suggests that the EU does not have faith in the international process. **The option would do nothing to address the global challenge. On the contrary, the EU would risk being accused of not trusting international agreements and would set itself on a unilateral path.**

Option f: Discretionary price management mechanisms

As the Commission admits, this option risks undermining the EU ETS, and risks destroying all confidence in the Scheme. The Scheme has not failed. It will achieve precisely what it set out to achieve. Discretionary price management mechanisms go far beyond what the Scheme was designed to achieve – which was NOT to set a carbon price – and present a significant moral hazard that there will be future interventions to achieve whatever is seen as the objective if the day. **The option will create a significant moral hazard and a complete loss of confidence in the orderly operation of the market.**

CoalPro also wishes to make the following general remarks :-

i. The options attempt to address a factor – the carbon price – that the Scheme was never intended to address.

ii. The Commission views the present economic circumstances which have given rise to a low carbon price as “exceptional”. There is no guarantee that the circumstances are exceptional. It should not have escaped the Commission’s understanding that the “exceptional” circumstances being experienced in Europe, and not experienced elsewhere, and the fact that Europe has taken upon itself the mantle of leadership, might be linked. Any of the options put forward by the Commission risk making the present, so-called exceptional circumstances permanent.

iii. The Commission is seeking to increase the carbon price in order to promote low-carbon technologies. However, no amount of tinkering with phase 3 will raise the carbon price to anywhere near the level necessary to make low-carbon technologies viable. To do this would need a price of at least 70 Euros a tonne. All it will do is impose extra costs on Europe's hard-pressed residents and businesses at the very time that they can ill afford it.

iv. The only effect of a higher carbon price under phase 3 will be to cause fuel-switching, at the margin, from unabated coal to unabated gas. This will also impose higher prices on residents and businesses because of the high price of gas. **For example, at current spot prices, the fuel cost of electricity generation from gas in the UK is more than double that from coal.**

v. CoalPro believes that the Commission's attempts to rig the carbon market are fundamentally misconceived. Instead, all efforts, and all of the European Union's political capital, should be engaged on, first, attaining a binding international agreement and, second, concentrating on a longer-term regime for phase 4 and 2030.

Regards

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