Consultation on review of the auction time profile for the EU Emissions Trading System – organisation

The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output.

CoalPro is pleased to be able to respond to this consultation but believes the rationale behind the proposal to be fundamentally flawed and that the proposal itself is misconceived and likely to be economically damaging.

The purpose behind the proposal is stated as being "to ensure orderly functioning of the carbon market". This is thoroughly flawed reasoning. The objective of the ETS is to reduce carbon emissions by reducing the number of carbon allowances available for auctioning in the third trading period. THIS IT HAS DONE. It was not, and is not, designed to set any particular carbon price.

The reason for the fall in the carbon price is, as the Commission rightly states, due to the fall in the demand for carbon allowances as a result of the economic slowdown. This is the natural result of the interplay between demand and supply and illustrates that the market is in fact functioning in a perfectly orderly fashion.

Indeed, it is interference in the market in the way proposed by the Commission that would result in, and not correct a disorderly market. The proposal would achieve precisely the opposite of its stated intention.

The Commission assumes the present economic slowdown to be an exceptional circumstance. This cannot be a given. The economic difficulties faced by Europe, uniquely, may yet persist for many years and cannot be brushed off as being "exceptional". Indeed, by increasing energy prices, the Commission's proposal risks both perpetuating and exacerbating the very circumstances that the Commission describes as "exceptional". The proposal is not just based on flawed reasoning, it will also be economically damaging at the very time when the European economy needs every bit of help that it can get.

The Commission's proposal is particularly disingenuous in that it sets no figures on the number of allowances to be back-end loaded. As such, the consultation itself is flawed as commentators are unable to assess its effects. One can only view the proposal as being intended to allow the Commission to do whatever it sees fit in order to engineer a short-term increase in the carbon price to a level that it considers to be appropriate. This is thoroughly undemocratic and goes well beyond the initial objectives of the ETS.

The proposal is unacceptable in other ways. First, it ignores the implicit increase in the carbon price arising from the sharp increase in fossil fuel prices. At the commencement of the ETS in 2005, oil prices were of the order of $50/bbl since when they have increased to over $100/bbl. This doubling or more of the oil price is equivalent to an increase in the carbon price of around €100/tCO_2 on top of the ETS allowance price.

Second, no amount of tinkering with the ETS allowances in the way proposed by the Commission will be sufficient to engineer an increase in the ETS carbon price to an extent that it will do anything to stimulate investment in low-carbon energy sources. All it will do is result in a switch from coal to gas. Despite the economic slowdown, European gas prices remain stubbornly high due to the oligopolistic nature of gas supply. For example, in the UK, the fuel cost of electricity generation from gas at current spot prices is almost double that from coal. Is it really the Commission's intention to drive European gas consumers, including the electricity generation industry, further into the hands of Gazprom? Could there be a starker demonstration of how the Commission's proposals are strategically as well as economically damaging? It is no wonder that the oil and gas lobby have said that the ETS needs tightening to raise carbon prices!

Third, political agreement on the third phase of the ETS was reached on the basis that there would be no changes unless agreement was reached on a wider global carbon trading approach. No such agreement has been reached.

Finally, it is imperative with any regulatory measure that a consistency of approach be adopted to avoid uncertainty and moral hazard. The Commission has said that its proposal would be a one-off intervention. It has to be said that one can have no confidence that this will be the case.

To conclude, the Commission's proposal is flawed in its rationale, will be economically damaging and brings with it a number of other disadvantages. It should be withdrawn.

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