CoalImp
Association of
UK Coal Importers

Hilda Clarke
EU Emissions Trading System (Review)
Department for Environment, Food and Rural Affairs
Area 4A, Ergon House
Horseferry Road
London SW1P 2AL

30th July 2008

Dear Ms Clarke,

Consultation on the Proposed EU Emissions Trading System from 2013

I am pleased to respond to the DEFRA Consultation on the EU Emissions Trading System (EUETS) from 2013 on behalf of CoalImp – the Association of UK Coal Importers.

CoalImp represents major coal users (including all of the coal-fired generators in Great Britain), rail companies, ports and other infrastructure operators in the coal supply chain. The twenty two members (listed in the attached Appendix) account for the handling, transportation and use of the majority of imported supplies into the country, in turn accounting for around a quarter of electricity produced last year.

Individual CoalImp members will be submitting detailed responses to the Consultation, answering the complete list of questions posed. The purpose of this letter is to focus on a few key issues of major concern.

Global Background

The international use of coal is set to grow dramatically, especially in fast-growing economies such as China. It is therefore essential that cleaner coal technologies and 'sustainable coal' with carbon capture and storage (CCS) are deployed as quickly as possible. Without an appropriate level of commitment from the West, including the UK, it is unlikely that this will happen extensively in developing nations. Proven world coal reserves amount to around 850 billion tonnes[1], equivalent to over 130 years supply at current rates of usage and it is likely that this coal will be used – with or without CCS. There is no doubt that CCS will be required in a global context if there is to be any chance of limiting carbon emissions globally, without which Europe and the UK's own efforts will be irrelevant.

[1] BP Statistical Review of World Energy June 2008

CoalImp is therefore concerned that European and UK energy policy, and all associated detailed policy instruments, are structured to help bring forward investment in clean coal with CCS, alongside other solutions – such as nuclear power and renewables. In the absence of such suitable instruments, in the period of time before a significant tranche of new nuclear capacity can be brought on line, the default option is likely to be a further 'dash for gas'. This would have major implications for the security/price of energy supply but would not produce deep cuts in carbon emissions.

Our consideration of EUETS proposals is therefore against this background and rather than considering the detailed workings of the EUETS, we wish to concentrate on the following two key questions.

Q7 – Do you agree with the proposed method for including CCS? If not, please provide your reasons and evidence.

Yes - CoalImp, like the Government, is strongly in favour of deploying CCS, and therefore believes it should be explicitly brought within the scope of the EUETS. Demonstration of CCS within the EU will also benefit the deployment of CCS internationally. CoalImp believes, however, that additional instruments will be required to bring forward significant deployment of CCS during the third phase of the EUETS. These instruments should be consistent with the EUETS structure, such as contracts for differences from the allowance price, or should be unrelated, such as capital allowances.

Q33 – Do you agree with the UK position that there should not be a system of hypothecation or earmarking of auctioning revenues?

CoalImp strongly disagrees with the UK Government's position on this issue. This position appears to be based on a general matter of principle which risks foregoing a major opportunity for facilitating carbon abatement. One of the main arguments, which has been used to support 100% auctioning of allowances in the power sector, is that benchmarking leads to windfall profits for generators. However, auctioning leads to a windfall profit for Government, in the form of an entirely new tax on electricity consumers. CoalImp believes it is perverse not to use at least some of this revenue to support carbon abatement schemes – and early, pre-commercial deployment of CCS would be an ideal candidate.

The UK Government may have good intentions in terms of supporting low-carbon technology without formal hypothecation, but this certainly cannot be assumed to be the case elsewhere in Europe. Therefore CoalImp supports the EU Commission's proposal that at least 20 per cent of revenues from auctioning should be earmarked for a range of climate, or fuel poverty measures, including CCS.

Yours sincerely

Nigel Yaxley
Managing Director

APPENDIX

CoalImp Membership

Associated British Ports
British Energy Power and Energy Trading Limited
Clydeport
Drax Power Limited
EDF Energy plc
E.ON UK
EWS Energy
Fergusson Group
FirstGBRf
Forth Ports PLC
Freightliner Heavy Haul Limited
Hargreaves Services
International Power Plc
Network Rail
Oxbow Coal Ltd
Port of Tyne Authority
Rio Tinto Alcan
Rudrum Holdings Limited
RWE Trading
Scottish Power Energy Management Limited
SSE Energy Supply Ltd
Welsh Power Ltd