

EIUG represents the energy-intensive sectors of UK manufacturing for which secure, internationally competitive energy supplies are a matter of commercial necessity. EIUG wishes to comment on the broad approach taken in the draft plan, but does not wish to add to sector responses on the detail of the proposed allocations.

It is now evident that the UK is isolated in Europe in proposing an allocation in line with a reduction targets for CO₂ emissions that go beyond our international commitments. Such an approach, if pursued, would leave the UK unnecessarily exposed to whatever cost of carbon emerges in the European market. It is seen as a punishment, not a reward for those industries that have taken early action to reduce emissions.

The competitive impact is not lessened by requiring the bulk of the emissions reductions to be achieved in the power sector, since the costs will be passed on through higher electricity prices and hence impact heavily on production costs in the energy intensive manufacturing sectors, which are exposed to international competition. In contrast, competitor countries such as Germany and Austria are planning to increase the emissions from power generation. It is no accident therefore that forward markets anticipate a substantially larger increase in UK power prices than elsewhere in Europe, with all that implies for the distortion of competition within a single market.

We note that few if any sectors adequately understand the allocation they expect to be given under this plan. Serious questions remain over the principles applied to the treatment of new entrants, plant closure and banking. We believe that more analysis is needed to assess the economic impact of the proposals (this should include sensitivity analysis, covering a wide range of scenarios and prices of carbon) and that DEFRA should be prepared to review the basis of the draft proposals in the light of this analysis.

Many other countries are evidently struggling to complete their plans in accordance with the prescribed timetable. In the event that a number of countries fail to submit plans to the commission by the end of March, or that their plans prove to be manifestly inadequate, it will no longer be credible to maintain that the scheme can start on 1 January 2005 as originally envisaged. EIUG therefore endorses the remarks recently made by a spokesman for the German government that "thoroughness is more important than speed".

DEFRA will be aware that Spain, Finland and other countries are questioning the practicality of their Kyoto commitments now that Russia seems unlikely to ratify the Kyoto protocol. The European Commission Vice-President, Loyola de Palacio, has publicly questioned whether the EU Kyoto target is realistic under the current international circumstances. EIUG does not believe that these questions can be dismissed any longer. We continue to support the theory that emissions trading could be a least cost means of achieving emissions reductions within the EU, but believe a dogmatic adherence to targets and timetables that were determined in expectation of Kyoto having already come into force could cause support for the scheme elsewhere in Europe to collapse. We therefore urge DEFRA to take care that the UK stance does not make such an outcome more likely.