We are writing to make you fully aware of the escalating concern in the industries EIUG represents about the manner in which the government is planning to implement the EU Emissions Trading Scheme (ETS).

The key worry is over the national emission cap – specifically whether it is set in relation to our international commitments or some more ambitious level more in line with the government's self-imposed target of lowering carbon dioxide emissions by 20% by 2010. Our fear is that the government will incline towards the latter, without having fully recognised the risks to industrial competitiveness.

We believe it would be folly for the UK to be alone in the EU in requiring so large a reduction in emissions through the ETS beyond that agreed under the burden sharing agreement. In any case, the UK already has a number of additional instruments that may contribute towards achieving the 20% target, such as the Renewables Obligation and the Climate Change Agreements.

We accept that it is difficult to comment definitively on the sensitivity of the price of carbon to the decision on the UK's national cap, although it is plainly material. But there is no doubt that a lower cap will increase the exposure of UK industry to whatever market price emerges. Given the inherent uncertainty over the future price of carbon, we believe this is a wholly unnecessary risk for industry to be expected to bear.

Our concern is by no means limited to the direct costs of the ETS for the relevant industrial sectors. In many senses the greatest worry is over the likely impact on electricity prices. You will be aware of the various estimates of possible price impacts in circulation, some suggesting increases in wholesale power prices of up to 80% on average across the EU. Such an outcome, if not also experienced by our competitors, would critically damage the competitiveness of energy intensive manufacturing in the UK and simply result in a transfer of industrial emissions to other parts of the world, not in their reduction.

Some have asserted that UK industry could absorb relatively large costs arising from the ETS because of the substantial fall in power prices following the introduction of the New Electricity Trading Arrangements two and a half years ago. Whether or not there was ever any validity in this argument, it is no longer relevant since wholesale prices have risen 40% this year and are now close to pre-NETA levels.

An additional factor that needs to be taken into consideration is the uncertainty over the fate of the Kyoto Protocol on greenhouse gas emissions. There is no prospect of it coming into effect before the EU scheme is finalised, unless this fails to progress according to schedule. More worryingly, there now appears to be a very real possibility that Russia will reject ratification, or postpone it indefinitely, so that the treaty may never come into force. If so, there will need to be a fundamental reappraisal of UK and EU emissions policy. The price of carbon will necessarily be higher if the EU is unable to access Russian emissions credits to help offset the certain deficit it will face in 2008-12. We believe this is a compelling reason for adopting a cautious approach to the way in which the ETS is implemented, at least in the first phase, until the international situation becomes clearer.

We trust that these considerations will be given due weight in the decision you and your colleagues will have to make prior to the publication of the draft National Allocation Plan.