



Energy and Climate Change Committee

Oral evidence: [Deep coal mining in the UK](#), HC 378, Wednesday 10 September 2014

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Members present: Mr Tim Yeo (Chair); Ian Lavery; Mr Peter Lilley; Albert Owen; Dr Alan Whitehead

Questions 72-113

Witnesses: **Matthew Hancock MP**, Minister of State for Energy, DECC, and **Amy Clemitshaw**, Deputy Director, Head Fossil Fuel Generation and CCS Policy, gave evidence.

Examination of Witnesses

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Q72 Chair: It is 9 am; we are being televised, so we can start. There is some arcane rule that says you cannot start ahead of time if you are being televised, even if everyone is here. We are no longer ahead of time, so we can crack on.

There has been a suggestion by some of the witnesses we have seen in this inquiry that our UK energy policy is hostile to the UK coal industry. What would you say about that?

Matthew Hancock: I do not think that is true at all. It is not true at several different levels. The first is that we support the extraction of coal in the UK and surface mining has had investment in recent years and so is a strong industry. There has been a huge amount of attention paid to deep mining obviously over many years—including, in the last decade, some Government support and now work over last year and then over the last six months to try to find a resolution to the difficulties of UK Coal. If the support from the British Government for any particular energy source was measured in the amount of ministerial hours then coal would be at the top of the list.

Q73 Chair: I am sure that is reassuring. The suggesting has been made, nevertheless, that coal does actually go a long way to meeting the affordability and security of supply aims of energy policy. But

because too much attention has been paid to sustainability and the whole green angle of cutting carbon emissions, that has sort of distorted the approach and that is why coal has not done so well.

Matthew Hancock: It is an inescapable fact that there is twice as much carbon that comes out of a unit of energy that is produced from coal than from gas. It is also true that we have to tackle carbon emissions as well as strengthening security of supply and doing that for the lowest possible price. Those are the pillars of energy policy. I think that the security of supply is the pre-eminent amongst those, and there has obviously been a huge amount of attention on trying to get costs down after a period in which, in the run up to 2010, the then Secretary of State's argument was that costs would have to rise. That is not the position of the Government and we have brought costs down, as you know.

Nevertheless, there is a short-term, medium-term, and long-term future for coal as part of the mix. The short-term future is that at the moment more than around one third of our electricity is produced from coal. That is a very significant amount of energy. In the medium term, there is capacity within the system for clean coal when NO_x and SO_x are dealt with. In the long term, we are putting a huge amount of Government capital and energy into trying to get the CCS going. So there is a role for coal in the short term, in the medium term in terms of clean coal, and then in the long term in terms of abated coal under carbon capture and storage.

In terms of the coal extraction, which is what the focus of this hearing is, that role for coal is very clear.

Q74 Chair: Given that there is this role for coal, at least in the nearer term, is it important therefore to ensure that there is a domestic supply of coal?

Matthew Hancock: You say, "at least in the nearer term". Actually, in the long term, too: we put £1 billion against the development of carbon capture and storage, which is a huge sum of money and one of the biggest investments by the Government in a technology to bring it to market and to make it scalable across the whole Government, let alone across the energy sector. So is there a need for domestic security of supply? Well, of course, production from coal mines overall has obviously been declining but from surface mines has been stable for the last few years. You have to look at the coal mining industry as a whole, including surface as well as deep mines. The international security of supply issues around coal are different to those from gas, not least because of where the coal comes from.

In the UK, coal mostly comes from the United States, from Columbia and from Russia, but there is a liquid—in the financial sense, so to speak—global market for coal, and so if we had coal supplies cut off from one place, the global market is easily big enough for us to get them from somewhere else, so long as the boats could keep coming.

Q75 Chair: Let me stress I entirely accept that if we crack the CCS problem then that ensures a long term future for coal as well, so we are absolutely behind the Government's efforts in doing that. Just in relation to the last point you made: are you saying therefore that, given what is happening in Russia, we need not be too anxious about that causing a price spike because there is a sufficient supply available from alternative sources?

Matthew Hancock: My judgment is that while we need to be alive to all risks in the area of security of supply, this is one of the lower risks. The reason for that is that the global supply of

coal can be transferred from one location to another and that 80 countries in the world are producing coal, some in enormous quantities. The UK is a very small player, both in terms of extraction and in terms of our total demand for coal, so we could switch our demand if necessary to other markets, and the liquidity in those markets, the ability to get the coal at relatively short notice, that ability is high.

Also you mentioned price spikes. Of course one of the reasons that deep coal mining in the UK at the moment is facing financial difficulties, which no doubt we will come on to, is because there has been a very sharp fall in the global price of coal that can be traced—it is always impossible to put 100% certainty around causality in these matters—to the very sharp increase in the availability of gas in the United States, but gas cannot be exported yet from the United States in large quantities. So that has then depressed the domestic and then the international price of coal. We are dealing in the deep mining industry in particular with a problem that is caused by the collapse in the price of coal rather than a spike in the price of coal, so ironically we are dealing with the opposite problem.

Q76 Ian Lavery: Can I declare an interest, Chairman? I am a member of National Union of Mineworkers, just for the record. Minister, the situation in Russia, you seem to be fairly convinced that it would not have any impact if indeed Russia cut off the supply of coal to the UK. Are you aware how much coal that region supplies to the UK?

Matthew Hancock: Yes, I am. I did not say that it would not have any impact. I said that the risk of security of supply around that is lower than the risk of security of supply, for instance, in gas to the EU because of the different physical properties—the fact that gas comes through pipes largely and coal through ships. There is a liquid global market and we will be able to buy coal from different places in the event of a very difficult security of supply type problem.

Q77 Ian Lavery: You mentioned the carbon capture and storage and the fact that the Government have agreed £1 billion basically from the Treasury going to carbon capture. Are you concerned that the carbon capture and storage will not be there for any indigenous coal reserves burned within the UK?

Matthew Hancock: How do you mean?

Ian Lavery: Well, if Thoresby, Kellingley and potentially Hatfield close then we will have a smattering of surface mines, open cast mines, and basically the carbon capture and storage for coal will be for imported coal.

Matthew Hancock: I do not accept the characterisation because the total production as of last year from open cast mines is just over double total production from deep mines. You have to look at the whole of mining in the UK. The figures in front of me—production in 2013 is 4.1 million tonnes from deep mines and 8.6 million tonnes from open cast mines, so you have to look at the two together. I suppose I should declare an interest too because I come from a Nottinghamshire coal mining family and my grandmother is also a union member.

Q78 Ian Lavery: What union? Maybe that is of no importance. We could discuss all the day the production levels. You mentioned 4.1 million in the deep mines at the last year. If you look at

previous years for quite some time deep mining and the surface mining has been on par roughly at around about 8 million tonnes. But we can discuss that certainly—

Matthew Hancock: Yes, and there were physical problems with the fire last year so—

Ian Lavery: That's right. That is exactly right. With regard to the loan from UK Coal, are you aware if UK Coal have been able to secure another partner with regards to the financing of the loan?

Matthew Hancock: We are working very hard on that. I cannot announce anything this morning but making sure that a loan on a commercial basis is available is something that I am working very hard towards and I hope that we can achieve, but I cannot be absolute about that because I have not had those assurances yet.

Q79 Ian Lavery: The issue with the commercial loan—basically it has been on the table for months now and because of the fact that there has not been any agreement and it has not been signed means that for any potential interested party wanting to buy any of the three remaining pits the investment will be huge compared to what it was then. Absolutely huge. Somebody suggested perhaps up towards £100 million now. It has been suggested, and I am sure you will clarify this, that it could be a deliberate ploy to avoid anybody buying the pits?

Matthew Hancock: No, I think that is totally inaccurate. After UK Coal approached the Government over this latest issue in January, several months were then spent trying to engage with Hargreaves to take on the deep mines. Then when that collapsed the Government started work on the potential provision of a commercial loan. So the first few months that we lost in that process was because, understandably, all sides were looking for a commercial deal that did not involve the Government. Since then we have been working on a commercial loan that the Government is a partner in. But I have a very clear view here that it is important to get this done on a commercial basis, not on a state-aided basis, because the Commission have a policy across the Union, not just in the UK, that if they sign off on state aid then they also require that licences to those mines are removed at the end of that state-owned period. I would much rather go down a commercial route rather than a route that leads to absolute and certain closure.

Q80 Ian Lavery: That is really interesting because last Thursday the directors of UK Coal, the unions and all interested parties were in contact with the EU Commissioner and he seemed to suggest that if indeed UK Coal accepted the £4 million that is on the table at the minute—it is £4 million not £10 million; I believe it has changed—then that would be basically seen as the first transfer of state aid. That in turn would mean that the commercial loan would cap further state aid to £3 million, £2 million and £1 million in successive years. That is in contradiction there, Minister, to what you have said and I wonder if you could clarify that point.

Matthew Hancock: Yes. So I also had a read out from that conversation and that understanding that you have just set out is not our understanding of the position with the Commission. If UK Coal were to apply for state aid—and of course it has to be for the company to apply; we of course are working with them, but they need to hold the pen in any application—then the Commission would look at any support that had been given to that company in the past and make a judgment—it is not definitive, but make a judgment—as to whether any previous support had been state aid. This is why I am so keen to secure a commercial deal on the basis of which we

can decide that it is commercial, so that the Commission do not have to go and make that judgment.

Were the company to apply for state-aided cash from Government then the Commission go and look at all previous support, they look not only at the commercial deal that we are working on now but also any previous support. They would make a judgment as to whether any previous support was counted, in their view, as state aid. That does not prejudice whether they would say that, contrary to our opinion, should this happen, the commercial deal that we are working on were state aid, but they would look at all of those things and if they decided that any of them were state aid they would count them towards any state aid that were given after the point at which it was requested by the company. That would not cap the amount of state aid at £4 million as is set out, but it would add any previous support that the Commission decided in retrospect was state aid to the amount of state aid that the Commission would regard the company as seeking. I know that was a very long sentence and I hope I made sense. I am quite happy to go into it in more detail, but I have set it out as best as I thought I could.

Q81 Ian Lavery: Would that mean that if UK Coal got the £4 million then whether or not that would be classed as state aid would be determined by the EU?

Matthew Hancock: Correct.

Q82 Ian Lavery: But the EU were saying last week that they would determine it as state aid. That what was said in this telephone conference with the people I mentioned before.

Matthew Hancock: Well, we do not think that the commercial deal that we are working on is state aid because we are working on it on commercial terms in order for it to be signed off on a commercial basis. What we are looking to do a deal on—and we have not settled it yet—is a commercial loan on commercial terms that is not state aid. Whether or not the EU would in retrospect say that it is state aid is a matter for them, but we would argue that it is not state aid because the whole point of going down this commercial route is to try to support UK Coal through a commercial arrangement with the UK Government.

Q83 Ian Lavery: If the EU decided that it was classed as state aid that would mean that there could not be any additional state aid—

Matthew Hancock: No, that is not true.

Ian Lavery: following 2015?

Matthew Hancock: No, it would mean that that amount that they retrospectively determined was state aid would be added to any further state aid that was given at that point.

Q84 Ian Lavery: There is a huge difference here and my concern is that the huge difference is between the interpretation of your department and the EU Commission. To be fair, there needs to be some sort of clarification on it between all parties because what you are saying, quite simply, is, “They might say this; they might say that; but we say that.” Who will determine?

Matthew Hancock: The Government were not party to this conversation last week. We have had a read out from several different parties who were there. As far as our communications with the Commission are concerned, they have not made any assessment of the current loan that is in negotiation. There is a reason for that and that is because the current loan in negotiation has not yet been settled, so there is nothing for them to make a judgement on. I had conversations with the energy director and getting through this is difficult, but it is important to do it, I think, on a commercial basis. If anything, this last discussion that the unions and the company have had with the Commission underlines why it is the right approach to go for a commercial based loan with the UK Government to try to make sure that the mines can keep going through their short-term need for cash in order to give us some time to try to get to a longer-term solution; because, otherwise, we are at the behest of the Commission and judgments they might make that might be different to the ones that we make. That is why I have been driving down this road towards a commercial loan at all, over and above the state-aid option.

Q85 Ian Lavery: Just finally, there is this ambiguity that basically the whole industry hinges on, and I am just wondering how, Minister, this can be clarified for the sake of everybody in the industry. At the minute, the Government are working towards a £4 million commercial loan, and the fear is if the EU determine that is state aid then there cannot be any more state aid given after 2015. That initial £4 million would basically seal the fate of the industry. There needs to be some clarification because it is not really enough for potential investors, for the people who operate the collieries, to operate on that basis. There needs to be that clarification on whether the EU or whether your Department would determine whether that £4 million would be classed as state aid or not.

I understand what you have said. You have said two or three times fairly clearly that your Department see it as a commercial loan. But you have also said very, very clearly that the EU may see it and determine it as state aid. If the EU said that, there probably would not be any way in which you could object to that?

Matthew Hancock: If we decide that a loan is done on a commercial basis at this scale then that is a matter for the UK Government. The question of the Commission's view of the commercial deal that we are trying to land would arise if, and only if, the company, UK Coal, approached the Government or approached the Commission for state aid and, therefore, the Commission's view was sought. But I come back to this point: in my mind, there is no ambiguity. The commercial loan keeps our options open. All of the communications between the UK Government and the Commission have been along the basis that I have set out. There has been one phone call that we were not party to that you are reporting to me, and I have had reported to me from others. I cannot base Government policy on a phone call between the NUM and the Commission. I have to base it on the Government and the Commission's position as has been set out to us. So I can give you that assurance that the position I am setting out is the position of the Government and the Government's understanding of the Commission's position.

Q86 Ian Lavery: Will there be much more delay in the loan being offered basically being signed?

Matthew Hancock: We are working very closely towards it.

Q87 Ian Lavery: The issue with state aid—UK Coal will be applying for state aid, and the process is basically they apply; the application is made to your Department; and they will have a look at it. Will you be looking at it favourably?

Matthew Hancock: My mind is very much open. Of course it has to provide value for money for UK taxpayers and then there is the whole question of negotiation with the Commission. But my point of view is to try to ensure that we keep the mines open, so long as we can do so on a reasonable value for money judgment, taking into account all the consequences of closure.

Q88 Ian Lavery: The situation of Hatfield colliery is pretty dire and it may be a case where Hatfield would be looking for a similar loan.

Matthew Hancock: We will see what happens there because they have not yet applied to us. I understand they are planning their future operations. They are in routine contact with my officials. Again my mind is open to how we support Hatfield, but so far we have not had an approach from them and they are planning their operations as now.

Q89 Ian Lavery: But if this all goes the worst possible way, is the Government looking at the impacts on the communities in Thoresby, Kellingley, and potentially the Hatfield area? Have you looked at ways in which to mitigate those potential problems?

Matthew Hancock: Yes, absolutely. We are working closely with the collieries should that arise. As it happens at the moment the collieries need to keep their workforce together to get the coal out of the ground and so at the moment it is not a matter of looking for other opportunities. But we absolutely would do that if the need came. The Business Department is well versed in going in to areas where there is an economic shock, where there is bad economic news, and drawing in all different parts of Government—whether that means the DWP or different parts of the Government and local government—to try to bring new business to the area and to make sure that people get the skills that they need to get new jobs.

In fact in different parts of the country—for instance, around Southampton where there were a number of different company decisions that led to some bad jobs news—we have had some positive experience in terms of a very high proportion of people going in to new jobs. Of course we would absolutely focus on doing that. But we are not there yet, and I hope that we do not have to be.

Q90 Albert Owen: Good morning, Minister. If I could talk about a potential employee buyout. You will be aware that the NUM was considering an employee buyout at Kellingley and that has subsequently been shelved. If an employee buyout became an option again in the future, how would you and the Government react to such a move?

Matthew Hancock: Well, of course if there is an employee buyout from UK Coal then that is a matter of a change of ownership of a private company, so at one level we would be neutral to it,

and appropriately so. But if that were to secure the long-term future of the mine then I would be thrilled.

Q91 Albert Owen: In your opening remarks you said about the Government has in the past been very supportive of the coal industry, and you are saying in the future you have just reiterated you would like to see a viable future for coal. Are you just going to be neutral? How is that helpful just being neutral? There is an awful lot of debt being incurred here and it makes it unrealistic to move forward, so can the Government not help in some positive way?

Matthew Hancock: We are. We are working on a commercial loan to help UK Coal get through any short-term cash flow difficulties.

Q92 Albert Owen: I am talking specifically about employee buyout. If there was a business plan put to you as a Government, what would your reaction be to such a plan? Because you know the circumstances, you have explained them, in regards to incurred debts and various things. Is there an opportunity for the Government to be the lender of last resort, for example?

Matthew Hancock: In a sense, we are already providing or looking to provide support to help the company. We would look at all options. Of course a takeover from a group of employees of an asset of a company, these sorts of things happen all the time and there is not a formal Government role. We would not be able to approve it other than insuring licences transfers and that sort of thing.

Q93 Albert Owen: I understand the generality that this happens all the time. But we are talking specifically about an industry that you said your Government and you want to support.

Matthew Hancock: Yes.

Albert Owen: We are also talking about a situation where taxpayers' money has been invested into projects of clean coal for the future, which I support and this Committee supports.

Matthew Hancock: Yes.

Albert Owen: What I am saying is there is an opportunity now for the Government to be proactive, not neutral—to be proactive. Would you consider meeting with the union and the employees to look at that?

Matthew Hancock: Yes, I would be very happy to—and I know that a number of MDs have been involved in those sorts of discussions—of course, and make sure that we bring the expertise of Government to bear on trying to help. Also making sure that any consequential things that have to change within Government—for instance, with licences having to move from to another, or any Government support—that we would make that as easy as feasibly possible. I would be very happy to look at that.

I would say this: that assessment of whether that is viable has to be done on a hard-headed approach to whether taxpayers' money gets value for money, and also the economics of the deep

mines. We come back to why are we having this discussion about deep mining today? It is because the global price of coal has fallen and we have to be realistic about that.

Q94 Albert Owen: But you want a long term viable future, and again I repeat this, and carbon capture is quite a long way off. There is an interim period where really we all need to be working together—Government, the industry working together—to make sure that is sustainable, otherwise that technology is going to be used for import only, as my colleague Ian suggested.

Matthew Hancock: I would just correct you on that because the surface mining operations for instance last year had new investment in them and last year they produced twice as much coal. We have to look at mining in the round. Deep mines are part of the picture, but surface mines are part of the picture, too.

Q95 Albert Owen: Can I suggest to you another way that Government could help the industry, and in particular at Hatfield colliery—and we have taken evidence from them—is to discuss the possibility with the coal generators of offering long-term contracts. Is that something you have considered? Something you would consider, because you are relatively new to your post?

Matthew Hancock: I would be very happy to consider it, but the contracts between generators and the suppliers of their fuels is one of course for the generators. We do not run the coal power plants; they are run by private companies.

Q96 Albert Owen: I understand. But there again, if coal-fired power stations, such as Drax, are getting public money and public support, then surely they have an obligation to British coal mining and you as a Government cannot be just neutral because you are looking after the British taxpayers' money.

Matthew Hancock: Yes, but we are looking after the British taxpayers' money, and we are also looking after bill payers and making sure that the burdens on bill payers are not put up more.

Q97 Albert Owen: Why would they be? I am sorry. If there was a long-term contract—and it has been suggested to us there would be greater viability for the coal industry here in Britain—why would that push prices up? I do not quite follow the logic there.

Matthew Hancock: Well, it depends on where that is compared to the futures curve for buying long-term contracts on the international market. If it was more expensive than that then of course somebody has to pay and ultimately consumers do. If it was at that market price then that is open to being a commercial deal between the producers and the generators.

Q98 Albert Owen: But these are issues that you would be willing to sit down with— I talked about the employee potential buyouts.

Matthew Hancock: Yes, because I recognise here that there is a convening power of Government as well as a fiscal and regulatory power of Government.

Q99 Dr Whitehead: The Committee on Climate Change recommended that coal, if it is to be a part of the UK's energy mix, should of course be subject to carbon capture and storage should any coal stay on the energy production system into the 2020s. Where are we now with the competition to secure the last two remaining CCS demonstration programmes?

Matthew Hancock: We have budget up to £1 billion for this, and we are working solidly towards the award. There will be decisions to be taken, either later at the end of this year or the start of next year as to the next gateway in those projects.

Q100 Dr Whitehead: But these are not necessarily coal projects, are they?

Matthew Hancock: The two projects that are available will I hope, if successful, demonstrate that CCS works and can work at a commercial scale. The whole point about putting the Government support behind it is to try to bring this technology to commercial scale and then that can be applied more broadly. One of them is directly for coal. It is about proving the technology, so that it can be then applied.

Q101 Dr Whitehead: Do you think that there are any particular elements of CCS that actually need to be demonstrated specifically in relation to coal? Or do you consider that the fact that you would have a successful perhaps pilot then means presumably that CCS can then simply be attached to a coal power station? Is that what you are saying?

Matthew Hancock: No, what I am saying is that one of the potential projects is a coal project and, therefore, you can get it to a position where it could be demonstrated.

Q102 Dr Whitehead: But would you perhaps more specifically say not just that that would be a potential project but that the competition and anything subsequently might specifically, by particular arrangements, relate to future coal production and generation?

Matthew Hancock: Of course, they could well be. But there are an awful lot of ifs in that link. We have £1 billion of taxpayers' money; we have to make sure that is well spent, so I cannot prejudge the decisions on the next gateway on the CCS projects. Then where the coal comes from that goes into a CCS coal power station of course depends on the global coal price. The fall in the global coal price, in terms of UK consumers, is a good thing because it reduces the cost of electricity ultimately and we have to make sure that feeds through to consumers. At the same time we need to manage that in terms of UK production.

Q103 Dr Whitehead: But it also depends on the extent to which the Government has any sort of plan to incentivise CCS, either by way of premium payments or feed-in payments after such a demonstration project has proved that it can work.

Matthew Hancock: Yes, and making sure that we design a CfD for CCS that works.

Dr Whitehead: Is that well on the way, is it?

Matthew Hancock: It is something I am actively working on.

Q104 Ian Lavery: The coal industry is unlike any other industry with regard to potential finances from a Regional Growth Fund. Is there any reason for that?

Matthew Hancock: You will have to ask Greg Clark, I am afraid, who is the Minister responsible for the RGF.

Q105 Ian Lavery: If the likes of UK Coal wanted money from the Regional Growth Fund would you, in your capacity as Minister, and DECC be prepared to support the fact that the coal industry should be eligible to secure funding from the Regional Growth Fund?

Matthew Hancock: When it comes to the Regional Growth Fund, the single most important thing is to make sure that we get good value for money for taxpayers.

Q106 Ian Lavery: Because you were the Minister in that Department beforehand, were you not?

Matthew Hancock: Yes, but I am also Minister in the Business Department and I am a Minister of the—

Ian Lavery: So you are the man?

Matthew Hancock: Well, yes, in many ways. That is kind of you to say. But I am not the man when it comes to RGF; those decisions are taken by Greg Clark.

Ian Lavery: So you are not the man?

Matthew Hancock: Sorry?

Ian Lavery: You are not the man?

Matthew Hancock: Not on this one, I am afraid.

Q107 Ian Lavery: Every other industry appears to be fine when applying for finance to secure jobs in the future in different regions and that is, after all, what the Regional Growth Fund is there for. Have you any idea why the coal industry, in isolation, is not allowed to apply to the Regional Growth Fund?

Matthew Hancock: We support the coal industry in other ways, as I hope you can see—

Ian Lavery: You support all industries in other ways as well.

Matthew Hancock: Of course, but we support the coal industry. I am working on trying to find a viable resolution to the difficulties in the deep mines.

Q108 Ian Lavery: Then finally with regard to the carbon price floor. We have had a number of witnesses before the Committee who are basically united in their condemnation of the carbon price floor and would like to see the Government consider getting rid of the carbon price floor altogether because of its bias against coal in particular. It was interesting CoalPro presented a document, or certainly discussed details from a document produced by NERA, which explored the impact of freezing the carbon price floor, and if it was kept at the current level of £9.55, they suggested that, come 2025, the consumers' bills could be up to £63 per annum cheaper. What would your view be firstly of abolishing the CPF or indeed freezing it?

Matthew Hancock: We have frozen the carbon price floor from 2016-17 until the end of the decade, so we have clearly taken action in this area. But that has to be balanced against other necessary Government objectives. For instance, the carbon price floor raises revenue and we have a rather large hole to fill in terms of the public finances. You can see from the action we have taken to freeze it that we have listened to some of those concerns.

Q109 Albert Owen: So is it a financial tax or a carbon tax?

Matthew Hancock: Well, it raises revenue, is how I put it.

Q110 Albert Owen: I appreciate that. But it is something your Government brought in when in the previous rounds, when you were in opposition—I know you were not here—you were opposing some of the similar levies imposed by Europe. Yet you have brought in this tax and you are saying today that it is for revenue raising?

Matthew Hancock: I am saying that is one of the things that it does. It is one of the consequential things. You have to balance all these things together.

Q111 Albert Owen: I appreciate that and I am not trying to trick you, I am trying to ask questions here. But it is seen as a disincentive to many businesses, and large companies in the UK have raised this with me and with other Members of Parliament. Then it is not really revenue raising, is it, in the long run? You get immediate hits but you could lose businesses to other countries because this is a British tax on top of the European legislation?

Matthew Hancock: You are making an impeccable Lafferite argument against high marginal tax rates. It is one that—

Albert Owen: So did you. You introduced them—

Matthew Hancock: At a theoretical level, I have a lot of sympathy. When we reduced the top rate of tax, the amount of tax revenue increased and so I can see entirely your logic but—

Q112 Albert Owen: You are not getting away with that: you made the same case and you introduced it. This is a British tax on business. It is not a European tax; it is not something we have to sign up to. This is a British tax that was brought in by your Chancellor of the Exchequer, of which you are a big supporter. The question is that this is having an impact on an industry that you say you want to save. You are not squaring the circle here.

Matthew Hancock: Look, there are two issues here. The first is that we have frozen the carbon price floor. Separately, obviously we do need to raise revenue as a Government, but also it does not, if I may say so, directly relate to deep mining of coal in the UK because that is about the consumption of coal in power generation, which at the moment is quite high—it is over 30%. Have you got it exactly?

Albert Owen: But that is not what—

Matthew Hancock: Hold on.

Amy Clemitchaw: It is 33%.

Matthew Hancock: About one third. The coal produced in the UK has to compete with coal that is produced elsewhere on a global market. Of course if coal is produced much closer to where it is going to be consumed then you get lower transport costs, so there are good arguments for domestic coal to have cheaper costs. But the question of how much coal is consumed, whatever level of the carbon price floor, is of course related to but actually at one stage removed from the question of production.

Albert Owen: We are not going to agree on this exchange, but I do believe that you should again look at industries such as coal mining and see how this is impacting. You have frozen it because you have set it too high. Some are asking for its abolition, as my colleague has here, and I think you should have discussions with the industry.

Q113 Mr Lilley: On the issue of consumption, what would be the impact on the Hatfield colliery—and indeed the whole British coal industry—if we were to accelerate the phasing out of coal and fossil fuel production of electricity in this country? My memory may be playing me tricks, but I seem to remember it was advocated by the Labour Front Bench only a few months ago.

Matthew Hancock: Clearly, if we ended all use of coal in producing electricity then that would have a negative impact on the demand for coal, both for international but also for domestic coal, because a very high proportion of the coal produced, both from surface mines and from deep mines, goes into electricity production—the vast majority of it. So if you ended all use of coal in electricity generation, you would seriously undermine demand for UK coal. I am advised by experts who understand coal more than I do—the actual physical properties—that UK coal is not in particularly high demand in export markets and that is why almost all of it is used domestically.

Chair: Good. I think that concludes our questioning on coal, thank you very much for that. We will now have a change of official at your side and a change of Chair on our side. Thank you very much.