

**From:** Admin [mailto:admin@coalpro.co.uk]  
**Sent:** Tuesday, July 02, 2013 2:54 PM  
**To:** CLIMA ENERGY GREEN PAPER 2030  
**Subject:** Consultation on Green Paper 2030 - organisation

The Confederation of UK Coal Producers (Coalpro) welcomes the opportunity to respond to this consultation. Energy policy is a major factor in determining the future of the EU. Europe leading the way in tackling climate change is a principle which should not be abandoned but rather the question has to be asked “If we are leading, why are others not readily following?”. Coalpro believes that the main reasons are:

1. The global population is not convinced that climate change is the most important issue that either they or indeed their children have to deal with when compared with the vast numbers of people who have no electricity or running water in countries still to enter into the cultures of the developed world, in addition to the large numbers of people in the developing economies of Asia who are still awaiting the installation of these services which we regard as the norm.
2. The science of climate change still has not proven that its predictions are being realised in the shorter term and statistics in the recent past help those in denial to question the science.
3. The global economic crisis has produced a significant effect which is being felt by the general population throughout the OECD countries. Austerity measures and high levels of unemployment reduce consumer spending.
4. The EU has been particularly badly affected by this and has to take measures to ensure it can produce goods for both internal consumption and for export at competitive prices. Energy costs are a major factor in this path to recovery.
5. The countries which are recovering financially are notably using their indigenous natural resources to fuel power generation. In Asia this is predominantly coal.
6. The reality of policy of the recent past is that Greenhouse Gas emissions from the EU have reduced we have exported our emissions and are consuming more carbon intensive imported goods. The EU carbon footprint when considered on a consumption basis increased by 47% between 1990 and 2006. <sup>(1)</sup>

In the context of the above Coalpro asks for an approach to 2030 targets which reflects the need to strengthen the EU's economic position and restore some quality of life to its citizens.

The 2030 targets must be part of a global agreement, without true and binding participation from all trading nations it is pointless to continue to isolate the EU, as stated above to be a leader you have to have people willing to follow!

Targets must be set on a consumption basis otherwise we are not just dealing with carbon leakage but with deliberate carbon export to the cost of the EU economy and its citizens' lifestyle.

The EU ETS should still be the model for the global trading agreement, its purpose is to reduce the total greenhouse gases emitted and its low value at the moment only indicates that decisions which have been taken and the financial crisis when taken together have got us to position which means we will achieve our 2020 targets.

Short term reductions are no longer what policy makers need to drive and the next policies and targets will determine how the electricity market and portfolio of generation plant will look for the next forty years as this round of much needed investment takes place. We must keep as many options as possible open to us and have regard for the EU's Natural Resources. This must include coal which consistently generates the lowest cost electricity in the EU.

<sup>1</sup> Emissions per unit of GDP: 0.3 kgCO<sub>2</sub>e/US\$ in the EU; 1.1 kgCO<sub>2</sub>e/US\$ in China (UNEP, 2013).

Responses to the questions asked in the Green Paper

#### **4.1 General**

Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The 2020 framework had an apparently simple set of targets: reduce greenhouse gas emissions by 20% from a 1990 baseline; 20% of primary energy should come from renewable sources; and reduce energy consumption by 20% when compared with the as now projection for 2020. Legislation to try to achieve these goals has conflicted in part with some of these objectives and their cumulative effect has been to disrupt the current market and to delay the achievement of a well-functioning internal energy market. Further actions from different member states and proposals to complicate the issue such as capacity markets, CCS credits, and other measures to try to compete for scarce investment capital for much needed power generation and transmission infrastructure and indeed to tamper with the EU ETS are well-intentioned but are in reality increasing the uncertainty for investors.

## 4.2. Targets

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

Targets for National emissions seem to be the only option as far as climate protection is concerned but they should be expressed as units emitted per unit of GDP. An EU target for security of supply would also be appropriate and should drive Investment in Energy infrastructure.

Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

Yes in the sense that the 20% reduction in Greenhouse gas emissions is much more onerous than anything that any other country has pledged, 20% renewables was perceived to be one of the fastest ways of de-carbonising the power generation sector but the ongoing cost is much higher than most other forms of generation, a 20% reduction in energy demand is splendid in principle but does not allow for economic growth which is driven by low cost energy. Coalpro re-iterates that the best way to go forward to 2030 would be an overall emissions reduction per unit of GDP and not any more ambitious than the most mature economies are committed to via a binding international agreement.

Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO<sub>2</sub> reductions for passenger cars and light commercial vehicles?

NO this will lead to varying degrees of carbon leakage dependent on the sector, but also will complicate any targets which are set.

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

Technology development is still essential in areas like Carbon Capture and Storage and also with continued scientific development towards new and more efficient conventional generation (fossil fuel and nuclear) which will continue to provide affordable energy with significant emissions reductions. New coal-fired power stations are capable of efficiencies close to 50% and should be recognised as desirable to power the transition period to a fully de-carbonised power sector. Wind and photovoltaic installations are now mature technologies and as such must be made to compete in the power markets without the aid of subsidy, otherwise the cost to the EU consumer will be much higher than in any other competing economy.

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

The solution is to set security of supply targets as a headline of the policy. The subsidiary policies should drive the formation of a fully integrated and well-functioning EU wide power market. If this is quickly achieved investment capital for new plant and infrastructure will rapidly be forthcoming.

### **4.3. Instruments**

Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

Differences in both climatic and geographic properties occur throughout the EU and this should be recognised e.g. the UK should not have vast arrays of PV cells in the North of the island where wind turbines are clearly more appropriate. Policy needs to recognise that so that investors fund the best solutions in the most sensible locations not just where the best subsidy is available.

The whole question of importing biomass from far distant sources should be re-examined to verify a true sustainability.

How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

Cost efficiency should be measured so that any subsidies, incentives, feed-in tariffs or other instruments have to produce a value per tonne of CO<sub>2</sub> reduced per kW which is within parameters specified by the EU as part of the whole internal market operation.

How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

Setting binding security of supply targets and having sanctions for Member States who fail the planned availability test.

Which measures could be envisaged to make further energy savings most cost effectively?

Energy savings can only be measured per unit of product and for industry at least the cost of energy is a key driver to be as efficient and frugal as possible.

How can EU research and innovation policies best support the achievement of the 2030 framework?

All technologies around all fuels and all methods of generating electricity have to be given equal support and allocated fair proportions of EU research funding. All fuels and all innovations for their use will be required to be available if the global climate challenge is to be met.

### **4.4. Competitiveness and security of supply**

Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

Clearly identify the value of indigenous resources and the part that they play in the economies where they occur. Recognise in particular the coal reserves that exist in the EU and their value in terms of the provision of jobs, cheap fuel, engineering prowess and some of the drive to make CCS work. Steel making is a process which will always need coal as an integral part of the chemical and physical reactions in the blast furnaces and steel is required for construction and heavy engineering and manufacturing, eliminating coal from the power generation market also in most cases means that the opportunity of supplying some of the coking coal required at EU steel making plants will be lost.

What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

Top down analysis suggests that the EU's carbon footprint has increased by 47% between 1990 and 2006. This is hard evidence of carbon leakage. The 2030 framework needs to reflect the EU's emissions measured on a consumption basis. <sup>(1)</sup>

What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

The main drivers in energy cost trends globally are the growth rates of the Asian economies particularly those of India and China. The EU can do little to affect these trends but can protect itself against the volatilities of these international trade markets in fossil and other fuels by having a diverse portfolio of power generation plant and where cost-effective using indigenous resources to fuel those plants

How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

The EU should not undertake to deliver greenhouse gas reduction at any faster rate than the other developed countries otherwise our ability to trade competitively will be further undermined.

How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (*e.g.* progress in international climate negotiations and changes in energy markets)?

In most Member States the EU faces a need for significant investment to modernise, harmonise and increase the efficiency of its power generation infrastructure which will be the foundation of a successful internal market. All projects are competing for funds at a time when lenders and investors are more risk averse than ever. Where new but important technologies such as CCS and large capital projects such as a new nuclear plant are planned then governments will have to assume most of the underwriting of the risks associated. Stable policies which are simple and logical help to reduce the risk. Any perception that policies or instruments can be amended before the project payback period is over lead to a disproportion increase in investment risk.

How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

Manufacturing Industries will innovate if they believe it will assist them to be even more competitive in the future. In the current economic environment there is a tendency to ride out the storm and concentrate on cash generation with funds for research and development sacrificed in the short term. It is necessary to have funds from central governments to sponsor the development of new ideas, processes and materials. The role of revenues from auctioning allowances is a possible source of these monies but they have to have an absolute sum guaranteed otherwise the market price of the allowances could lead to a shortage of funds if that price is low.

How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

The most crucial move would be to stop the unreasonable policies designed to drive coal out of the energy mix and recognise that there are significant coal resources indigenous to the EU. Efficient new coal-fired generation plant and ultimately new coal plants with CCS are a significant part of the solution to the problems of both affordability and import dependency.

How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (*e.g.* through the development of necessary interconnections), and externally by diversifying energy supply routes?

Put all efforts into establishing firstly what needs to be done to harmonise and connect the internal generation plants, secondly decide where the capacity gaps can best be filled from and where cost reductions can best be realised, thirdly provide some trading frameworks to enable the cross border trade flows and finally choose the most willing places to do the innovations needed to improve both the efficiency and carbon intensity of the system.

#### **4.5. Capacity and distributional aspects**

How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

Effort sharing and equitable solutions are all part of the negotiation process for both EU targets and International agreements. The only true reflection would be agreed reductions in per capita emissions after factoring in growth and access to electricity for

developing economies. The equation is not easy but any EU targets must not stifle economic growth and any International Agreements must not prevent countries from giving more of their citizens access to electricity.

What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

Targets must be set for not only the reduction in emissions but the expected contribution to power generation capacity of each of the EU Member States and penalties must be imposed for failure to build the most economic and lowest carbon capacity. At the moment it would seem that a significant number of Member States are planning little or no capacity above normal peak demand and relying on imported electricity to fill any gaps in the system, it is easy to visualise that the need for imports would happen in a number of member states at the same time (e.g. if an adverse cold, still weather system were to settle over Central Europe).

Are new financing instruments or arrangements required to support the new 2030 framework?

All of the investments that need to be brought forward need to be stimulated and the merits of contribution to affordable power, security of supply and carbon reduction should all be the factors taken into account by Member States. The Carbon reduction will gradually be seen to assume more importance if the integrity of the EU ETS is maintained as a reducing cap on emissions, as hopefully when significant economic growth returns to the EU the cap will tighten to drive energy efficiencies and further low carbon technologies. Lenders such as the EIB and other financial institutions should also have these three point parameters in their evaluation of lending not just the “Green Credentials” of projects.

<sup>1</sup> Emissions per unit of GDP: 0.3 kgCO<sub>2</sub>e/US\$ in the EU; 1.1 kgCO<sub>2</sub>e/US\$ in China (UNEP, 2013).

Regards

Philip Garner

Director General

Confederation of UK Coal Producers (CoalPro)