



MINUTES **18th EUROPEAN ROUND TABLE ON COAL**

EU Emissions Trading Scheme: fit for purpose **European Parliament (Brussels), 18 September 2012**

Participants included:

Dr. Christian EHLER MEP (EPP, DEU) (chair); Mr. Roger HELMER (ELDR, UK); Mr. Bogdan MARCINKIEWICZ MEP (EPP, PLN); Mr. Salvador GARRIGA POLLEDO MEP (EPP, ESP); Ms. Inés ALAYA SENDER MEP (PES, ESP); and MEPs' assistants;
European Commission official (Dr. Marion WILDE);
EESC Member Mr. Josef ZBOŘIL

1. Introduction and welcoming remarks

The 18th meeting was hosted by Dr. Christian Ehler MEP and Mr. Bogdan Marcinkiewicz MEP with a welcome and introduction by Dr. Ehler on EU ETS which was set up by the European Commission seven years ago as a cornerstone of EU policy to combat climate change. Today, the European Commission and many politicians qualify this same ETS as being ineffective, because the very low carbon prices fail to stimulate investments into low-carbon technologies. The Commission therefore proposes a revision of the EU ETS to which many MEPs and industry representatives are heavily opposed. The so-called set aside of certificates in the next trading period presents an additional threat to economic growth in the EU as it struggles to recover from crisis, whilst the rest of the world is building its economy on coal.

2. DG Climate Action's proposal to back-load EU ETS auctioning – Mr. Nigel Yaxley, Managing Director, Coallmp – Association of UK Coal Importers

Coal always was the backbone of European economic growth and looking at economic growth worldwide, we observe, that this is still valid except for Europe. European annual coal and lignite production totals some 556 Mt with an additional 200 Mt of coal imports, which results in a share of coal and lignite in EU power generation of almost 30%, reaching over 90% in Poland. For many Member States, and this mostly concerns economically weaker countries, to abandon coal and lignite would create an economic disaster.

The EU ETS was initially set up to meet the Kyoto-targets to which the EU committed itself, setting a 20% CO₂ reduction target by 2020. These allowances which were put on a true market behaved differently than projected by the Commission: at the end of phase 1, when no banking was possible into the second trading period, the prices almost collapsed to zero. The second trading period began with prices around €20/tCO₂, but they again collapsed, this time due to the economic crisis which

resulted in lower CO₂. At the end of phase two, allowance prices again approached very low levels, demonstrating that the EU ETS is the wrong mechanism if a targeted CO₂ price is wanted. CO₂ prices cannot be considered alone, the price of the energy itself is also very important and looking at the price increase of crude oil between 2005 and 2012, which rose from \$50/bbl to \$115/bbl one can consider that this would equal a CO₂ price of €115/t CO₂. And we all see the damage this price increase has had on the world economy.

The Commission and a number of politicians currently consider changes to the EU ETS. Yet, it was the same people who sought a free market. So how can they justify changing the rules of this free market just by saying that it does not behave as they would wish? There are other considerations which the Commission does not consider at all: the EU is only a small emitter worldwide. Is it really worth damaging Europe's economy whilst having only a tiny influence on world emissions? How about the non-EU ETS sector which is dramatically underperforming? A short-term solution for many Member States seems to be a dash for gas. But how about the long-term? And who would guarantee affordable and secure energy if Europe would have to rely on imported gas?

So the question must arise: is the EU ETS fit for purpose to reduce GHG emissions? Yes, it is a market-based mechanism that will deliver the politically agreed target of a 20% GHG emissions reduction by 2020. Nevertheless, a particular CO₂ price was never an objective and the legal basis for any change is clear: a new international agreement with similar ambition to the EU's would be needed. The high oil prices since 2005 have damaged the economy, it is therefore not the moment to impose further economic pain on Europeans with even higher carbon prices. "Set aside", "back loading" or any other similar measures should be rejected as incompatible with decisions already made by Member States.

Dr. George Milojevic, speaking on behalf of EURACOAL, added that the possibility to change the existing legislation was clearly defined in Decision No. 406/2009/EC, where article 8 says that any change would only be possible if a new international agreement were to be reached, which was not the case today.

Mr. Nigel Yaxley added that the EU ETS has clearly increased electricity prices for consumers and Mr. Josef Zboril from the EESC added that former US President Bush did not sign the Kyoto Protocol, declaring that the resulting increase in energy prices would damage the US economy. There is no reason why the Kyoto Protocol would have different consequences for the European economy, he concluded.

MEP Mr. Roger Helmer criticised the EU ETS as being a virtual market dealing with virtual commodities and being absolutely unpredictable. He would prefer a carbon tax which would be in the end less costly and more predictable.

Dr. Christian Ehler asked industry representatives to give their opinion on the future of the EU ETS. The intervention into the EU ETS was indeed illegal. On the other hand, politicians were under pressure from NGOs and Greens to take some action.

Dr. George Milojevic responded that the entire climate and energy package was very complex and many other initiatives did not properly work either. In his view it would be totally inappropriate to cobble with the carbon price to find short-term solutions, knowing that the European economy had great difficulties to recover from crisis.

2. Coal-fired power plants & the impact of the EU ETS & climate policy on the European economy – Mr. Jerzy Janikowski, TAURON Polska Energia SA

There are three drivers that should influence European energy policy: security of supply, affordable energy prices for households and industrial customers and the battle against climate change. The preamble of the EU ETS directive therefore says that climate change shall be combated with minimal damage to economic growth and employment, which is absolutely not the case today. Most Member States have chosen their energy mix without considering the impact either on electricity prices or on supply security. As a consequence, we start to observe the effects of carbon leakage and here, Poland is the first to suffer. At the same time we can see that global CO₂ emissions have not shrunk, they have grown.

The Commission's intention to interfere in the EU ETS would therefore bring even more harm to the European economy without delivering any solution for combatting climate change. Reducing the number of allowances to be auctioned would discourage investors from supporting clean coal technologies and conventional power generation would be pushed more and more to the edge. Europe needs a well-functioning internal energy market without any external interference, based on a well-balanced energy mix where coal-fired power plants play a significant role since coal is a secure and affordable energy source and coal-fired power plants deliver very reliable and flexible power, which backs up renewables.

Having in mind the importance of the subject, Dr. Christian Ehler MEP suggested to put EU ETS high on the agenda during the European Coal Days which will take place from 12th to 15th November 2012. Turning to the Horizon 2020 programme, he said that this could be the big loser as Member States cut their budgets for research. It could happen that there will simply not be enough money to finance the Horizon 2020 programme.

Dr. George Milojevic stressed the importance of not rushing and to follow the three-step clean coal approach that EURACOAL proposed back in 2005. In times when the economy is weak, money was still being invested in subsidised sectors such as renewables, yet conventional power generation offers greater opportunities to reduce emissions through investment in modernisation and renewal of older plants.

A Memorandum could be drafted and signed during the European Coal Days in order to make clear that on-going investment in conventional power generation is needed as well as continuous modernisation, before reaching the final step: CO₂ capture and storage.