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European Association
for Coal and Lignite
AISBL

EURACOAL's Position Paper

on the Draft Directive on an EU Scheme for the Trading of Greenhouse Gas Emissions Certificates as from 2013

30th April 2008

Preliminary remarks

With its Proposal dated 23rd January 2008, the European Commission intends to completely revise and thereby clearly strengthen the CO_2 / GHG Emissions Trading Scheme after 2013. A policy dominated by climate protection alone is foreseen; major energy and industrial structural issues are not considered appropriately.

In its proposed form, the Directive would probably lead to a drastic increase of energy prices both for European industry and also for EU citizens. Distorted competition for European industry compared with non-European competitors and a drop in the standard of living for the population, resulting from significant increases of energy prices and the delocalisation of employment outside Europe -not subject to the stringent European emissions reduction system-, can also be foreseen.

The European Commission's Proposal would result in competence for energy policy being transferred from Member States to the European level. Furthermore, the considerable time pressure to discuss to what extent major elements of national energy and industrial policies will be managed centrally, with national characteristics at best only playing a minor, role is not acceptable

The fast tempo for the procedure concerning the Directive is due to the forthcoming European Parliament elections in 2009. On the one hand, swift approval of the Directive enables national economies to see early on which regulations they will have to adapt to as from 2013. On the other hand, hastily adopting an economically disadvantageous Emission Trading Scheme already creates the conviction that the European economy must consider that its worst fears have come true, with all the negative impacts on decisions to invest. Furthermore, as experience with constantly high CO_2 prices is lacking, the time pressure required by the European Commission for approving the Directive means that with the given quantified reduction objectives, initially, the milder and more balanced forms of the Emissions Trading Scheme should be selected.

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Suggestions to improve the Proposal:

- The Proposal is based on a CO_2 reduction in the ET sectors of - 21 % (2005 till 2020). The total objective amounting to only 14 %, this results in the ET sector being over-burdened. The European Commission did not give a proper explanation for this. Potential that is achievable at less cost in other sectors, as shown for example for Germany by the BDI / McKinsey Climate Study, remain unexploited.

  It is therefore suggested to establish 14 % as reduction objective for all sectors.

- By choosing 2005 as reference year and by imposing an identical reduction factor of – 21 % for all Member States, "early actions" (i.e. reductions achieved between 1990 and 2005) are penalised. Here, a "level playing field" and also consideration of respective national circumstances have to be ensured.

- For climate protection, it does not matter in which region of the world emissions are reduced. We agree with the European Commission that if possible all states, all sectors and all greenhouse gases be integrated in a climate protection policy. As this is difficult to achieve for the time being, the European coal industry considers unlimited JI/CDM is necessary. This is also true for linking up with other Emissions Trading Schemes.

- The main criticism of the European coal industry is the planned 100 % auctioning of CO_2 certificates. It would lead to citizens and the national economies of the Member States with a considerable share of coal in their electricity mix having to carry the financial burden of European climate protection policy. Already for the first eight years till 2020, with an average price for certificates under € 30/t, a burden in the range of up to € 200 billion (!) for coal-fired power stations and consumers of coal-fired electricity alone would have to be reckoned with.

  Coal-fired electricity generation will have to continue making a substantial contribution to European energy supply for decades. A responsible policy must acknowledge this. The EU can significantly contribute to climate protection and at the same time set an example for the world by implementing well-timed and available opportunities to reduce CO_2. Already replacing older coal-fired plants with average efficiencies of approximately 30 % by techniques already available today with 45 % efficiency achieves a specific reduction of CO_2 emissions by coal-fired power stations of more than 1/3. Unfortunately, CCS cannot make a substantial contribution to climate protection before 2020.

  The abrupt introduction of 100 % auctioning of certificates would deprive enterprises of means they need to modernise the power plant portfolio. This would also be questionable in terms of industrial policy because if would weaken the energy economy of precisely those states with a high share of coal-based electricity generation, without giving them a chance to adapt their power plant portfolio in time.

  To reduce the negative effects of auctioning, the European coal industry suggested introducing fuel-specific benchmarks combined with fuel-specific compliance factors. In this case, the operator of an installation would have to acquire certificates not for all emissions, but only for the difference with Best Available Technology. The economic incentive to reduce emissions is maintained. New investments in the energy industry remain possible, also because the enterprises are not deprived of the necessary capital. A varied energy mix is maintained. Bottlenecks and increasing prices for electricity would generally be avoided. Auctioning, on the contrary -after including the requirements of auctioning-, results in the total cost of producing electricity (new installations) being higher than price of electricity. Auctioning thereby encourages power plant projects to be abandoned. Less efficient installations continue to be operated and the share of highly efficient power plants does not increase.

If benchmarks, as alternative to 100 % auctioning, were not to obtain a majority, the European coal industry's opinion is that, if necessary, cautious auctioning would be possible. The following considerations would have to be taken into account, in order to combine investment cycles, cost-efficiency, competitiveness and security of supply:

- Gradual auctioning over a longer period, also for the electricity sector e.g. parallel to energy intensive industries and establishment of the share of auctioning by Member States
- To support investments in modern plants, free of charge allocation to these plants on the basis of fuel-specific benchmarks,
- Use of the proceeds from auctioning primarily for climate protection, e.g. power-plant related R & D and demonstration (improved efficiency, Carbon Capture and Storage).
- Full acceptance of JI/CDM.