

EURACOAL Response to EBRD Public Consultation

on the European Bank for Reconstruction and Development's draft Energy Sector Strategy (2013) dated 19 July 2013

Introduction

The European Association for Coal and Lignite (EURACOAL) welcomes this opportunity to comment on the EBRD's review of its energy sector strategy.¹ The Bank's operational approach – as defined in the strategy document – is crucially important, not only because it determines the conditions under which the Bank will lend, but also because it influences the lending policies of commercial banks. EURACOAL believes that the Bank must follow a strategy that is rational and pragmatic. This means balancing sometimes opposing priorities in the quest for multiparty democracy, pluralism and market economics in the Bank's region of operation, including Central and Eastern Europe. These priorities include: wealth creation, full employment, energy supply security, energy affordability and environmental sustainability.

Operational approach: towards energy security, affordability and sustainability

EURACOAL fully supports the Bank's mandate to foster the transition to market-orientated economies and promote environmentally sound and sustainable development. The cost-effective development and efficiency of energy supplies is a key element in this aim and we agree that the model that best delivers these is characterised by competitive interactions, cost-reflective pricing, diverse, deep and liquid markets, widespread private participation and the physical and soft (regulatory) infrastructure that facilitates these markets. In general, EURACOAL finds the Bank's assessment of the energy sector soundly based and refreshingly honest. We agree with the Bank's vision of a partnership between industry, governments and consumers that delivers the essential energy needs of societies and economies in a manner that is sustainable, reliable and at the lowest possible cost.

Energy and resource efficiency

Recognising the essential role of fossil-fired generation in meeting energy needs, and the significant scope for efficiency and environmental improvements, EURACOAL supports the Bank's proposal to continue lending for the rehabilitation and replacement of existing fossil fuelled power generation and, where appropriate, for new builds. In November 2012, EURACOAL published its updated 3-step strategy for clean coal which largely mirrors the Bank's thinking and we submit this strategy alongside our response to the Bank's public consultation.

¹ EBRD (2013), *Draft Energy Sector Strategy*, European Bank for Reconstruction and Development, London, 19 July.

EURACOAL is pleased that the Bank's definition of hydrocarbons include oil gas and steam or thermal coal (p.7), whilst coking or metallurgical coal is separately considered as a mineral in the Bank's mining operations policy. We support all steps taken to improve the environmental, health and safety and social conditions of coal mining in the Bank's region of operation. The standards and practices found in the European Union provide a benchmark to assess performance and guide future improvements. Efficient use of natural resources means promoting cost-reflective pricing which is largely the case today across EU member states.

It is also right that the Bank proposes to consistently promote energy efficiency measures, the upgrade of inefficient equipment and investment in best available technologies throughout its activities in electricity generation, transmission and distribution as well as in hydrocarbon extraction (p.47). Add in the eventual deployment of CO₂ capture and storage, and the Bank's proposal to invest in high-efficiency conventional generation projects (p.51) closely matches EURACOAL's own 3-step clean coal strategy:

1. Introduce state-of-the-art technology across the EU coal-fired generation sector to boost efficiency and reduce emissions.
2. Develop the next generation of high-efficiency, flexible technologies for coal-fired electricity generation.
3. Demonstrate and deploy CO₂ capture and storage at coal-fired power stations around the world.

However, the Bank's intention to assess a country's energy efficiency by measuring total primary energy consumption per unit of GDP is questionable. Whilst this is a commonly used measure, it favours the de-industrialisation of economies and a move to stronger service sectors. Industrial goods are still consumed, but imported from elsewhere, so the overall carbon footprint of an economy is not improved, even though its energy intensity suggests an improvement. Academic analysis shows that the EU's carbon footprint increased by 47% between 1990 and 2006, painting a very different picture from that shown by the modest reduction in emissions from energy use.²

Fuel switching

The Bank states that it will support fuel switching from coal to gas where this is realistic (p.58). Here, EURACOAL suggests that the Bank must examine the overall impact of its investment decisions. Life cycle analysis is a difficult and complex subject, especially in the case of gas supply. Upstream emissions might add considerably to the climate impact of natural gas use. Moreover, if more gas is imported, then there will be knock-on impacts in the exporting countries. For example, if Russia burns more coal to free up gas for export to the EU, then the EU's own

² Brinkley, A. and S. Less (2010), "Carbon Omissions – consumption-based accounting for international carbon emissions", Research Note, Policy Exchange, London, October.

climate and energy policy – based as it is on fuel switching from coal to gas – looks ineffective at the global level even if it results in lower point source emissions from the EU. We recommend that the Bank takes a more holistic approach, one that looks beyond the apparent reduction in CO₂ emissions at the plant level.

Energy security

The Bank notes that energy security is often defined as *energy self-reliance* and rightly suggests that energy security also comes from diversification of sources and better integration into regional markets (p.42). EURACOAL challenges the Bank to devise a measure for energy security that recognises the various facets of a secure energy system so that progress can be quantified. We believe that indigenous sources of energy will continue to play a vital role in ensuring energy security, alongside diversified imports.

Shadow carbon price

The Bank proposes to incorporate a shadow carbon price in its analysis of energy-sector investments (p.59). EURACOAL is not convinced that this ensures that the Bank's funds are employed as rationally as possible because a shadow carbon price provides no actual income stream to cover interest and amortisation payments. Only with the payment of state subsidies can many renewable energy projects be considered financially viable, which casts doubt on whether renewable energy contributes to increased economic productivity in general or promotes the attainment of market economies.

EURACOAL calls on the Bank to use a global carbon price in its assessments. If the Bank continues to use a shadow carbon price, based on some policy ideal, then it risks a serious economic dislocation that would leave countries in the Bank's region economically uncompetitive against the rest of the world. Only by using a carbon price that realistically reflects the value of carbon in the global context can the Bank be sure that it is not jeopardising the economies of, for example, Central and Eastern Europe.

CCS – a low-carbon technology

On low-carbon technology, we support the Bank's pragmatic approach, guided by the natural endowments of countries within its region of operation and the maturity of each technology (p.52). In the case of coal, this means high-efficiency generation followed ultimately by the deployment of CO₂ capture and storage.

However, the Bank's assessment of CCS appears rather negative, being based on the European experience where projects have not moved ahead as quickly as originally envisaged. Elsewhere in the world – notably in North America – progress has been more encouraging such that capture, transport and storage are largely proven. It is disappointing that the EU has not been able to

establish its promised CCS demonstration programme – although several pilot projects have been very successful and a number of the proposed commercial-scale demonstration projects are ready to proceed if sufficient funding were made available. The financing of demonstration projects has been a major stumbling block, despite the EU and national funding that has been made available to project developers. This means that the EU has lost its lead in this important technology area: the world's first integrated CCS pilot power generation project is now operational at Plant Barry in Alabama, USA. The Bank should support the European Commission in its efforts to fulfil the EU's ambition to take a leading role in CCS.

The other major issue to be addressed is the integration of CO₂ capture, transport and storage. Here EURACOAL believes that governments will need to be active in establishing a CCS infrastructure so that project developers are not each faced with developing the whole chain from capture to storage. The Bank has a role in promoting such an “infrastructure first” approach since it could help remove the barriers to CCS project development in Europe. To that end, EURACOAL welcomes the Bank's proposal to lay the foundations for CCS as part of a long-term perspective on the low-carbon transition. Identifying the physical opportunities for transport and storage of CO₂ and promoting the necessary regulatory frameworks and physical infrastructure to allow this are robust steps that the Bank can take.

Conclusions

Many challenges remain in the energy sector, but EURACOAL is convinced that these can be solved by technical progress within a competitive market. Natural gas prices in Europe remain stubbornly high – a situation that would be of even more concern if competition from coal were to be in some way curtailed. CCS is currently competitive with renewable energy sources, but not with conventional generation. Only when all low-carbon options are similarly rewarded can we expect faster deployment in a competitive market. The growth in renewable energy brings challenges related to cost, system balancing and market implications. These need to be addressed in ways that are economic and so do not burden society with costs or enrich the few. Freeriding on the back of conventional generation is no longer a viable solution, so the Bank must resist supporting projects that are fundamentally uneconomic. A commercial bank might end its analysis with the comfort of a state-guaranteed feed-in tariff. In contrast, the EBRD must ask itself if it is in a country's best interest to offer attractive feed-in tariffs: the Bank's role is strategic, not simply to seek out guaranteed returns on its loans. In this respect, the Bank is right to focus on ensuring clear, objective and predictable regulation as the basis for attracting third party (private) investors. Today, this must also include market structures that allow flexible fossil-fired power plants to recover their capex costs when balancing intermittent renewables and hence running at lower load factors. To this end, EURACOAL supports the Bank's overall goal of integrating renewable energy with conventional energy so that each source participates in the energy market on as similar terms as possible (p.52).

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