EURACOAL
European Association
for Coal and Lignite
AISBL

# EURACOAL Response to Inception Impact Assessments

## Amendment of the EU Emissions Trading System and Amendment of the Effort-Sharing Regulation (EU) 2018/842 (Ares(2020)6081850 and Ares(2020)6081605 – 29/10/2020)

Reducing greenhouse gas (GHG) emissions demands concerted action on all fronts; the EU Emissions Trading System (ETS) cannot be considered in isolation from the Effort Sharing Regulation or any other measures at the EU level, such as minimum tax rates under the Energy Taxation Directive or any carbon border adjustment mechanism. Ideally, there should be convergence towards a single climate policy instrument, but this will take time and require innovation so that economic shocks are avoided.

### *GHG emissions from the coal sector*

Carbon dioxide ($CO_2$) emissions from coal use in the EU have fallen already by over 60% since 1990 – no other sector has made such a significant contribution to reaching the EU's ambitious climate targets. At the same time, coal still provides a reliable and competitive source of electricity in many member states, and coal-fired power plants have become important for backup – both spinning reserve and security standby – as intermittent renewables have grown. Coal remains vital for steelmaking – alternatives being orders of magnitude more expensive.

As a cost-effective bridge to a clean energy system, existing coal plants can be relied on over the coming years. One alternative might be to invest in new gas-fired power plants that would, by necessity, have only short operating lives on the road to carbon neutrality. In some member states, this might be an attractive way to re-use existing infrastructure after the closure of coal-fired power plants, while preserving jobs and electricity supply security. However, such investment decisions are best left to member states who should also be free to retain their coal assets. In any event, the continued operation of existing coal power plants or commissioning of new gas plants are only transitional solutions as new, cleaner energy sources are developed.

### *The EU ETS is working*

To meet EU climate targets in the sectors it covers – including power generation – the EU emissions trading system (ETS Directive 2003/87/EC) is a cost-effective and targeted mechanism. The sectors falling under the EU ETS have a clear pathway ahead that leads towards zero emissions around 2058. An accelerated decline is likely over the two decades from 2030 to 2050, assuming the EU agrees on a 2050 climate-neutrality target. The ETS sectors should not therefore be the target of any disproportionate measures in the next decade, given that substantial reductions have already been and will continue to be delivered by the sectors covered, while non-ETS sectors have delivered much less. EU climate policy must guarantee that utilities can deliver electricity securely, stably and competitively during the decades to come.

The EU ETS should remain the only instrument used to drive down $CO_2$ emissions from the energy sector: it must deliver on the politically agreed climate targets and should only be updated if member states agree to revised targets. Changes to the market stability reserve (MSR) rules or design features, a one-off reduction of the cap or a $CO_2$ floor price are unnecessary and, in our view, inappropriate. Such politically motivated interventions damage what should be a market-based system. A more worldly approach would be to look again at allowing international credits and thus promote international carbon markets – this being an objective of the Paris Agreement. Furthermore, to promote new technologies, emission credits should be available for negative emission technologies (NETs), carbon capture, use and storage (CCUS), low-carbon synthetic fuels and carbon removals through land use, land-use change, and forestry (LULUCF).

## *The socio-economic impacts of the EU ETS are already severe*

The introduction of the MSR in January 2019 led to a sharp increase in ETS allowance prices and their volatility. Prices rose to €30/t$CO_2$, having averaged just €12/t$CO_2$ over the five-year period 2015-19. The impact of these higher prices on coal- and lignite-fired power generation, particularly in Eastern and South Eastern Europe, has been devastating. The impacts are still playing out. For some lignite producers, the ETS has become equivalent to a punitive production tax of 200%.[1] Hence, some member states have been forced to intervene to ensure that power plants continue to operate and the lights stay on in their countries, despite the effective bankruptcy of key public utilities.[2]

## *Socio-economic mitigation measures are needed*

While we support the objectives of the Paris Agreement, the EU's own commitment to this voluntary agreement should not blind us to the economic disadvantage that results from its unilateral embrace in the face of a rising use of low-cost coal to power competitor economies. The economic shock created in some member states by the ETS should be allowed to settle, before any further updates are considered. The frequency of legislative review and revision of EU directives and regulations is of concern as it makes the investment outlook uncertain and insecure – the opposite of what is need for an industrialised society to thrive. The longer-term upsides for small- and medium-sized enterprises and larger companies, who have "the opportunity to gain a first-mover competitive advantage by innovating in sustainable products and processes", and reduced energy import bills, have to be weighed against the immediate downsides of bankruptcies and job losses directly linked to high carbon prices, alongside the demise of the power plants needed to ensure secure electricity supply today. The size of this transition issue is not yet reflected by the size of the proposed just transition measures.

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[1] Assuming a lignite production cost of 15 €/t, a calorific value of 10 GJ/t, a carbon content of 27.6 kgC/GJ and an EUA cost of 30 €/t$CO_2$.

[2] For example, the European Commission approved state aid in Romania under case SA.56250 *Rescue aid in favour of Complexul Energetic Oltenia SA*, JOCE C/112/2020, 3 April 2020. In Bulgaria, the Mini Maritsa-Iztok mining complex reported a loss of BGN 10 million in H1 2020 while the adjacent Maritsa East 2 power plant lost BGN 142 million – almost entirely attributable to the BGN 130 million cost of acquiring EU ETS allowances which accounted for 40% of operating costs.

### *Economic and energy security impacts need to be assessed at member state level*

The potentially very large increase in EU ETS allowance prices, resulting from any tighter 2030 targets or inclusion of other sectors, such as transport and buildings, is of grave concern as it would impact coal use in the short and medium term – a fuel which is crucial for the security of electricity supply in many member states. In all scenarios, coal is needed during a transitional period while cleaner sources of power are deployed. Higher electricity prices would become an unwelcome drag on the EU economy, and value-added production lost due to carbon leakage. The IIA states that the impact assessment, scheduled for Q2 2021, “will assess the impact on sectors currently covered by the ETS, particularly on energy intensive industrial sectors”. We urge the Commission to carry out this assessment at the member state level.

### *There is no one-size-fits-all carbon price*

All sectors – ETS and non-ETS – must reduce their emissions, so effort-sharing legislation must be adapted to ensure all sectors of the EU economy carry the GHG emission reduction burden equally, in a fair and equitable manner. Where emissions trading or carbon levies are contemplated for non-ETS sectors, care should be taken to ensure that price signals are broadly differentiated by sector, because the relative carbon-price impact on emissions varies considerably from sector to sector. Abatement cost convergence will take time and innovation, so separate EU-wide carbon trading or pricing for buildings and road transport might be one way to reconcile the debate on effort-sharing targets and avoid fragmented national measures. In any event, a priority policy objective should be to avoid any further shocks to the sectors currently covered by the EU ETS.

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