

10 June 2016
Centre Albert Borschette

TWELFTH COAL DIALOGUE

The future of coal after COP 21

Programme

Co-chairs:

Klaus-Dieter Borchardt, Director – Internal Energy Market, DG Energy, European Commission

Vladimír Budinský, EURACOAL Vice President (Director, ČEZ Distribuce and Foreign Affairs Advisor, Severočeské doly a.s.)

Welcome and keynotes

Claude Turmes, Member of the European Parliament
(Group of the Greens / European Free Alliance, Luxembourg)

Dumitru Fornea, Member of the European Economic and Social Committee and rapporteur for the EESC own-initiative opinion on “Indigenous coal in the EU energy transition”

Philip Owen, Acting Director – International and Mainstreaming, DG Climate Action, European Commission

Session I – Future perspectives for coal use: COP 21, Energy Union climate targets and international coal markets

“Impacts of COP 21 and the Energy Union on the energy sector and the future of coal globally and in the EU”
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“2030 EU Climate and Energy Framework and the Energy Union”
Tom van der Heijden, Head of Unit – Strategy & Economic Assessment, DG Climate Action, European Commission

“Coal markets: competitiveness of indigenous coal and lignite production and future perspectives for indigenous and international coal”

David Price, Senior Director, Global Steam Coal Advisory, IHS Energy Insight

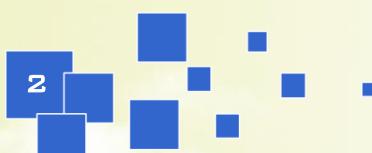
“Technologies: Carbon Capture and Storage in the EU”
Hans Schoenmakers, Project Director ROAD, Maasvlakte CCS Project C.V.

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Brian Ricketts, Secretary General, EURACOAL

Koen Noyens, Manager – Generation, Climate and Environment, EURELECTRIC

Jakub Przyborowicz, Co-ordinator of European Institutions’ Affairs, Central Europe Energy Partners



EC-EURACOAL

Session II – Future perspectives for coal mining in the EU: the social impacts of restructuring and modernisation

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“Use of State aid to moderate the social impacts of coal mine closures in Spain”
Pedro Iglesia Gómez, Director General, CARBUNIÓN

“Coal supply and industry restructuring in Ukraine”
John Woodham, Deputy Commercial Director, DTEK Energy

“New Skills Agenda for Europe”
Michael Horgan, Policy Officer – Skills and Qualifications, DG Employment, Social Affairs and Inclusion, European Commission

Comments:

“Coal industry restructuring – lessons learnt from Germany”
Franz-Josef Wodopia, Managing Director, VDKi – Coal Importers Association

“Indigenous coal in the EU energy transition”
Renata Eisenvortová, ZSDNP – Employers’ Association of Czech Mining and Oil Industries,
Member of the EESC Consultative Commission on Industrial Change and European Affairs Manager,
Severní energetická a.s.

Conclusions

Klaus-Dieter Borchardt, Director – Internal Energy Market, DG Energy, European Commission

Vladimír Budinský, EURACOAL Vice President (Director, ČEZ Distribuce and Foreign Affairs Advisor, Severoceske doly a.s.)



“Black meets Green”

EURACOAL Vice President Budinský (left) with MEP Turmes

All presentations are available on the EURACOAL website (www.euracoal.eu)
– only selected slides are included in this summary report.

Introduction

Article 11 of the Treaty on European Union contains various provisions to help promote a system of representative democracy in Europe. To that end, the European Commission maintains an open, transparent and regular dialogue with representative associations on topics of importance.

The 12th Coal Dialogue, jointly organised by the European Commission DG Energy and the European Association for Coal and Lignite (EURACOAL), examined the future role of coal after the recent round of climate negotiations (COP 21) in Paris. The dialogue was structured around the following themes: outcomes from the Paris Climate Change Conference, the Energy Union climate targets, international coal markets and the social impacts of coal industry restructuring and modernisation.

Welcome

Klaus-Dieter Borchardt, Director – Internal Energy Market at DG Energy, opened the 12th Coal Dialogue together with EURACOAL Vice President, Vladimír Budinský, recalling the most important developments of 2015: the COP 21 Paris Agreement and reform of the EU Emissions Trading System (ETS). They welcomed speakers, including MEP Claude Turmes (Greens/EFA, LU) and Mr. Dumitru Fornea, a member of the European Economic and Social Committee (EESC).

Turning to the global coal market, Mr. Borchardt noted a slight decline in coal demand in 2015, with consumption levelling off in China, the largest coal consumer. As a result, coal prices remained very low, hurting producers.

He then reflected on the Paris Agreement, which he said would have a major impact on the climate agenda. He recalled the EU's 40% greenhouse gas (GHG) reduction target for 2030, which is now binding at the international level. While the coal industry had been reluctant to include COP 21 as a key point on this Coal Dialogue agenda, Mr. Borchardt expressed his view that full account must now be taken of the official agreement.

Bearing in mind that coal represents one quarter of EU electricity demand, mostly from indigenous coal, and supports 300 000 direct jobs, millions of people would be affected if coal mines were closed. The Commission recognises this as a great challenge and legislation cannot just roll over the sector. Director Borchardt concluded that the Commission was interested to hear industry's opinion on how to deal with this challenge.

Vladimír Budinský, Vice President of EURACOAL, observed that there are some member states which intend to phase out of coal: a reality of declining coal production in Europe. For example, the phase out of coal mining is planned in the Czech Republic after 2050, he said.

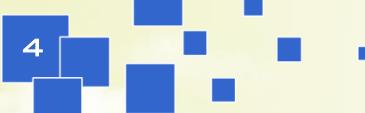
At the same time, Japan is building a new generation of coal-fired power plants: forty units that will assure 20% of Japan's electricity supply. In the US, coal's share of power generation is likely to be over 20% in 2030. Elsewhere, China will maintain its high level of coal consumption, while India is adding new coal capacity. Given this context, Mr. Budinský said that Europe should not throw away its technological knowhow or dismiss the millions of people who depend on the industry, often entire cities and regions.

Keynotes

MEP Claude Turmes (Greens/EFA, LU) noted that, on one day in May 2016, 95% of German electricity demand was met by renewable energy sources. He linked this statistic to the enormous overcapacity in the electricity market and expected low electricity prices to continue for another two to three years.

He noted that the depressed state of the world hard coal market was putting pressure on all hard coal mining companies. Putting further pressure on coal, Mr. Turmes predicted "a sea of cheap gas" as the fall in oil prices over the last two years fed through oil-indexed contracts into lower natural gas prices.

On renewable energy sources, he considered that wind turbines and storage batteries would become cheaper in the future. This, he said, would create problems for the economics of carbon capture and



storage (CCS). He gave the example of the Danish company, DONG, which had important coal assets and yet was now a large offshore wind project developer. Finally, he noted that the carbon price floor in the UK had pushed some coal-fired power plants into loss, as would the recent proposal for a similar tax in France.

Mr. Turmes concluded by reiterating his three main points: there is no room for coal in the future EU energy mix; the EU must be consistent with its climate and energy policies; and the EU needed a response to the difficult question of coal in the *energy transition*.

EESC Member, **Dumitru Fornea**, commented on the recently adopted EESC opinion on coal and lignite for which he was rapporteur. Many voices were against the own-initiative opinion, he said, but, after several months of discussion, it was adopted in a Plenary session on 25/26 May 2016. However, the opinion had suffered from numerous modifications, including a change of title, when compared with the original opinion prepared and adopted by the EESC Consultative Commission on Industrial Change.

Mr. Fornea considered that there was certainly a place for coal in the future, as confirmed by all EESC groups in the adopted EESC opinion – employer, employee and various interest groups. While climate change cannot be ignored, the EESC writes of the transition “covering two generations”, a timeline that all groups accepted.

He called on politicians to raise awareness of the problems in coal-mining regions and take clear decisions on the future of those regions after 2018 when State aid ends according to Council Decision 2010/787/EU. Beyond that, there is now an ideological debate, he said, on whether pushing industrial production outside Europe is really beneficial, if it simply means pollution elsewhere. He pointed to India where the Ministry of Energy plans to open forty new coal mines while developing new coal-fired power plants.

Mr. Fornea concluded that a more intelligent social policy and more empathy towards mining regions are needed: coal mining needs a forward plan, not ideological declarations.

Philip Owen, Acting Director – International and Mainstreaming at DG Climate Action in the European Commission, presented the Commission’s views on the Paris Agreement. He reiterated that the *energy transition* is “irreversible and non-negotiable”, with costs to 2030 estimated by the International Energy Agency at US\$ 30.5 trillion. Mr. Owen believed carbon trading would play an important role and noted that China, South Korea and Taiwan would follow the EU with a common carbon market. He considered that it was time to eliminate fossil fuel subsidies and that civil society had a role to play in the transition.



Road from Paris actions

- Energy Union transition
- Innovation and competitiveness
- Investment and capital markets
- Carbon pricing and fossil fuel subsidies
- Civil society and smart cities
- Climate diplomacy and global action
- 2030 energy and climate regulatory framework



The Commission official presented the regulatory steps planned for 2016 and 2017, particularly those related to the non-EU ETS sectors which cover 55% of Europe’s GHG emissions. The de-carbonisation of transport, the sustainability of biomass and the energy efficiency of buildings will all be targeted.



Future regulatory steps

2016:

- Effort sharing decision
- Land use, land-use change and forestry
- Decarbonisation of transport
- Security of gas and electricity supply
- Renewable energy and sustainability of biomass
- Energy efficiency including buildings

2017:

- Further proposals on transport



Director Borchardt added that a proposal on a new electricity market design – covering wholesale and retail – would also be proposed in 2016.

In the Q&A session, Patrick Clerens, Secretary General of the European Power Plant Suppliers Association (EPPSA), asked MEP Turmes why CCS was unlikely to happen given that CCS would be needed to avoid the de-industrialisation of Europe. MEP Turmes admitted that he was one of the few Greens not ideologically opposed to CCS. While he agreed that CCS technology is needed, he repeated his point on whether the technology would ever be competitive. The MEP argued that gas-fired CCGT power plants were more flexible than coal-fired plants and that the gas market was shifting against coal. He also considered that while China was still interested in coal, India would use solar PV as the main source of electricity in the future.

Director Borchardt noted that carbon capture and utilisation (CCU) was another route to carbon capture competitiveness, giving the example of Mitsubishi which had built an interesting CCU plant in Iceland.

Prof. Wodopia, Managing Director of the Coal Importers' Association (VDKi), noted that policies which blocked European financing of coal-fired power plant projects, such as the European Investment Bank's energy lending criteria, had led to an increase in investments backed by Chinese contractors and banks.

Mr. Fornea agreed, arguing that Europe had suffered from a massive de-industrialisation which left overcapacity in the power generation market. At the same time, de-industrialisation had led to an increase of emissions elsewhere, more than if industry had stayed in Europe. He again said that too much debate in Brussels was clouded by ideology, instead of being driven by facts.

Sessions

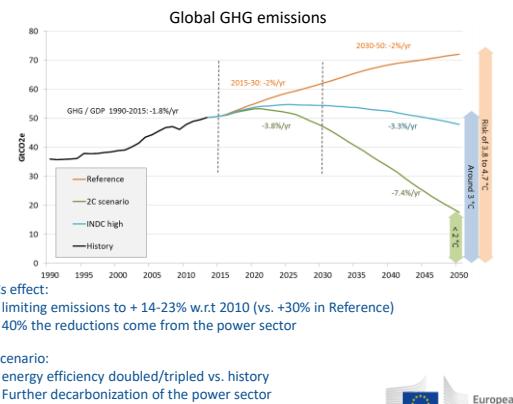
Session I: Future perspectives for coal use: COP 21, Energy Union climate targets and international coal markets

Anna Colucci, Head of Unit – Retail markets; coal and oil in DG Energy, opened the session.

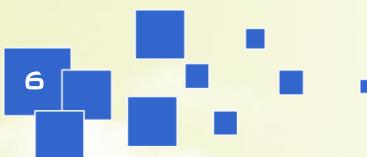
Impacts of COP 21 and the Energy Union on the energy sector and the future of coal globally and in the EU

Alban Kitous, a Researcher at the European Commission Joint Research Centre, presented the centre's Global Energy and Climate Outlook (GECO) – an impact analysis of climate policies on global energy markets. The paper uses as a reference the announced climate and energy policies to 2020, the Intended Nationally Determined Contributions (INDCs) submitted to the UNFCCC and the GHG emission reductions to 2050 recommended by the IPCC.

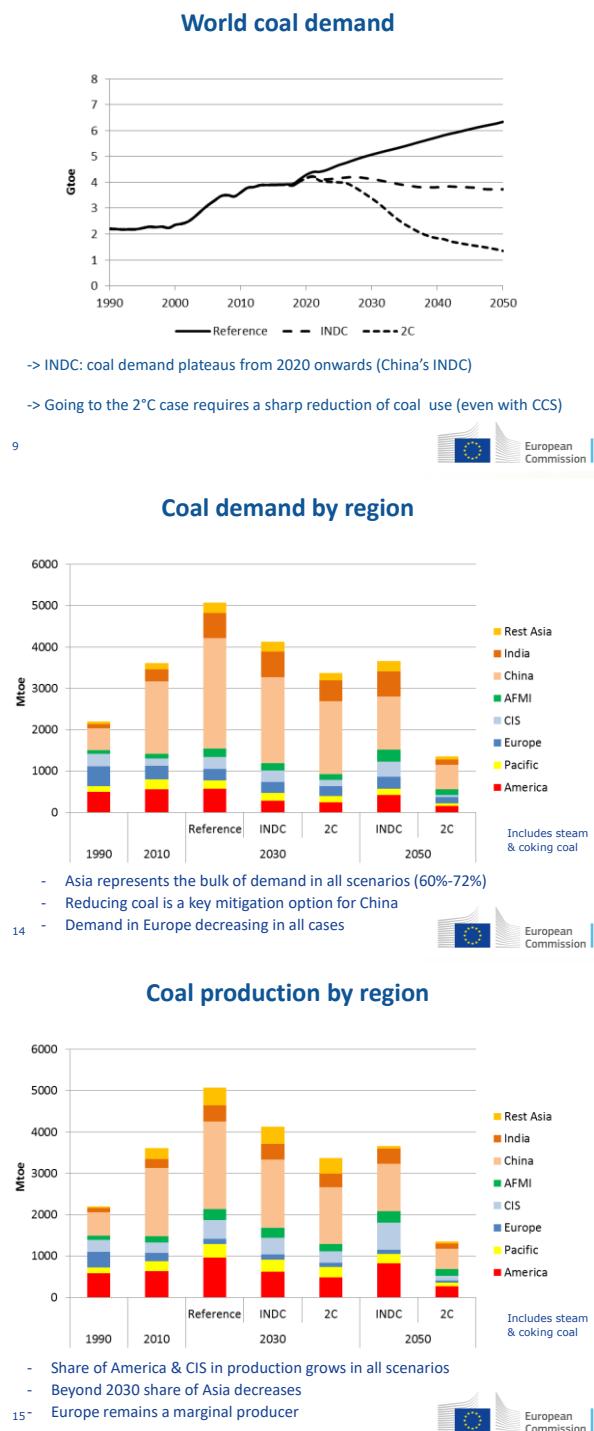
Framing scenarios and INDCs



According to the analysis, world coal demand will reduce slowly in response to the INDCs and would plummet if IPCC recommendations were to be followed. Analysis by region shows that Asia represents the bulk of coal demand in all scenarios (60% to 72%). Concerning coal production, the share of American and CIS countries in production grows under all scenarios, while Europe remains a marginal producer. Coal trade increases in all scenarios; only in the 2°C scenario by 2050 does it return to the



2010 level. American and CIS countries are expected to be the main exporters to Asia and Europe.



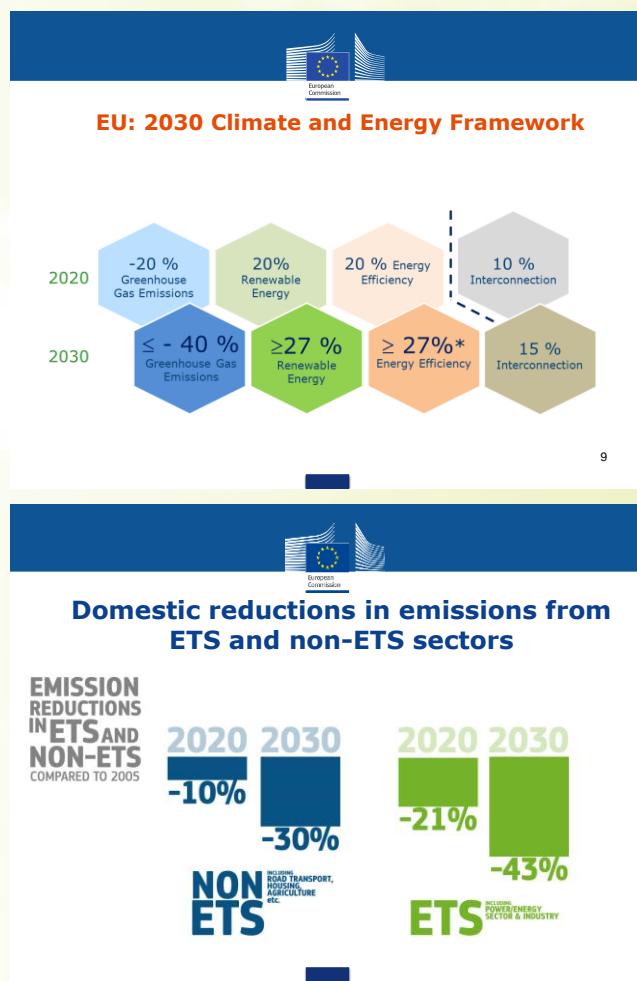
2030 EU Climate and Energy Framework and the Energy Union

Tom van Ierland, Head of Unit – Strategy and Economic Assessment at DG Climate Action, focussed on the 2030 Climate and Energy Framework and Energy Union. He noted that the GHG emission reduction target of -20% by 2020 had already been achieved (-23% in 2014), reflecting a long-term decoupling of GDP growth and emissions.

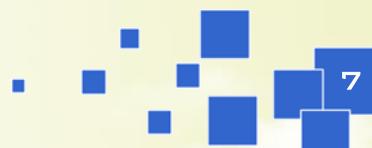
Tom van Ierland



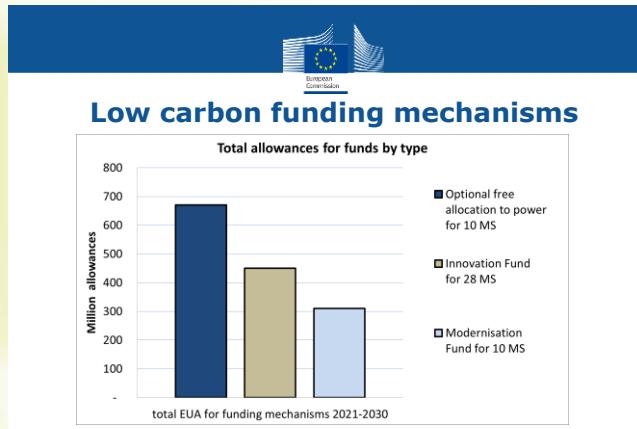
The challenge now was to restore the EU ETS as the central instrument to decarbonise the economy. On energy efficiency, there was significant progress towards the 2020 target, including vehicle emission limits, energy efficiency standards (e.g. light bulbs, appliances and electric motors) and product labelling (e.g. domestic appliances). However, he said that there was still untapped potential in buildings and transport. While renewables have important effects in terms of emission reductions, to become No. 1 in renewables would be a challenge alongside their market integration.



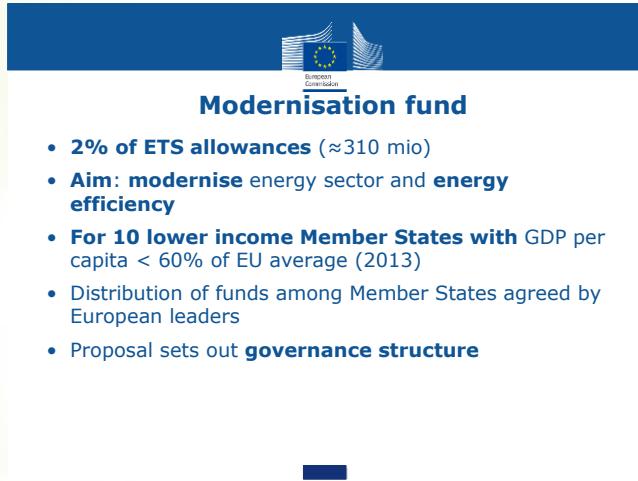
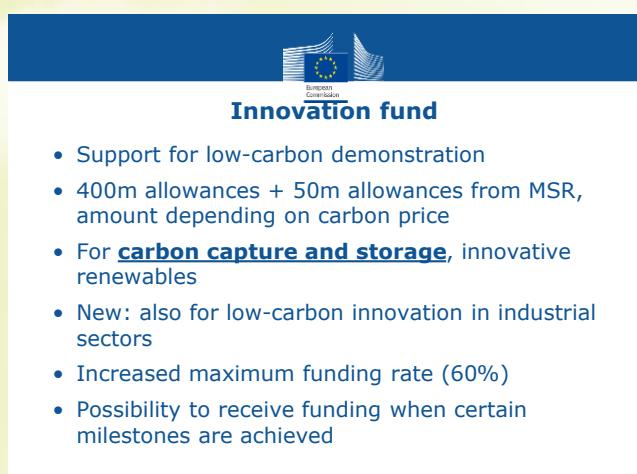
Mr. van Ierland turned to upcoming policy initiatives under Energy Union. In 2015, there had been the EU ETS review and start of the reform process. In 2016, a series of other initiatives will include member states' targets for the non-ETS sectors, inclusion of



LULUCF in the legal framework, decarbonisation of the transport sector, more on energy efficiency, electricity market design and work on renewables (including biomass and biofuels), all within an integrated climate and energy governance structure.



The EU ETS is the flagship EU policy to achieve defined political targets. From an economic perspective, the ETS enables a smooth transition to a low-carbon economy through emission allowance scarcity and a related price signal.



In the final part of his presentation, Mr. van Ierland described the Commission proposal to reform the EU ETS. The system is important for the environment as it guarantees a particular outcome due to the declining emission cap: -2.2% annually from 2021. To alleviate its impacts on industry, it is proposed to continue the system of free allocations and to introduce an Innovation Fund and a Modernisation Fund.

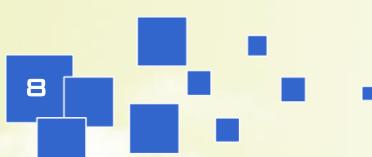
Coal markets: competitiveness of indigenous coal and lignite production and future perspectives for indigenous and international coal

David Price, Senior Director – Global Steam Coal Advisory at IHS Energy Insight, offered his overview of the global coal market.



David Price

Mr. Price agreed that the global oversupply of coal had gone beyond all expectations, but would eventually decline as mines reduce output or close, possibly faster than currently projected. Global steam coal demand had been weak and, for the first time this millennium, declined in 2015 (-6%) and may decline further in 2016. Steam coal prices early in 2016 were around US\$ 45 per tonne (CIF ARA), the lowest since 2003.



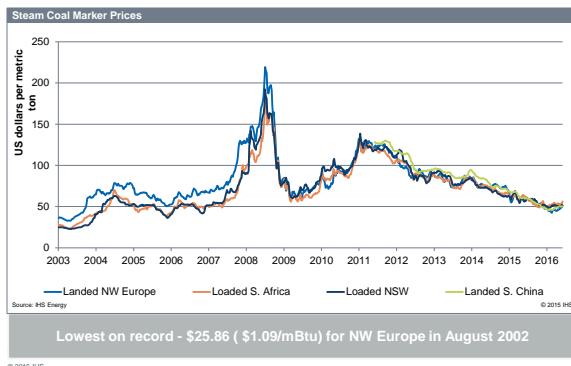
Today's coal market overview—Grim, but some light at the end of the tunnel?

- Global oversupply beyond expectations, but narrowing, possibly faster than currently projected
- Global steam coal demand has been weak, and for the first time this millennium declined in 2015, by 6%, further declines likely in 2016
- Prices, at c. \$45/t CIF ARA early this year, were the lowest since 2003
- Producers are really beginning to feel the pressure of today's low coal prices – foreign exchange and oil price movements have helped but there remains a need for real cost cuts – some cannot do more
- Mine closures and divestitures increasingly becoming the norm
- Low gas prices and raised carbon floor price are already displacing coal in the UK and the rest of Europe is catching on, but spreads remain in favour of coal in most of Europe and in Asia.
- Potential for LNG glut later in the decade should be focusing minds further – can coal compete on a variable cost basis?

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Prices – have we found a floor yet? - Possibly



He went on to explain that coal producers were feeling the pressure of low coal prices – foreign exchange and oil price movements had helped, but there remained a need for real cost savings. Mine closures and divestments were increasingly becoming the norm, he said. Furthermore, low natural gas prices and a rising carbon price floor had already displaced coal in the UK and he expected the same trend to be seen in the rest of Europe. Nevertheless, price spreads remained in favour of coal in most European and Asian countries. Freight rates had remained lower than expected and Mr. Price believed that recovery would come in a year or so.

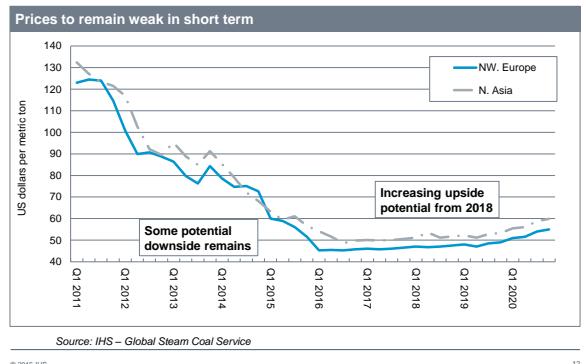
So has anything changed since Christmas?

- Prices aren't falling – three months in the mid-\$40s delivered NW Europe and, the most recent movement has been upward to around \$50
- Big supplier adjustments are continuing and spreading
 - The growth has gone, across the board, Indonesian exports still falling
 - Colombian suppliers shipping to Asia – market rebalancing has begun?
- Foreign exchange rates have steadied, after the commodity economy depreciations of 2015
- Oil is up, albeit only by a little
- Freights have remained lower than expected and recovery is still at least a year away
- Gas oversupply is now hitting the market
- After El Nino comes . . . La Niña . . . Brace yourselves for supply side disruptions

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On the positive side, he reported that coal prices were no longer falling and had actually recovered slightly since the beginning of the year. Oil prices were also up, albeit only slightly. Mr. Price expected that coal prices would stay low through 2017, with increasing upside potential from 2018 onwards. He argued that the longer the period was with low prices, the greater would be the chance of a significant price spike at some point.

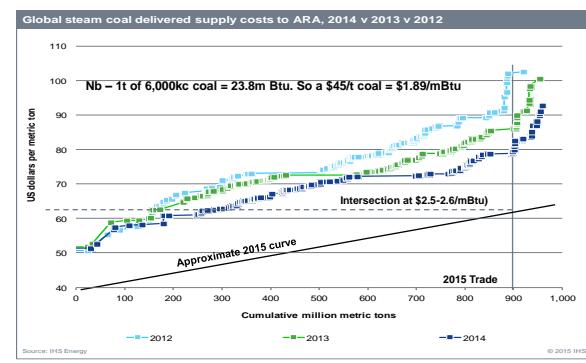
Prices should stay low through 2017



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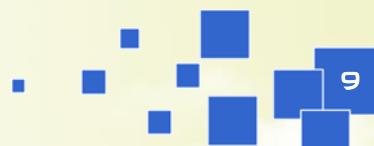
Chinese coal production is estimated by IHS to have fallen by 3.2% in 2015, to 3.76 billion tonnes, and is expected to fall a further 4.2% in 2016, to 3.6 billion tonnes. With the measures announced to close coal production capacity in China, further reductions could follow in 2017 and 2018. Elsewhere, Mr. Price saw signs that even major exporters were reining back, even though they continued with expansion projects as late as 2015; overall, coal exports had stopped growing.

Costs delivered to ARA – 2012-15



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Future demand is likely to come from India, he forecast. Despite setbacks in 2015, the outlook for coal imports into India remained bright in the medium term, but also into Bangladesh, Pakistan and Sri Lanka. South East Asia, South Korea, Taiwan, Japan, the Middle East, Turkey and some North African nations would also add to future demand, according to Mr. Price.



On the corporate scene, the major international mining companies had been shedding their global coal assets to trim costs. In the US, some significant Chapter XI filings had left the coal mining sector looking much weaker, notably with the failure of Arch and Peabody. The buyers of these companies' mining assets are small players looking to expand with minimal capital expenditure, and hedge funds or investment funds looking for opportunistic plays.

COP-21 - lots of good intentions at Paris but did they achieve anything?

- Strip away the rhetoric and there's not much meat but . . .
 - It's backed up by 185+ new national climate goals. These will be binding targets
 - The developed World has pledged serious money to support the developing World to achieve the new goals – will it be forthcoming?
 - These goals and the efforts being made will be reviewed every five years.
 - Negotiations are under way for how to police targets
 - And how to punish those not meeting targets
 - The World has committed unanimously to keeping temperature increase to no more than 2 degrees Centigrade – a commitment that looks on the impossible side of very difficult
 - COP-21 is no real threat to coal before the 2020s, but will become increasingly so, so it is a long-term threat to coal
 - There has been a change in the global Zeitgeist on coal
 - Big Oil & Gas ganging up on "Dirty" Coal and the politicians are listening
 - Ultimately a shot in the foot for the "clean" fuel?

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Finally, on COP 21, Mr. Price did not consider this to present any real threat to coal before the 2020s, but would become increasingly important in later years; it was a long-term threat to coal. He observed a bigger threat to come from the big oil and gas companies who were clearly ganging up against coal and influencing politicians.

Technologies: Carbon Capture and Storage in the EU

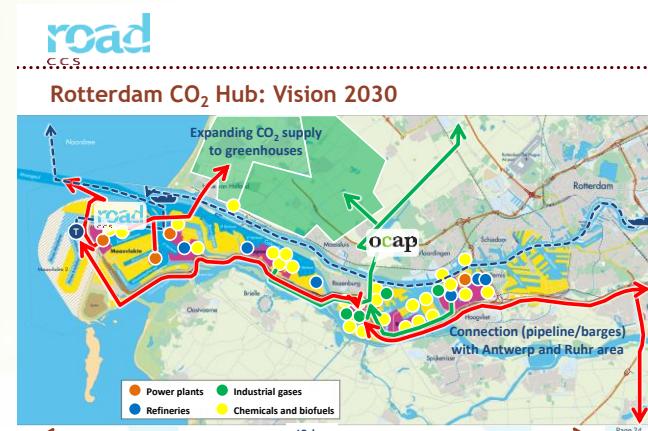
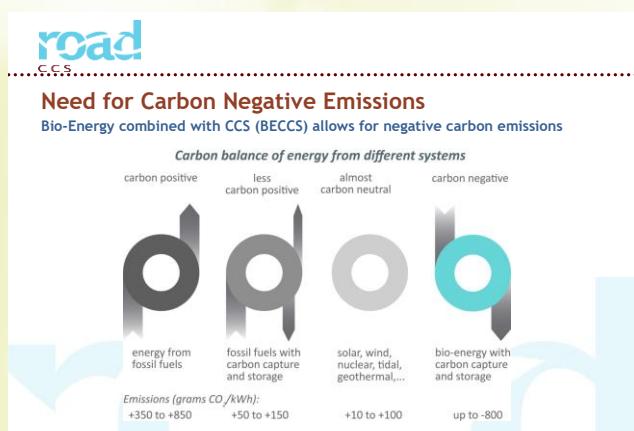
Hans Schoenmakers, Project Director, presented the Maasvlakte CCS Project which is also known as the ROAD project. He noted that coal was under severe political pressure in Europe, particularly in the UK, Germany and the Netherlands. Referring to COP 21, the 1.5°C scenario requires negative carbon emissions from the energy sector and users of coal needed to be mindful of such targets.

In an ongoing debate on coal, the Dutch Parliament passed a motion requiring the government to develop a plan to phase out coal-fired power plants. No date is given in the motion, but 2020 or 2025 are discussed; the government will report back in autumn 2016 with a proposal. Neither the Minister of Economic Affairs nor the Prime Minister support the early closure of all coal-fired units, but a majority in the current parliament does support such action.



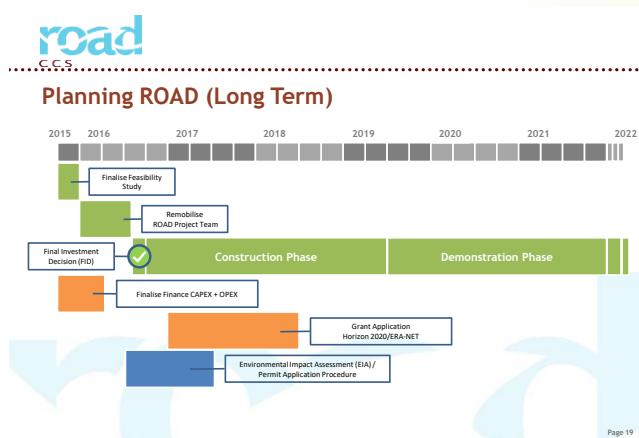
Turning to natural gas production, Mr. Schoenmakers said that earth tremors at the Groningen gas field in northern Netherlands were a real problem. These would likely lead to restrictions on existing onshore gas production and tighter regulation of new productions, followed by concerns about import dependency and measures to reduce natural gas demand, he said.

Given the fact that full substitution of coal by gas is unlikely, there is a need for CCS which can give very low carbon emissions or even negative carbon emissions, both of which the Maasvlakte CCS project can deliver. It is a joint venture of Uniper and ENGIE, in co-operation with Oranje-Nassau Energie and the Port of Rotterdam with financial support from the European Commission, the Government of the Netherlands and the Global CCS Institute.



The main challenge for the project developers is financing and alternative funding sources have been pursued. Other problems referred to by Mr. Schoenmakers include the harsh political environment and the permitting regime for the storage site. For the latter, a solution is expected.

The developers' vision is for the project to become the CO₂ hub of northwest Europe as it lies conveniently between industrial areas with many large CO₂ emitters and numerous offshore gas fields that are depleted or will become depleted and available for CO₂ storage over the coming years. Mr. Schoenmakers concluded that a combination of low-carbon energy technologies would ultimately facilitate the negative emissions scenario required by the Paris Agreement.



Comments

Before addressing *the future of coal after COP 21*, **Brian Ricketts**, Secretary General of EURACOAL, thanked the Commission for hosting the Coal Dialogue and noted the many participants, not only from the EU, but also from Ukraine, Russia and the US.

After COP 21, carbon prices in the EU ETS collapsed from €8.60/tCO₂ to less than €5.00/tCO₂. According to Mr. Ricketts, this was evidence that the market does not believe that the Paris Agreement is as strong as the "legally binding" agreement portrayed by the European Commissioners – and earlier by Philip Owen. He said that it was only legally binding on the EU which was a problem.

Turning to the coal industry, Mr. Ricketts observed an economic depression, because coal prices had been falling for six years: down to US\$ 42.43 per tonne in February 2016. Low coal prices were crippling the industry, not just in Europe, but in the US and in China, he said. Contrary to what the Green

movement and some NGOs claim, Mr. Ricketts said that the coal industry is suffering not because people want to move away from coal, but because of market economics.

He referred to China's WTO entry in 2001 and the ensuing flood of cheap products, made possible because China's massive labour force – with its low wages – was suddenly able to compete on the world stage. The world boomed and coal demand tripled to seven billion tonnes compared with the 1980s. Today, he observed, the coal market is severely oversupplied, because of rash investments made during the boom years.

Coal producers were hanging on, in the hope that others exit. In the US, mines were closing, he said, not because of any Green revolution, but because the US now benefits from cheap shale gas; it was economically sensible for the US to make the most of that structural change, he said.

Elsewhere, coal demand is set to rise: for example, Japan is building forty new coal-fired power plants while South Korea is constructing or planning to open twenty new coal plants by 2022. Mr. Ricketts said that it was the same story in many developing and developed countries, including the Netherlands where three large new coal plants are being commissioned.

When the Director General for Energy, Dominique Ristori, was appointed in January 2014, he had called for "more realism and less ideology". Mr. Ricketts worried that the EU was moving away from a competitive internal energy market, supplanted by an *energy transition* that ignores the economic benefits of using fossil fuels. He added that the environmental costs of fossil fuel use – of which there are many – were always assessed in Commission papers, but never the economic benefits.

Mr. Ricketts suggested that it was the EU's commitment to the climate agenda that led Europe to forge ahead with diesel-engined cars. The impact on public health has been enormous. Rather curiously, he said, the coal industry is now paying the penalty, because the Commission is focussed on reducing the *total mass* emissions of NOx and particulates. Coal-fired power stations have again become a target, under the revision of the LCP BREF, even though it is not the emissions from coal plants that people have to breath in our towns and cities.



Turning to European unity, he worried that the coal sector was being alienated. The 300 000 workers who depend on coal in Europe understand that the EU accounts for only 10% of global GHG emissions and wonder whether it is a good idea to set targets that will eliminate coal in Europe, given that the EU alone cannot solve the climate challenge.

He opined that the open cycle gas turbines, mentioned by MEP Turmes, might be cheap to build, but they are not efficient and still emit carbon, finally arguing that coal can make the *energy transition* more affordable and more secure by providing a competitive backup for wind and solar power.

Koen Noyens, Manager – Generation, Climate and Environment at EURELECTRIC, considered the Paris Agreement to be a game-changer for the power sector which was committed to an accelerated decarbonisation. He noted that the sector was well on track to become carbon neutral by 2050 and reminded participants that the carbon intensity of the European economy had reduced massively.

On coal, he observed that its share in the electricity generation mix had declined slightly, to around one quarter in 2015. Nonetheless, coal would remain in the mix for the foreseeable future, he said. The important thing would be to ensure a smooth transition and, for that, proper carbon pricing was needed through a strengthening of the EU ETS to give a clear investment signal.

However, EU member states have diverse energy sectors and appropriate support should be given to those faced with high carbon costs, he suggested. In this regard, the proposed Modernisation Fund and rules on free allocations would be important.

Finally, the transport and the heating sectors are important for decarbonisation and Mr. Noyens said that electrification of these sectors could bring important benefits.

Jakub Przyborowicz, Co-ordinator of European Institutions' Affairs for the Central Europe Energy Partners (CEEP), noted that, according to the International Energy Agency, coal will remain an important fuel for the power sector until 2040. For example, even with the *Energiewende*, German imports of steam coal increased to 42 million tonnes in 2015.

Mr. Przyborowicz agreed with EURELECTRIC that the ETS should remain the main instrument for achieving EU climate targets and noted that the system had already hit the agreed target. Even for 2030, 24-26% of the 40% reduction was already achieved, he said. On the Commission's proposal for ETS reform, CEEP was against the market stability reserve (MSR) mechanism, but supported the Modernisation Fund which was much needed in the poorer EU member states.

Emissions *per capita* are an important factor and Poland's emissions are lower than Germany's, for example. He considered that Poland would fulfil its obligations under the Paris Agreement in the most cost-effective way. Central European countries are not rich and yet need to invest significantly to comply with EU climate targets. Here, Mr. Przyborowicz recalled that, according to the Treaty on the Functioning of the European Union (TFEU), member states are free to decide on their own energy mixes.

In the Q&A session, MEP Turmes asked Mr. Schoenmakers what share of funding came from the EU in the case of the Maasvlakte CCS project and what CO₂ price would be needed to secure the remaining project financing. Mr. Schoenmakers replied that current financing is around €400 million, with the EU contributing around €180 million. To break even, the CCS project would need a carbon price of around 30 €/tCO₂e, he confirmed.

Paul Storme of Catteaux Oil and Gas enquired how much electricity was produced from biomass in the EU [86 TWh or 2.7% of total generation in 2014] and whether it was actually feasible to completely replace coal at coal-fired power plants, as called for by some. Mr. Schoenmakers replied that an enormous quantity was indeed needed, citing the entire growing area of the Netherlands from one study.

Philipp Nießen of BDI, the German Business Association, noted the global divestment campaign against fossil fuels and asked about the importance of East Asian finance, such as from China. Mr. Price replied that it was difficult to answer, but the return on investments in the power sector was currently low so there was little activity in Europe. Mr. Ricketts added that there were some coal-fired power projects in Europe with Chinese financing, for example the Stanari project in Bosnia-Herzegovina.

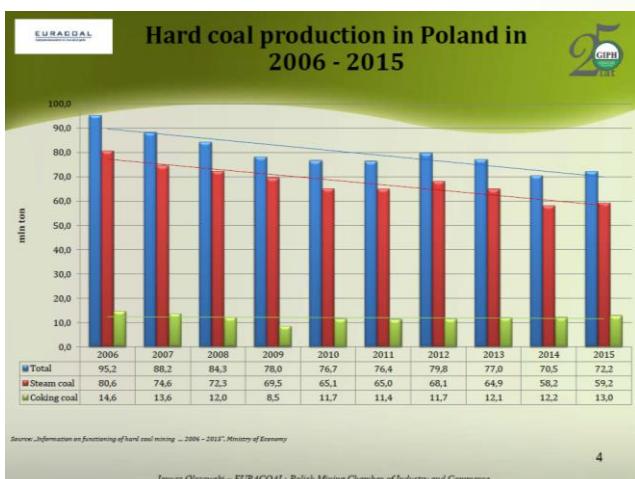
He explained that this modern power plant had been built by Donfang Electric Corporation with financing from the China Development Bank. He lamented that European power plant suppliers were not in a position to compete given the lack of support from the European Investment Bank and other banks.

EESC Member, Mr. Fornea, asked what Poland would do after COP 21. Mr. Przyborowicz replied that there would be a long transition period, with gas as part of the solution, but also investment in coal – hence the Modernisation Fund would be important. Ms. Colucci of DG Energy intervened, noting that State aid rules could not be ignored. MEP Turmes again stated that subsidies for wind energy had led to a reduction in electricity prices, while Mr. van Ierland noted that the EU ETS reform proposal covered some of the concerns expressed.

Session II: Future perspectives for coal mining in the EU: the social impacts of restructuring and modernisation

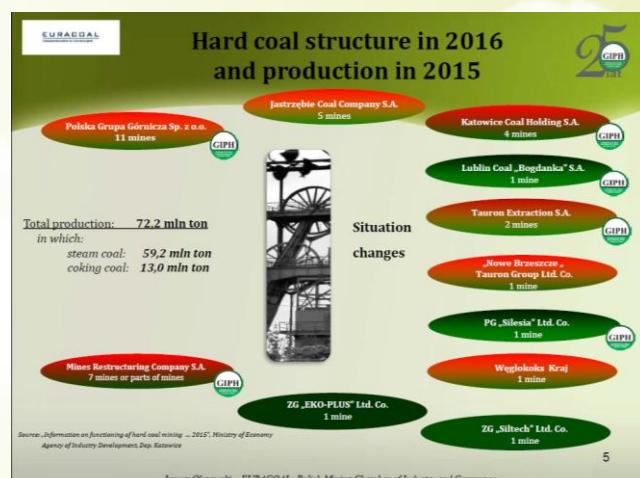
Plans for coal industry restructuring and modernisation and the expected social impacts in Poland

Magdalena Chawuła-Kosuri, Deputy Secretary General of EURACOAL, spoke on behalf of EURACOAL Vice President Olszowski, President of the Polish Mining Chamber of Industry and Commerce (GIPH). She presented the ongoing process of hard coal industry restructuring in Poland, noting straightaway that restructuring does *not* mean phasing out.



With coal prices falling by one half over the last two years, the time had come to change the vast organisational structures of Polish mining companies. The biggest mining company in Europe, Kompania Węglowa (KW), faced bankruptcy and urgently needed a recovery plan. It was not easy, even with the government strongly involved, to reach an agreement with powerful trade unions.

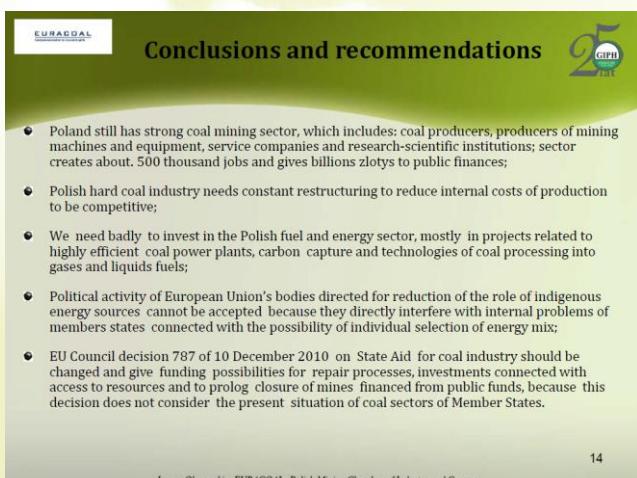
In January 2015, the first scheme was agreed by all parties which gave a direction to follow and, later, the government began negotiations with the European Commission on a State aid notification. This process is ongoing with a decision much awaited by industry. In the meantime, some assets were sold to other companies: unprofitable assets with little prospect for improvement were transferred to Spółka Restrukturyzacji Kopalń (SRK – Mines Restructuring Company) for eventual closure, with certain social shock absorbers in place to assist employees. With this, unprofitable mines will disappear – the number of employees has already reduced, with further reductions planned.



As of 1 May 2016, after tough negotiations, a new company was established, Polska Grupa Górnictwa (PGG – Polish Mining Group) based on an agreement signed by the Polish government, represented by Prime Minister Szydło and Energy Minister Tchórzewski, with a group of investors: Energa SA, Fundusz Inwestycji Polskich Przedsiębiorstw (FIZAN – Polish Business Investment Fund), PGE Górnictwo i Energetyka Konwencjonalna SA, PGNiG Termika SA, TF Silesia sp. z o.o. and Węglowisko Kraju, alongside five banks who agreed to postpone debt repayments and swap debt for equity. This solution saved 32 000 jobs in PGG and 100 000 jobs in the 2 500 companies who were creditors of KW, being owed PLN 3.5 billion – an important outcome for the Silesian region where most of the jobs are concentrated.



EURACOAL members see Council Decision 2010/787/EU as an inappropriate framework for the current situation in Poland. The coal industry believes that member states have a right to decide on their own energy mixes and, given that each country has unique energy resources, they should be treated individually and not with a one-size-fits-all decision with a deadline that is no longer appropriate for some member states.

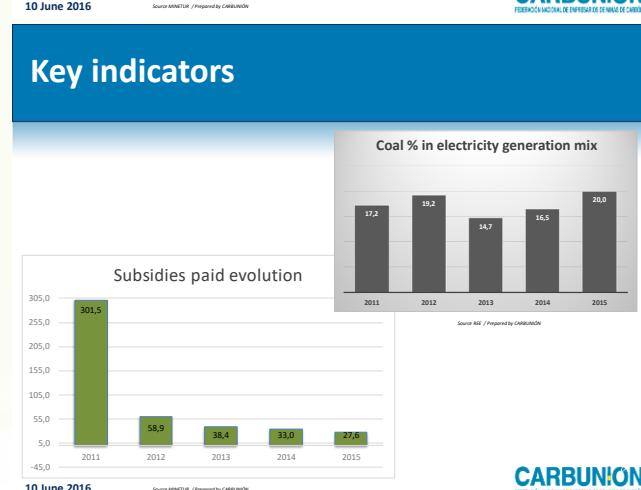
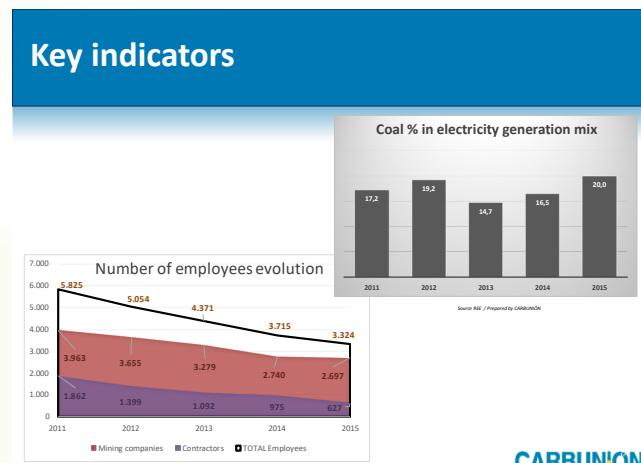
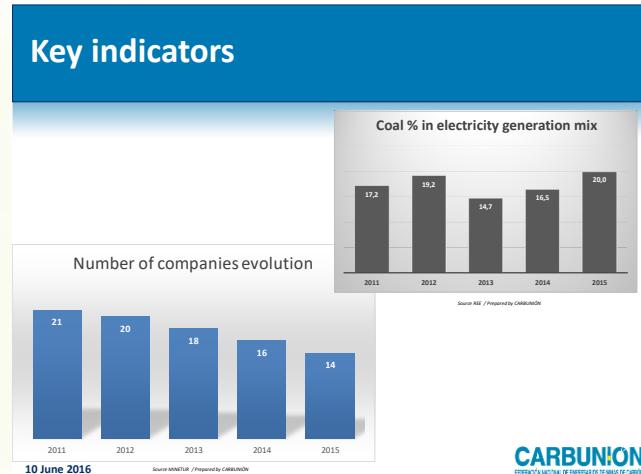
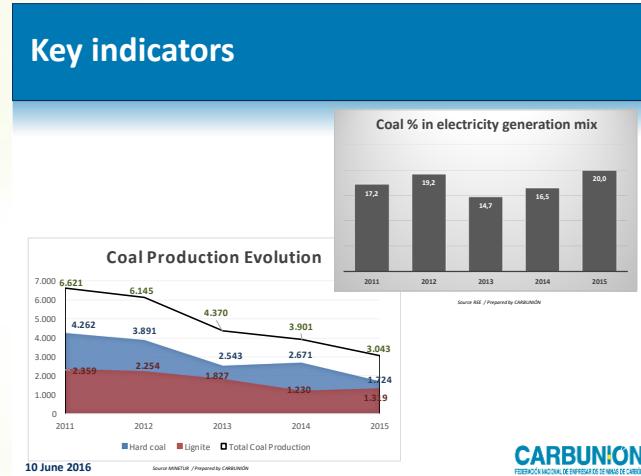
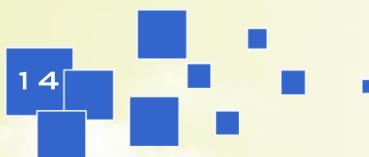


Use of State aid to moderate the social impacts of coal mine closures in Spain

Pedro Iglesia Gómez, Director General of CARBUNIÓN (Spanish Federation of Coal Producers), presented the situation in Spain. He began with some key indicators to show how the coal mining sector had evolved between 2011 and 2015.



Pedro Iglesia Gómez



He then turned to the Commission press release dated 27 May 2016 which announced that the Commission had approved Spanish plans to grant €2.13 billion in aid for the orderly closure of twenty-six uncompetitive coal mines, the plan being in line with EU State aid rules.

Press release issued by the Commission

- In April 2016 Spain notified plans to grant public support to the operators of 26 coal mines that are due to be shut down until 2018. The aid aims to ease the closure process by covering production losses of the mines until closure. It will also provide financial support to those workers, who have lost or will lose their jobs due to the closures, by funding severance payments and social security benefits. Furthermore, it will finance the safety and remediation works necessary after the mine closures.
- The Commission concluded that the plans are in line with EU state aid rules, in particular Council Decision 2010/787/EU. This allows Member States to cover production losses and certain exceptional costs arising from the closure of uncompetitive coal mines, in order to alleviate the social and environmental impact. This requires in particular that mines receiving such aid must be wound down by the end of 2018 at the latest.
- The Spanish authorities have given a commitment to recover any aid from mines that have not been closed by that date.
- Aid to cover exceptional costs resulting from closure activities can be paid out even after the closure until 2027 and must also be based on an agreed closure plan.

10 June 2016



Neither CARBUNIÓN nor the trade unions had any knowledge about the closure plan notified by the Spanish government to the EU Commission, despite repeated promises from the government since 2013 to provide details, including again a promise made on 5 May that was still not honoured. Accordingly, Mr. Iglesia Gómez did not know what the effects would be of the approved plan. He was therefore only able to outline the history of the closure plan.

Spanish plans for the orderly closure of 26 uncompetitive coal mines

- February 2012: Spanish Government initially notified to EU the closure plan which was removed three months later.
- Begin of October 2013: Sectorial Agreement signed by Spanish Government, Trade Unions and CARBUNIÓN Employers.
- End of October 2013: A new closure plan was notified to the EU Commission by the Spanish Government.
 - Neither CARBUNIÓN nor the Trade Unions know its content.
 - This plan was not initially approved by the EU Commission.
- May 2016: EU Commission approve Spanish closure plan, according to the press release information.
 - Neither CARBUNIÓN nor the Trade Unions know its content.

10 June 2016



Mr. Iglesia Gómez made the following points:

- CARBUNIÓN has no information on the content of the closure plan.
- CARBUNIÓN has no information about its timeframe or the closure schedule for individual mines.
- CARBUNIÓN has no information about how the €2.13 billion will be allocated.

- CARBUNIÓN has no information about the amounts already paid to cover exceptional costs, environmental costs or social costs.
- CARBUNIÓN has no information on the estimated amounts or schedule of payments to cover these costs in the future.

He concluded that it was impossible to know how State aid would be used to moderate the social impacts of coal mine closures in Spain, at least not until the government divulged the content of the closure plan.

Coal supply and industry restructuring in Ukraine

John Woodham, Deputy Commercial Director of the Ukrainian company DTEK Energy, spoke on the coal market situation in Ukraine. In 2013, DTEK exploited 45 million tonnes of coal and had nine power plants, with surplus coal being sold internationally. In 2015, 26 million tonnes of coal were mined. This poor result was due to the military presence and fighting in the Donbass region where infrastructure damage has become a daily risk. Overall, coal deliveries from mines were still about 75% successful, he said.

In May, several nuclear power plants had unscheduled closures for maintenance, which led to a ramp up of coal consumption at thermal power plants. However, during the winter, when energy consumption is highest, this back-up option might not be available.

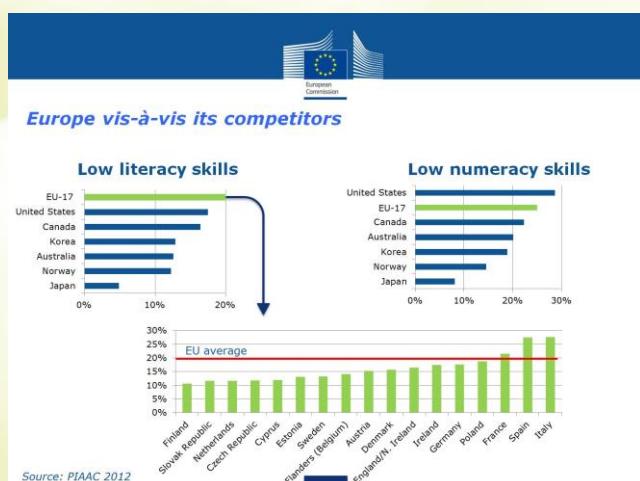
These two developments led to the country depending on imported coal, even though Ukraine was historically a coal exporter. However, imports are made more difficult due to a Russian embargo on steam coal exports to Ukraine and because alternative supply routes, via Poland for example, require complicated rail transport arrangements, given the different rail gauges (standard and broad).

Looking to the future, DTEK does not foresee any movement away from coal. If the country is to remain energy independent, then coal mines must continue to operate. Reform of the energy system needs to be methodical, Mr. Woodham explained, because hundreds of thousands of jobs depended on the sector. The company expects to return to 40 million tonnes of coal production in the coming years, simply to meet demand from the Ukrainian market. However, low global coal prices do not help the situation.

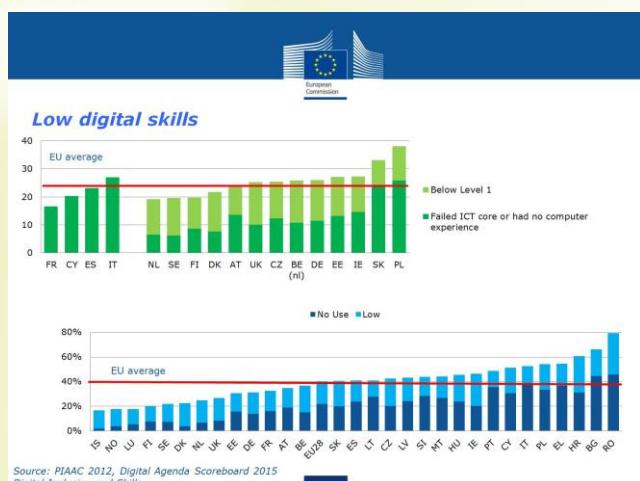
Mr. Ricketts of EURACOAL asked about the Russian mines that had been acquired by DTEK. Mr. Woodham replied that while some coal is allowed to enter Ukraine, coal for electricity generation is not permitted. Therefore, output from these mines is sold on the international market.

New Skills Agenda for Europe

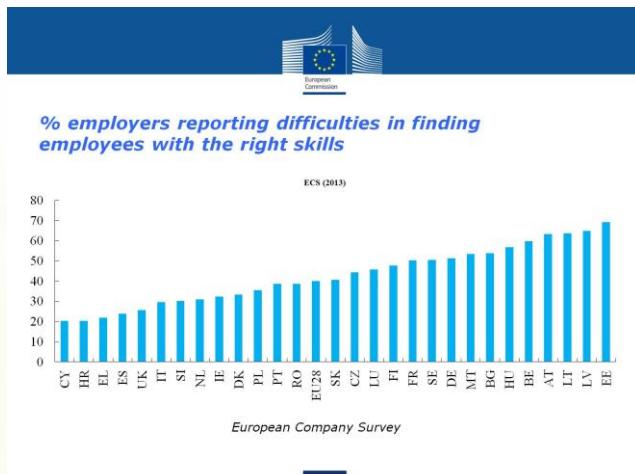
Michael Horgan, Policy Officer at DG Employment, Social Affairs and Inclusion, presented an overview of the New Skills Agenda for Europe. He demonstrated a clear link between educational attainment level and employment rates. However, as well as low digital skills, the EU scores below its competitors on numeracy and literacy skills. Such statistics are reflected by employers in the EU who report difficulties in finding employees with suitable skills.



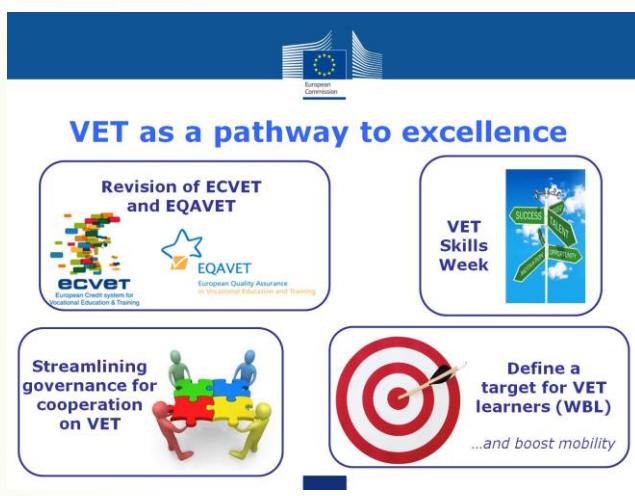
The European Commission carried out a stakeholder consultation exercise prior to launching a New Skills Agenda for Europe which was presented for the first time at the Coal Dialogue.



It has three priority areas. The first priority aims to improve the quality and relevance of skills formation. Secondly, skills and qualifications should be made more visible and comparable. Thirdly, to improve skills intelligence and information for better career choices.



On the first priority, the main actions are a "Skills Guarantee", a revision of the Key Competences Framework, more Vocational Education Training (VET) and new Digital Skills for Europe. For the second priority, the actions are a Revision of the European Qualifications Network (EQN) and a new Skills Tool for third country nationals. Finally, the actions on improving skills intelligence will focus on a revision of Europass, sharing best practices on brain drain, a blueprint for sectorial cooperation and an initiative on graduate tracking.



Comments

Prof. Franz-Josef Wodopia, Managing Director of the Coal Importers' Association (VDKi), was worried that Poland still needed approval of the European Commission for its hard coal sector reform plan.

From his experience as the former head of the German Coal Association (GVSt), Prof. Wodopia warned that coal mine closures can quickly be followed by economic meltdown in towns and whole regions. The most important priority for the decision makers, he said, was to create jobs or early retirement opportunities. For example, a mining company in Germany developed a database to help miners find new jobs based on their skills. He urged other countries to build on such experiences wherever coal industry restructuring had the potential to inflict social pain.



Dr. Renata Eisenvortová, of the Employers' Association of Czech Mining and Oil Industries (ZSDNP) and a Member of the EESC Consultative Commission on Industrial Change, began her intervention by describing the situation in the Czech Republic where coal is the only significant indigenous energy resource, annual production being 8-9 million tonnes of hard coal and 40 million tonnes of brown coal.

In May, the only hard coal producer, OKD – a private company with three underground mines in North Moravia, near the Polish border, announced its insolvency. Nearly 13 000 workers are affected: 350 miners will be laid off quickly to be followed by a further 900 in the autumn. A monthly allowance from the Czech government will help redundant miners for three months to five years, depending on years of service. A meeting of OKD creditors in August will decide on the next steps, but both the government and trade unions want to maintain hard coal mining.

Brown coal is mined by five companies in northwest Bohemia, near the German border. Production will end within the next ten years at some mines, but others will continue for several decades. To that end, a public consultation on a coal industry restructuring strategy is underway.

Turning to the EESC opinion on "Indigenous coal in the EU energy transition" for which Dr. Eisenvortová was co-rapporteur, she stressed the main recommendation to develop a "Transition Support Plan for the Communities and Regions Dependent on Coal Production".

It is obvious that many European coal mining regions have started to prepare for the transition and for life after mining. Prof. Wodopia had already described

the well-prepared and well-organised approach in the Ruhr area, but coal phase out in other EU regions was less successful, being too rapid or even precipitous, as in the UK and Spain. Learning from past mistakes by sharing best or "smart" practices would help. The "Transition Support Plan" should encourage regions to change, to stimulate innovative development, to maintain investment attractiveness and to create job opportunities and a decent way of life, she said.

While the reasons for mine closure are always different, the consequences are always the same: unemployment, obstacles to retraining, a less developed entrepreneurial spirit, a lack of public and private investment and insufficient R&D – all quoted from the EESC opinion. This leads to poverty, stagnation and a fall in living standards. So, coal mining regions and the EU as a whole must, sooner or later, deal with the same problems. Dr. Eisenvortová suggested that developing a reasonable and viable strategy would benefit everyone.

She commended the EESC opinion, pointing especially to the plan for the mining regions to be developed by an advisory group, and asked the European Commission and the European Parliament to take an active part in this process by offering their broad knowledge and experience.



In the Q&A session, an official from DG Competition commented that, thus far, their work on Polish coal industry State aid had not concluded. He confirmed the decision made on Spanish hard coal mining, referred to by the representative from CARBUNIÓN, and noted that the Commission's decision would be published in due course.

Conclusions

In his concluding remarks for EURACOAL, **Mr. Budinský**, reminded participant of the 250 years or more of coal mining in Europe. The Industrial Revolution was built on coal, he said, and although coal mining was now being phased out or phased down in some member states, coal would still be part of the European energy mix. Wherever coal is being phased down, support would be required so that the public authorities in mining regions could properly assist miners. Finally, Mr. Budinský

observed that *the future role of coal after COP 21* would be determined largely by the two member states who still mined significant volumes in the EU: hard coal and lignite in Poland and lignite in Germany.

Mr. Borchardt offered the Commission's perspective on the meeting, drawing three conclusions. Firstly, it was necessary to accept that the recently observed trends in the energy sector are here to stay; the coal industry has therefore to change and to adapt. Secondly, innovative technologies, such as CCU and CCS, should be further explored. Thirdly, coal has to be socially and environmentally sustainable: any long-term vision should take into account EU climate and energy targets.

The Commission is open to dialogue with interested member states and stakeholders on the future of coal in the EU. The Commission would continue with its co-operation and Mr. Borchardt looked forward to a subsequent session of the Coal Dialogue in the near future.

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