European Association for Coal and Lignite

EURACOAL

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# Emissions Trading Workshop Brussels, 25<sup>th</sup> August 2005

## Minutes

#### **Participants:**

David Brewer, COALPRO Dr. Thorsten Diercks, EURACOAL Stefan Hotz, Matrai Eromu RT Dr. Ralf Lenz, GVSt Chris McGlen, UK Coal Mining Ltd. Dr. George Milojcic, DEBRIV Dr. Kubrat Naydenov, Mini Maritza Iztok Miroslaw Niewiadomski, BOT Gornictwo & Energetica Dr. Wolfgang Ritschel, VDKI Friedrich Seefeldt, PROGNOS AG Atanaska Srebreva, Mini Maritza Iztok.

Dr. George Milojcic greeted the participants to the  $2^{nd}$  Emissions Trading Workshop, thanking them for their willingness to elaborate the European coal industry's position on Phase II of Emissions Trading and on the Post Kyoto Strategy. The presentation by EURACOAL's President at the  $2^{nd}$  Coal Dialogue on  $20^{th}$  September 2005 would already reflect the conclusions of this Workshop.

#### 1. Emissions Trading, Global and European factors

Dr. George Milojcic stressed in his introduction that Emissions Trading had begun to influence electricity generation in the EU only six months after the start of Phase I. The **increasing difference in coal and gas/oil prices** had contributed to the price for  $CO_2$  Certificates in the UK and Germany increasing from approximately  $\in 8$  at the beginning of Phase I to currently well above  $\notin 20$ . As a result, electricity prices had immediately followed.

The hopes of those supporting a dash for gas, with the Emissions Trading instrument rapidly leading to a reduction in emissions without a significant impact on electricity prices, the rest of the economy and consumers, are therefore not being fulfilled. The Commission should consider the **potential most important consequences of Emissions Trading for the competitiveness of industry** when examining Phase II of NAP and also when discussing the EU Post-Kyoto Strategy.

#### 2. National allocation of allowances and its long term impact on the coal industry

Chris McGlen stressed that many EU Member States were still far from reaching their targets for the period 2008-2012 agreed under Burden Sharing. Further to the **major cuts currently undertaken by the European Commission when approving NAPs for the 1<sup>st</sup> Phase 2005-2007**, more pressure on the Emissions Trading System and on the emission of  $CO_2$  could be expected till 2012.

NAP I for the **UK** included no regulation to already draw conclusions from for Phase II. Furthermore, it was problematic that when allocating certificates, **the power industry has been encumbered with the main burden** Power stations had 28 % less certificates compared with emissions during the reference period. Coal-fired power stations had been allocated certificates for the production of electricity amounting to 37 Mt. 50,4 Mt will be burnt in 2005. The individual installations were treated on the basis of their historical emissions. **New power stations** receive certificates on the basis of a **benchmark** based on the emissions of **gas-fired power stations**.

Slide 13 of Chris McGlen's presentation (Slides attached as Annex 1) shows that the higher costs expected for producing electricity from coal with different assumptions concerning the price for  $CO_2$  certificates.

# **3.** Transposition of the ET Directive into National Law – Analysis of EURACOAL's questionnaire: Country Reports and

### 4. **Open discussion of NAPs**

The transposition of the ET Directive into the respective national laws, particularly in the NAPs, is outlined for Germany, the UK, Poland, Greece, the Czech Republic and Hungary in the Table attached at Annex 2. The following discussion focused on:

The **Polish NAP I** foresaw a clear under allocation (239 million instead of 286 million). It can therefore be expected that Poland will not sell, but buy certificates. Allocation of certificates to individual installations is taking place on the basis of a government proposal, completed by bilateral negotiations. New installations receive certificates from a "new entrant box".

In Germany it remained unclear if power stations had received enough certificates. Under allocation in the range of approximately 5 % was likely. A regulation for new installations, that should support investment in new power stations, would come into force later. Binding decisions

concerning later trading periods had already been reached in this manner. The 4+14 rule for replacement installations has to be considered (Annex 3). The regulation for new installations was less favourable, foreseeing an allocation period of 14 years and a benchmark of 750 g/kWh for coal-fired power stations. This commitment was discriminatory for indigenous lignite.

In Hungary, uncertainty concerning NAP II is leading MATRA to postpone its decision to build another lignite-fired unit till 2007. 2 % of the national certificates have been earmarked for new installations. Benchmarking based on the national best available technologies is being used to establish the amount of certificates to be allocated to each individual installation. ET trading activities in Hungary are not yet noticeable.

The pillars for transposition into national law in the UK (*inter alia* intense pressure on the production of electricity from coal in the UK because of the very restrictive guidelines on power generation and of general gas-oriented benchmarks for new installations) have been described above under 2.

#### 5. Conclusion: EURACOAL's position

The participants agreed that the impact of Emissions Trading on the production of electricity and on the competitiveness of EU industry **cannot yet be evaluated conclusively**. With demand for power increasing in the EU, it is debatable whether a steadily lower cap for  $CO_2$  can be secured at the same time as the necessary **investments** in power stations.

At today's prices, **a dash for gas**, probable in the long-term, would be very costly and would lead to the electricity sector dramatically increasing its dependence on imports. A fuel switch would **severely burden indigenous industry and private households** and jeopardise the aim of a secure and affordable supply of energy.

Compared with the situation around the year 2000, when the European Commission presented its proposals for Emissions Trading, the current **geo-political** situation has undergone major changes which must be considered and the market is also fundamentally very different.

Emissions Trading is increasingly becoming a major environment policy experiment, with an uncertain outcome. Policy discussions should also consider what amounts of Kyoto gases (not only  $CO_2$ ) the EU would emit in an international context *inter alia* with the USA, China, Japan, Australia, India and Brazil. As long as it remains unclear if and why climate change occurs, it is not disputed that preventive measures are required. The choice of measures, for instance Emission Trading versus technology/improvement of specific emissions has to be completely re-evaluated. It must be taken into account that the Kyoto Protocol assumes the cooperation of all major States. EURACOAL's opinion is that **Clean Coal Technologies** should in future be presented as a solution.

The participants recommended the following starting points for the forthcoming discussion of NAP II in the coming months:

- Existing plants: allocation free of charge and according to need
- Regulation to promote long term investment allocation rules that cover several trading periods
- Benchmarking for new plants should be fuel-, technology- and plant-specific based on best available technology
- Harmonized system same effect on all similar plants across EU

Dr. Thorsten Diercks

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Annex 1: Chris McGlen's slides Annex 2: Table "Impacts of CO<sub>2</sub> Emissions trading on coal-fired electricity production" Annex 3: 4+14 rule

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