

MINUTES**EURACOAL'S 4TH EMISSIONS TRADING WORKSHOP****11th September 2009 - Brussels****Participants:**

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EISENVORTOVA, Renata, Czech Coal
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McGLEN, Chris, UK Coal
MILOJCIC, George, DEBRIV
SREBREVA-VACHOVSKA, Atanaska, MMI
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As guests:

BAO, Frank, RWE Power, Brussels
WEBER, Gerd-Rainer, GVSt

1. 2nd ETS period - experience to date

Mr. Bao from RWE Power in Brussels presented intermediate reflections on the 2nd period of the EU ETS. The EU ETS remained the largest global carbon market in 2008 with 3.1 Gt CO₂e being traded between €13.52 and €29.38/t CO₂e. The year 2008 was marked by an initial price increase of EUA until July, but the economic outlook, which started to decline from October on, enhanced production reductions and lowered emissions and prices. According to a recent survey by Point Carbon, it is very difficult to anticipate the carbon market, influenced by political decisions on the one hand and industry behaviour on the other hand, hesitating between trading allowances or investing in JI and

CDM. Long-term price signals are unclear and create uncertainty for investors. The same survey stated that carbon leakage was not yet seen as a real problem by the questioned persons, although first outplacements are being observed in the cement and metals industries.

Whilst there was a general over-allocation in Phase I, national caps have been tightened for Phase II. The participants' discussion showed that despite the economic downturn, German industry for example was generally short of emissions allowances even if only one third of German companies expect to be short of emissions allowances over the entire period 2008-2012. Key areas which have to be looked at for the future are the volume and timing of auctioning, restrictions for JI/CDM, but also hedging behaviours, which will influence Phase III.

In the year 2009 there will probably be a surplus of certificates due to the economic downturn, which could offer new investment possibilities. Nevertheless this pattern will probably not occur, as investors are short of cash in these times of recession and industry often only acts with a short-term view.

Some politicians say that CO₂ prices should be the driver for CCS investments. RWE Power nevertheless does not share this view, for the moment there are only small projects being planned and no power company has really announced a CCS project on commercial scale yet. EURACOAL should therefore formulate a clear message saying that high CO₂ prices will not finance CCS, at least not before 2020.

A top priority should also be the issue of carbon leakage, e.g. which sectors will be exposed (in the meantime, the Commission published a list mentioning concerned sectors), how benchmarks shall be set, and how the price increase due to the CO₂ price can be compensated. Even if this problem will only arise after 2013, the impact has to be discussed now.

If in addition Europe will stay alone with its ETS, the EU ETS is endangered. Depending on the comparable efforts of other countries, Europe may not only cut itself economically from the rest of the world but the emissions reductions achieved in Europe will be totally insignificant compared to the emissions increase in countries such as China or India.

2. Use of auctioning revenues for CCS

According to Article 10 of the EU ETS Directive, Member States can use auctioning revenues to invest in the "environmentally safe capture and storage of CO₂". Participants agreed that it would be desirable to use this option. However, members from the UK explained that in the UK auctioning revenues shall be used to finance CCS projects but as the auctioned money will be collected by the national treasury, it would probably first reimburse the national debt, before investing into CCS projects.

3. Use of auctioning revenues and implementation of the 15 % investment rule for efficient capture-ready plants

In the context of the compromise on the ETS Directive as from 2013, the European Commission gave Member States a formal "Declaration ad Art. 10(3)" of the Directive. According to this, Member States can guarantee operators burdened by the system up to 15%

of their investment costs for new, highly efficient and CCS-ready installations, as an incentive to invest.

On behalf of EURACOAL, Dr. Diercks sent a letter to Mr. Hilbrecht asking the Commission to be ready to discuss this option with Member States.

EURACOAL defends the view that if there would be a 15% rule, it should cover the entire Central Europe in order not to create distortion. The Commission is currently consulting the Member States in order to know if the national governments are interested in the 15% rule.

In Hungary for example, Matra needs to build a new power plant in the years to come. But as Hungary has its 3rd energy minister within 3 years it is very difficult and uncertain to have any discussions. Germany follows the BAT-principle with a power plant efficiency of 43 to 44% for new lignite-fired power plants and 46% for hard coal-fired power plants, when planning new power plants, which is far above the 41.6%, mentioned by the Commission. If the BAT would be fixed this high, Hungary for example, would not be able to follow.

The Czech government will publish its new energy policy in October; till then it is not certain whether coal, nuclear or gas-fired power plants will be built in future. CEZ has nevertheless two CCS demonstration projects of which one should be realised.

Participants welcomed Mr. Körber's proposal to use the letter addressed to Mr. Hilbrecht as basis for a common position of EURACOAL.

4. Auctioning procedure rules

In most countries there is no real auctioning yet. The EU ETS Directive foresees in Art. 10a that *“by 31 December 2010, the Commission shall adopt community-wide and fully-harmonised implementing measures for the allocation of the allowances (...)”*. Until the publication of this text it will nevertheless remain unclear how the availability of certificates will be regulated EU-wide over the entire trading period.

5. JI / CDM rules to be favoured

The question if and how JI/CDM will be limited in future will depend on the outcome of the Conference in Copenhagen. It seems that Brazil will argue against the use of CCS within CDM, fearing that most projects will focus on China and India and that it would lose a significant share of CDM projects.

6. Transitional free allocation for power generation in particular Member States – Article 10c of the Directive – Possible common position of EURACOAL Members (circulated to the members before the workshop)

The Emissions Trading Directive foresees in Article 10c transitional free allocations to certain Member States for the modernisation of their power installations. In order to obtain these transitional free certificates, the Member States will have to prepare a national plan, which

has to be approved by the Commission. The concerned EURACOAL members are finalizing a common position paper on this issue, recalling four points:

- Transitional free allocation of certificates is needed in order to modernize electricity installations; electricity prices should nevertheless be kept within socially acceptable limits;
- The allocated 70% of free certificates should decrease gradually;
- The regulation should be applied to all national energy producers equally in order to avoid market distortion;
- To enable planning, fundamental conditions for investments, innovation, training and employment are urgently needed.

EURACOAL Members who could profit from transitional free allocations also after 2012 were asked to agree upon the paper. A common position of the Eastern European countries was sent to the members. Mr. Körber stated that the two major Hungarian power companies agreed to sign the position and also Bulgarian and Polish companies and associations are willing to sign. Members aim at finalising the paper by the end of September 2009.

7. Allocation of allowances to coking plants

During the revision of the EU ETS Directive the question of regulating emissions from coke ovens was discussed. Coke ovens are listed in the Commission's list of carbon leakage sectors. Therefore they should benefit from specific allocation rules. These rules are nevertheless not yet being established, including the definition of benchmarks for carbon leakage sectors. In principle coke ovens should receive free allocations on the basis of a benchmark of the 10% most efficient installations in the EU.

Two stakeholder consultations were gathering written comments until 1st July 2009, followed by an internet consultation in autumn 2009. The Commission shall then take a decision on benchmarks, allocation methodology and recipients of the allowances by summer 2010.

EURACOAL should therefore consider if it is interested in a common lobbying position that would cover the hard coal industry and independent coke ovens without arguing against the steel industry's position, the main customer of coke oven products.

The following points should be considered:

- Definition of a benchmark for coke-making: differences between "stand-alone" coke ovens and coke ovens that are part of a steel-making complex;
- Allocation methodology for coke gases;
- According to the ETS Directive, free allocation could either be to the producer of the waste gases or to the user (emitter);
- Steel industry prefers allocation to the producer (coke ovens) because of their complex system where coke gases are only a small part of the steel making process; German coal mining prefers allocation to the user (because of past experience in Germany);
- Allocation to producer would be acceptable if under-allocation could be avoided (no obligation for the producer to pass on more rights to the consumer than he was allocated to begin with).

It was discussed whether the independent coke oven operators are aware of this problem. It was proposed that EURACOAL's Environment Committee together with Eurofer could therefore make these installations aware of the problem and invite them to join our position.

8. Miscellaneous

Dr. Milojcic thanked participants for the active participation, particularly the speakers Messrs. Bao and Weber for their presentations.

Another (5th) Emissions Trading Workshop might be organised in 2010, depending on the global development of ETS.

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