EURACOAL
European Association
for Coal and Lignite
AISBL

October 2009

Position Paper

Supporting investment

Commission Declaration ad Art. 10(3) of the Emissions Trading ETS Directive

Despite the EU objectives to save energy by 2020, the European Commission assumes in its Strategic Energy Review II that peak load, when generating electricity in the EU, will increase from 500 GW today to above 600 GW. **Major investments in new electricity generating capacities would therefore be necessary.** This also applies to coal-fired power plants, particularly because many older installations will reach 40 years of age by the middle of the next decade. Many of them have to be replaced by new builds for base-load power generation if Europe and the 27 EU Member States want to maintain their security of energy supply.

It can be assumed that with the operation of carbon capture and storage (CCS) demonstration projects after 2015, the remaining technical issues concerning CCS will be solved to a large extent. After 2020, CCS power plants for all fossil fuels should be on the market. Of course, today we cannot yet say when and in what circumstances it would be best to fit existing power plants with CCS. **Replacing old and less efficient power plants by new builds however, definitely makes sense for energy and climate policy**, because when building "**capture-ready**" the threat of a technology lock-in because of long-term investment does *not* occur.

The EU Emissions Trading Scheme -as a principle- foresees auctioning of CO_2 for coal-fired power plants as from 2013. Auctioning in the power sector however acts as a tax on fuel and heavily burdens the costs of generating electricity in coal-fired power plants. Auctioning fosters a fuel switch from the secure supply of and usually reasonably-priced coal over to expensive gas. **Investing in highly efficient coal capacities** with a considerable contribution to the 2020 climate objectives **looses its attraction**. Coal is however necessary for the Member States' energy and electricity mix for the decades to come.

In the context of the compromise on the Emissions Trading Directive as from 2013, the European Commission made a formal "Declaration ad Art. 10(3)" of the Directive to Member States. 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. This is an important approach **towards a solution that fosters both security of supply and climate protection at the same time.** It would also serve the purposes of Europe's competitiveness and maintain Europe as a location for industry.

Therefore, EURACOAL urges Member States to now apply the options provided by the Commission’s Declaration in order to actually improve the chronic under-investment in energy infrastructure and invites the Commission to welcome respective Member States’ initiatives.