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EURACOAL Position Paper

on proposed amendments to reform of the EU Emissions Trading Scheme

(2015/0148(COD), rapporteur: MEP Ian DUNCAN,
rapporteur ITRE opinion: MEP Fredrick FEDERLEY)

Introduction

In October 2014, the European Council agreed the key parameters for an EU-wide climate and energy policy to 2030. Central to this policy is the EU Emission Trading System (ETS) which EU leaders agreed should deliver a 43% reduction in greenhouse gas (GHG) emissions from the sectors covered – an annual reduction of 2.2% from 2021 onwards that would see emissions fall to zero by 2058. In addition, the non-EU sectors should reduce emissions by 30% by 2030 compared with 2005.

Heads of State also agreed to continue the allocation of free emission allowances to protect those industries that face competition from outside the EU. Funds were foreseen to support investment in the energy sector, now known as the Innovation Fund and the Modernisation Fund. In the case of the latter fund, this should *"be managed by the beneficiary Member States, with the involvement of the EIB in the selection of projects"*.

The Commission proposal of July 2015 largely respected the conclusions of the European Council meeting, although proposed rules for the Modernisation Fund would give too much power to the European Investment Bank (EIB), as shown in the EURACOAL "Modernisation Fund" infographic.

On ETS reform, the Commission has followed the wishes of Member States. However, the current debate is seen by some as an opportunity to go beyond what Member States have agreed, by imposing tougher targets and tougher measures all of which would damage the EU's competitive position in the world.

Members of the European Parliament have tabled hundreds of amendments to the Commission proposal and these will be consolidated. Here, EURACOAL focusses on the key themes of these amendments and cautions against supporting those that would compromise the cost-effectiveness or integrity of the EU ETS. This system delivers emission reductions with certainty and at a low cost. During the energy transition, conventional thermal power plants will be needed to assure EU electricity supply. Even if renewable energy sources continue to grow, there exists no large-scale means to store electricity that can cover those periods when wind and solar facilities are lying idle. Coal-fired power plants can and do provide the backup needed, efficiently and at an affordable cost. Building new gas-fired power plants to do the same job would be more expensive and would result in the inefficient use of natural gas, a fuel that could be better used in other applications. And yet, many of the

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proposed amendments would result in fuel switching from coal to gas by artificially inflating carbon prices.

The themes highlighted below recur in many of the amendments proposed to the ENVI and ITRE committee reports. In each case, EURACOAL suggests that pragmatic solutions should be favoured over radical ones that would place damaging constraints on the path to future economic growth in the EU.

Accelerated annual decrease of the number of ETS allowances

Proposals to raise the annual reduction rate of allowances, ranging from 2.4% to 4.2% are unwelcome (ENVI amendments 211, 212, 213, 214, 216, 217, 218 & 219). There are several reasons why these proposed amendments would hinder rather than help the energy transition.

Firstly, there is no impact assessment of the proposed increase. The Commission's impact assessment (SWD(2015)135 final) looks closely at the 2.2% linear factor reduction for the next trading period, offering a glimpse into the expected economic, social and environmental implications. An accelerated annual decrease would have a negative impact on EU industry, consumer electricity prices and security of energy supply.

Secondly, taking into account that only 57% of allowances are proposed to be auctioned, the impact of any increase to the linear factor would unduly impact the electricity sector, already heavily under-financed due to regulatory instability.

Finally, the proposals, if voted, would put the European Parliament in conflict with the European Council who specifically mentions the 2.2% linear factor reduction.

EURACOAL recommends rejecting ENVI amendments 211, 212, 213, 214, 216, 217, 218 & 219.

Respect the October 2014 Council conclusions and vote having in mind the impacts of an accelerated annual decrease of allowances on EU industry, consumer electricity prices and security of energy supply.

Compensation to industry for increased electricity prices

ENVI committee amendments 379, 381 & 382 call for compulsory, EU-level compensation for GHG emission costs that are passed on in electricity prices. The compensation for any increase in electricity prices is a measure welcomed by the many manufacturing industries hit by EU climate legislation. However, a similar protectionist approach led to difficulties for renewable energy sources when costs snowballed so much that Member States had no choice but to cut financing, leaving many investors stranded and rightfully accusing governments of changing the rules during the game. This compensation proposal risks a similar outcome, but on a much larger scale. Moreover, the compensation would be difficult to calculate, because some variables have no clearly defined costs, like the stability of the grid or security of energy supply.

With no budget earmarked in the Multiannual Financial Framework for the compensation costs, the proposed electricity subsidy would be another levy on Member States, which would create unwanted tensions between industrialised and less-industrialised states.

EURACOAL recommends rejecting ENVI amendments 379, 381 & 382.

Avoid unsustainable compensation for electricity consumers. Providing additional allowances to electro-intensive industries to cover their additional costs is a much better solution.

Cancelling allowances

ENVI amendment 290 proposes that Member States may cancel allowances resulting from the early closure of electricity generation capacity.

This measure would lead to a weakening of the EU Emission Trading System as a market-based system by artificially increasing carbon prices. The purpose of the EU ETS Directive is *to reduce GHG emissions*, NOT to set a high carbon price. If the price of allowances is low, then this means that the GHG reduction target has been achieved at a low cost – a good outcome.

EURACOAL recommends rejecting ENVI amendment 290.

Protect the integrity of the EU Emissions Trading System and allow it to develop as a market-based system. The purpose of the EU ETS is a GHG reduction, not a high carbon price.

Art. 10c – free allocations and eligibility of coal projects

(affecting investment projects in BG, CZ, EE, HR, HU, LV, LT, PL, RO, SK)

A number of amendments aim to block coal modernisation projects that eligible Member States might be willing to fund (ENVI amendments 538, 542, 545, 550 & 557 and ITRE amendments 32, 562, 568 & 573). These proposed amendments are unwelcome for several reasons.

Firstly, the elimination of coal from the mix would eliminate any remaining competition between energy sources for electricity generation, leading to a situation where all sources would receive some form of subsidy. In effect, the EU would no longer have a functioning electricity market.

Secondly, dependable thermal generation is needed to balance renewables, as shown on the EURACOAL infographic “Balancing Renewables”, but is at risk if carbon prices rise. A technology-neutral approach would allow market forces to provide the best mix that meets GHG reduction targets. It would be wrong for politicians to pick winners.

Thirdly, Member States have preferences for different generation technologies, based on their available natural resources, public acceptance and security of energy supply. An example is nuclear, with France fully embracing this technology while its neighbour, Germany, is phasing it out. There is a similar situation with coal; some Member States are embracing clean coal technologies, while others are phasing out of coal. It would go against the spirit of European union if Member States were prevented from supporting their preferred generation mix.

EURACOAL recommends rejecting ENVI amendments 538, 542, 545, 550 & 557 and ITRE amendments 32, 562, 568 & 573.

The motto of the European Union is *United in diversity*. Any political limitation on the choice of Member States' energy mix goes against the spirit of European union.

Modernisation Fund

(affecting investment projects in BG, CZ, EE, HR, HU, LV, LT, PL, RO, SK)

ENVI amendments 594, 595, 596, 597 & 638 and ITRE amendments 630, 631, 632, 635 & 644 seek to block coal projects from funding in eligible Member States. These proposed amendments disregard the political reality in and concerns of eligible Member States.

Firstly, security of energy supply is much higher on the political agenda for most eligible states and, currently, there is no secure alternative to coal generation.

Secondly, an increase in residential electricity bills and higher environmental costs, as a result of any lack of modernisation, might lead to social tensions, such as in Bulgaria in 2013 when the government was forced to resign following mass protests against higher power prices.

Thirdly, any lack of EU financing does not necessarily mean that coal projects will not be financed. There is a strong interest from Asian companies in European coal projects, as demonstrated by the recent proposals by Chinese companies in Romania and Greece, and by the now completed coal power project at Stanari in Bosnia Herzegovina, built and financed by Chinese companies.

EURACOAL recommends rejecting ENVI amendments 594, 595, 596, 597 & 638 and ITRE amendments 630, 631, 632, 635 & 644.

Acknowledge the concerns and needs of European citizens in Eastern Member States and allow coal modernisation projects that have immediate environmental benefits.

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