



Joint EEB and GBE Response to the European Commission consultation on the expiry of Regulation (EC) No 1407/2002 on State aid to the coal industry

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The European Environmental Bureau is a federation of over 140 environmental citizens' organisations based in most EU Member States, most candidate and potential candidate countries as well as in a few neighbouring countries. These organisations range from local and national, to European and international. Our office in Brussels was established in 1974 to provide a focal point for our members to monitor and respond to the EU's emerging environmental policy.

EEB is the environmental voice of European citizens, standing for environmental justice, sustainable development and participatory democracy. We want the EU to ensure all people a healthy environment and rich biodiversity.

www.eeb.org

Green Budget Europe is a platform that aims to promote Environmental Fiscal Reform and Market-Based Instruments on the European level and bring together EU and government institutions, NGOs, industry associations and experts. GBE was founded in 2008 and currently operates as a project within Green Budget Germany. Encouraged by Green Budget Germany's experiences as a specialized NGO in the field of Environmental Fiscal Reform, active since 1994, and by the enormous resonance and recognition we received at the Global Conference on Environment Taxation 2007, we are currently organizing the formation of a platform to promote EFR and MBIs on the European level.

www.foes.de

If the world is to avoid dangerous climate change and the consequent severe disruption to other environmental and human systems, it is essential that the greenhouse gas emissions, including from burning fossil fuels are substantially reduced. Coal is one of the most polluting and least efficient fuels, leading to substantially higher emissions of carbon per energy unit compared with gas or oil. Consequently, in order to meet the EU objective of limiting global warming to less than a two degree Celsius increase in average surface temperatures, coal use should be discouraged. Financial aid to coal mining and use directly or indirectly de-favours the better alternatives: energy efficiency and savings, energy production from clean, sustainable, renewable sources.

According to the Commission's 'State Aid Scoreboard', state aid to the coal sector in 2007 was €3.4 billion. In all previous years since the European Communities were first established, total annual aid to the sector has been at least this amount or considerably greater, with the cumulative total well in excess of €100bn.

http://ec.europa.eu/competition/state_aid/studies_reports/expenditure.html

Enough is enough! Any support now should be exclusively concentrated on assisting people that work in the coal sector to find good employment elsewhere. Also support to the development of Carbon Capture and Storage should be strictly limited to research and pilot project for the purpose of clarifying what are the environmental risks in both the capture and storage places and effective ways to limit and contain these.

In conclusion: the EEB and GBE call upon the Commission to promote the end of financial support to coal exploitation and use, and not propose using any regional aid guidelines, public service obligations or State aid possibilities or else to replace the current Coal Regulation.

Q1. How do stakeholders evaluate the impact of the expiry of the Coal Regulation on the hard coal industry? Would general State aid rules be sufficient or are there sector-specific needs, related to objectives of common interest for the Community, that call for sector-specific rules beyond 2010? In how far does the hard coal sector differ from the ortho-lignite sector for which there are no specific rules?

Given the overriding imperative of mitigating climate change which is the primary common interest for the Community, EEB and GBE firmly believe that the expiry of the current Coal Regulation, at the end of 2010, is an appropriate final deadline for ending public financial support for coal production in Europe with no further exceptions.

There has been sufficient time in the period leading up to the expiry date of 2010 to bring into effect all the necessary changes. This period also corresponds to the fulfilment of existing restructuring plans and payment of the associated aid measures that have already been allowed by the Commission or are likely to be so in the near future.

Q2. Are there specific objectives of common interest for the Community which may justify maintaining afloat coal mining undertakings which would not otherwise be viable due the level of their production costs or of their social and environmental liabilities?

No. The potential environmental costs, in terms of higher carbon emissions, more local pollution and reduced biodiversity assets are far greater than the potential gains from keeping afloat coal mining. Moreover this would slow a transition to 100% renewable energy production, by binding money for anachronistic technologies. While Carbon Capture and Storage is now proposed as tool to reduce CO₂ emissions from fossil fuel power plants, this technique does not lead to a zero-emissions, decrease the efficiency of coal use and will still lead to more CO₂ emissions coming from coal use as compared with oil or gas with CCS. The EEB is strongly of the opinion that, except for grants for research and pilot-projects aiming at clarifying and reducing environmental risks, CCS should be financed by the power plant operators themselves.

On a more specific level:

Q3. Is there a specific need, related to objectives of common interest for the Community, for investment aid in hard coal mining that goes beyond the possibilities offered by general State aid rules?

The European Commission's current State Aid Action Plan is a wide-ranging review of Community state aid control and a major contribution to the goals of 'the Lisbon competitiveness agenda'. The review, which is strongly supported by the European Council,

calls for less and better targeted aid. Important in this aim is the process of moving aid from sectoral objectives, e.g. coal production, to horizontal objectives, e.g. environmental protection, including renewables and efficiency. This general approach to state aid reform is strongly supported by EEB and GBE members. In the interest of consistency, the Commission must ensure that its treatment of the coal sector follows its general aims for aid reform, and therefore that subsidy for coal end.

Moreover, it is inconsistent for the EU on the one hand to be encouraging coal production, and consequently maintaining higher carbon dioxide emissions, whilst on the other hand to be discouraging carbon emissions through instruments such as the EU emissions trading scheme. Such a conflict between policy instruments is also contrary to Article 6 of the EC Treaty, which requires that environmental protection requirements are integrated into “the definition and implementation” of all other policies and activities. Within the EU Sustainable Development Strategy the EU has committed itself to phase out perverse subsidies which are environmentally harmful.

Q4. Is there a specific need for operating aid in hard coal mining that goes beyond the possibilities offered by general State aid rules? Should (phasing-out) operating aid be allowed in the context of a closure plan and, if yes, why and for how long? Which concerns related to objectives of common interest for the Community may justify such aid?

We see no reason for specific treatment. This sector has received unjustified and costly special treatment for long enough. If earlier restructuring plans at the national level have been properly formulated and executed, then there is no need for further aid of this type. Even if they were not properly formulated and executed, these misconceptions must not be awarded. In effect, there should be no aid for ‘new’ inherited liabilities. Instead, such costs should be taken into account by undertakings in the normal way when establishing the current overall operating costs for any given production unit.

The principle concern is unemployment caused by mine closures. However this can be addressed through other measures. For one thing, the number of new jobs created in the renewable and energy efficiency sectors is much greater than the number of jobs lost in the coal mining sector. State aid can be specifically allocated for training and re-training programmes to facilitate the transition of those workforces into other more sustainable sectors.

Q5. In how far are related industries, such as mining and clean coal technologies sensitive to further downsizing of hard coal mining activities in the EU? In how far would they be affected by the expiry of the Coal Regulation? What are the alternatives for these industries in the case of closures of hard coal mines in the EU due to the cessation of certain types of State aid?

Clearly downsizing has negative impacts on the most involved industries. But the energy sector as a whole offers plenty of investment and labour opportunities. Improving the energy performance of the EU building stock requires new designs, new materials and additional labour. The renewable energy sector offers similar opportunities. Assisting this just transition, in particular for workers, is important. Studies of the German Environment Protection Agency (www.uba.de) demonstrate that many more jobs can be created in the renewables and energy efficiency sector than those that are lost in the coal sector (see answer to Q9). All short term

losses in terms of employment or economic growth can be largely outweighed by benefits arising from a modern economic structure in the middle and long term. It is not a question *whether* the economy will be based on green energy production instead of fossil energy production, but just a question of *when* this will happen. The higher the cost of making this switch, the longer we need to wait for it to be implemented. Industries based on coal, if full costs are taken into account, need to realize that their costs will rise dramatically, and that they need to reorient their production or else face drastic downscaling. It makes more sense to invest in future wealth, employment and industries than to give money to a sector in drastic decline. Further subsidising coal instead of much more support for clean, sustainable technologies is an externalisation of cost to the next generation. It has more to do with ignoring problems than with solving them.

Q6. Do you consider that security of energy supplies may justify maintaining sector-specific types of State aid for the coal mining sector? In particular, is there a risk that EU power generators using coal may face difficulties to source coal at an affordable price if certain EU mines are closed due to the cessation of certain types of sector-specific State aid for the coal mining industry? Can power generators using subsidized coal easily switch to alternative sources of coal (whether from other EU Member States or from outside the EU)?

While recognizing that removing the subsidies does not necessarily reduce coal use, EEB and GBE want to see the use of coal in energy production reduced. However, we do not anticipate in the medium or long term any crisis of coal supply. The world market for coal is well established with abundant reserves in all regions. Coal is available from many different suppliers at relatively stable prices. These market conditions are unlikely to change in the decades ahead, as indeed has already been acknowledged by the Commission in earlier Communications on coal aid. As there is no ‘insecurity of supply’ regarding imports of coal into the Community, nor are there any supply interruptions likely in the future, granting financial support to indigenous coal production on the basis of maintaining security of supplies - or on the basis of hedging a future security of supply option – is simply a cover for blatant and unjustified protectionism. In addition, the addiction and the philosophy of a coal-based energy generation is further kept upright, often abused for justifying further coal power plants.

Q7. Is there a justification to grant coal mining undertakings derogation from the general State aid rules with regard to generated liabilities, taking into account the "polluter pays" principle? Would they cope with their environmental obligations in the absence of sector-specific State aid rules?

The EEB and GBE see no justification. In accordance with the environmental principles laid down in Article 174 of the EC treaty, and in particular the polluter pays principle, the price paid by those that continue to buy and use coal must reflect all of the associated costs, including, at the very least, its production costs in full. It is completely against that principle to subsidize enterprises for their environmental obligations. Moreover, given that the available financial aid toward any policy objective is finite, it is vital for public authorities to prioritise the allocation of resources in such a way as to get the most benefit from the best options. In the energy sector, these options are the effective management of energy demand and the

further expansion of renewable energy sources. The existence of the Coal Regulation and its associated aids seriously undermines such an approach, as would any replacement regulation from 2011 onwards.

Q8. Can coal mining undertakings cope with their inherited social liabilities in the absence of sector-specific State aid rules?

If they would not be able to do so, they should be closed. We are against seeing coal producers as services of general interest that should receive structural state support, not at least since mostly many more jobs can be created with the same amount of money in other sectors than in the coal sector. The value added is thus much higher. This is also a matter of social liability.

Q9. Regarding the improvement of social and regional cohesion, would subsidies to coal industries be a cost-effective and sustainable way to create or maintain jobs?

Ending coal subsidies may in the short to medium term likely result in some shift to alternatives, including non-subsidised mining inside the Community (usually open pit), and/or imports from outside the Community, and/or intra-Community trade. However, the practical and financial constraints associated with each of these options (e.g. emissions caps, land-use impacts, current account imbalances, transport logistics) creates additional political and commercial drivers to prioritise more sustainable and indigenous alternatives, particularly demand management and clean, renewable options. Moreover, the increased deployment of such 'home-grown' options like renewables in turn helps reinforce Europe's energy security over the longer term, as well as create comparatively higher numbers of indigenous high-quality jobs. In such a way even more jobs can be created than are lost in the coal sector. They might not be regionally distributed similarly to the jobs of the coal miners. However, at least the qualifications are similar. Such training and transition programmes exist and work, but should be intensified.

We have covered this in other answers.

The German Federal Environment Agency (2003) compared the subsidies received by the German coal industry with the number of employees in this sector. It concluded in 2001 that safeguarding employment in the coal sector cost €82,000 a year in subsidies for each coal miner's job saved. If the money was spent on renewables and energy efficiency measures, there could be many more jobs created.

According to UNEP, (Reforming Energy Subsidies Opportunities to Contribute to the Climate Change Agenda, 2008) Ruhrkohle AG (RAG), a diversified private industrial firm that operates the country's remaining eight mines, employs about 28,000 miners, down from 187,000 in 1980. It has been estimated that each mining job is subsidised by about €90,000 a year. This is more than the average workers salary in the renewables sector.

Q10. Is State aid an appropriate instrument to deal with the social and environmental consequences of coal mine closures, in particular when it entails maintaining production activities which would not be otherwise viable? Could equivalent results with less distortions of competition be achieved if the coal mining companies were made to honour their liabilities to the extent possible and if the State financed the remaining social and environmental charges once the concerned companies have ceased all economic activities?

The fundamental threat of dangerous climate change means that a continued heavy reliance on coal and public financial support for coal production cannot be justified. Therefore the European Commission must use all its political influence and legal powers to ensure that state aid for coal production stops at the end of 2010, according to the current Regulation and that no further exceptions are granted. The Commission should make clear that it will not propose using any regional aid guidelines, public service obligations or State aid possibilities or else to replace the current Coal Regulation.

One particular odd case where the polluter pays principle is not respected at all is that of German hard coal subsidies. They are to be phased out by 2018 according to the current coalition treatment. This is much too late and it hinders the necessary structural changes. Furthermore, the agreed liability of future costs for environmental damages should be borne by at least 30% by the public budget which is in no way acceptable. The future environmental costs are due to water pumping costs. Water pumping is required due to the sunken surface along the riverside of the river Rhein caused by the sacking of coal mines many hundred meters below. This has led to a landscape and surface soil which is now several meters below the surface of the waters of the river Rhine. In order to ensure that the buildings in this large area are not flooded, the ground water has to be pumped back into the river Rhine. Unless the problem is addressed, these costs will occur indefinitely. In fact, there are calculations that the energy required to pump back the water is much higher than the energy generated from the coal production.

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