

EURACOAL Response to Public Consultation on the 2015 International Climate Change Agreement

The European Association for Coal and Lignite (EURACOAL) welcomes this opportunity to respond to the Commission's public consultation on a new international climate change agreement.¹ EURACOAL will respond also to the related Green Paper on a 2030 framework for climate and energy policies and a communication on the future of carbon capture and storage in Europe. Taken together, these three papers are of fundamental importance to the EU and its member states. Indeed, the well-being of EU citizens depends on a balanced EU climate and energy policy that continues to value the contribution of different energy sources to the Union's goals on environmental protection, energy security and economic competitiveness. EURACOAL looks forward to an informed debate. Our responses to the specific questions posed in the consultation document are included in an annex.

Summary

The European Union presents itself as the global leader in the fight against climate change – the union easily met its Kyoto Protocol commitment of a 6% reduction in greenhouse gas (GHG) emissions by 2008-12 compared with a 1990 baseline. However, between 1990 and 2006, the EU's carbon footprint grew by 47%.² EU citizens are consuming more than ever before and this has resulted in the reported massive growth in carbon emissions. Fewer and fewer of the goods that we consume are manufactured in the EU – the share of industry in EU GDP has fallen from 22.0% in 2000 to 19.3% in 2012. Leaving aside the impact on EU employment, imports from outside the EU have grown which has been good for many developing countries, but not so good in terms of environmental impacts. A widget manufactured, for example, in China results in more carbon emissions than the same widget manufactured in Europe because the Chinese economy is much more carbon intensive.³ EU climate and energy policy must recognise the reality of international trade and the impact of consumption on the environment rather than focusing solely on the direct emissions from, for example, homes, factories and cars. Thus, a holistic approach to society's carbon footprint is required.

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the International Climate Change Agreement: shaping international climate policy beyond 2020, COM(2013) 167 final, Brussels, 16 March 2013.

² Brinkley, A. and S. Less (2010), "Carbon Omissions – consumption-based accounting for international carbon emissions", Research Note, Policy Exchange, London, October.

³ Emissions per unit of GDP: 0.3 kgCO₂e/US\$ in the EU; 1.1 kgCO₂e/US\$ in China (UNEP (2012), *The Emissions Gap Report 2012 – a UNEP Synthesis Report*, United Nations Environment Programme, Kenya, November, Figure 2.7).

The coal industry is naturally against any unreasonable measures that would damage the future prospects for coal. Like everyone, the coal industry wants greater prosperity and a cleaner environment. Those men and women who work in the industry provide a service to society that we cannot live without – secure energy. Secure energy from coal comes with real added value: it is the most affordable energy and European coal exploitation technologies are world-leading in the fields of mining, coal conversion and coal use. Sadly, the coal industry is at best ignored and at worst vilified. The Green Paper does not include the words “coal” or “lignite”, yet 27% of EU electricity is generated by burning coal and lignite, and European steel production depends heavily on good quality coking coal and coke.

The impact of EU legislation on the coal industry is now being felt in the form of business and job losses as coal mines and coal-fired power plants close. Various directives have created a policy framework that is unfavourable towards coal. EU climate and energy policy sits at the top and would be fully supported by the coal industry if we believed that it properly addressed the global climate challenge, but it does not. To lose one’s job because of a policy that fails to address the nature and scale of the global climate challenge is a pointless sacrifice.

The European Union cannot unilaterally stop and reverse the impacts of climate change. Only an international agreement that binds the world’s major economies to make significant reductions in all of their GHG emissions, not just CO₂, over the coming decades can achieve the EU’s stated policy objective of limiting global temperature rise to 2°C. Acting alone has no environmental benefit. To influence others, the EU needs to speak from a position of strength. That demands a strong and prosperous economy based on policies that support economic growth. Policies which impose costs that are not mirrored elsewhere in the world weaken the EU economy. Such policies are not politically sustainable and leave the region isolated.

EURACOAL makes the following recommendations:

- There should be no further targets for GHG emission reductions in the EU without a binding international agreement that includes the world’s major economies. Any new EU targets should reflect national circumstances and, in particular, individual member states’ commitments at the UN level.
- Future international agreements should be formulated around targets to reduce carbon “consumption” (embodied emissions in the goods that are consumed), not carbon “production” (direct emissions from the production of goods).
- Include coal – the most affordable, the most abundant and the most accessible fuel – in EU energy policy. Coal-fired power plants are every bit as flexible as gas-fired power plants and can provide the necessary back-up to intermittent renewables to ensure 24/7 electricity supply which is indispensable for modern societies.

- The EU should embark on a major push for energy efficiency in the electricity generation sector by offering a suitable long-term framework that induces companies to invest in new, more efficient state-of-the-art coal-fired power stations to replace the EU's oldest ones.
- Demonstrate CCS at a large scale in the power and heavy industrial sectors for both coal and gas. This must be incentivised by member states in the same way as renewables, so that CCS can contribute to emissions reductions alongside other low-carbon options.
- Plan a CCS infrastructure for Europe so that deep cuts in CO₂ emissions can be made across the power and industrial sectors in the long term.
- To safeguard the internal energy market, the EU should amend existing directives to prevent market distortion from the targeted support of particular generation technologies. Any support should be for “low-carbon” technologies with competition between them: support should apply only to the carbon abatement cost, not energy supply cost.

The 2015 International Climate Change Agreement

EURACOAL's response calls for sustainable economic growth. Without that, the EU will not be a role model for others to follow. The current preoccupation with the EU's direct emissions of CO₂ must be replaced with a holistic policy framework that reflects the EU's growing carbon footprint because of rising consumption. Finally, we point to policy inconsistencies which suggest governments are selective in their commitments to the climate agenda. The reason for this selectiveness is the unspoken realisation that voters will never support the draconian measures that would be required to meet the stated aims of EU climate and energy policy.

Sustainable growth

An international climate change agreement should be seen as an essential precondition before the EU takes any further costly measures to reduce its GHG emissions. The consultation paper talks of the economic benefits associated with modernising the economy with technologies that reduce GHG emissions.⁴ If this were true, then the “invisible hand of the market” would deliver the benefits without government intervention. However, the economic benefits are not clear and there is today a dispute over whether a “green economy” can be economically sustainable. What we can observe is that those countries who embrace fossil fuels are developing at a faster pace than the EU. If we allow this to continue, our economic power and influence will decline to the point where we lose wealth and employment, and are

⁴ COM(2013) 167 final, p.10.

not taken seriously on the world stage. The EU must demonstrate leadership by showing others what is realistically possible using technologies which are available and economic. It is no use pursuing options that are expensive, insecure and add little value to the EU economy.

Production-based accounting has allowed many European states to meet emissions targets while allowing consumption-linked emissions to grow through imported embodied emissions. This situation suits the short-term interests of both Western political leaders and developing world producers, as it avoids targeting consumption. However, it undermines momentum toward the deep reforms that will be necessary to address climate change.

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Policymaking focused on minimizing domestic *production-linked* GHG emissions rather than *total* GHG emissions undermines effective mitigation efforts in at least three ways. Domestically, it can result in unbalanced mitigation policies that target production technique without addressing the scale and composition of consumption. Internationally, it encourages emissions “off-shoring” as production expands in developing economies that are subject to more limited emissions controls. Finally it undermines the pursuit of environmental efficiencies and environmental comparative advantage.

(Harris and Symons, 2013)⁵

EU carbon footprint is growing

In respect of the global climate change mitigation effort, the consultation paper talks of “current leaders and laggards”. It claims that the EU has decoupled its GHG emissions from economic growth: “EU emissions decreased by 18% since 1990, while the overall economy grew by 48%”. EURACOAL questions the EU “leadership model”: other regions have not followed the measures adopted in the EU and when analysed on a consumption basis, the EU’s carbon footprint has grown quite considerably over recent years: by 47% between 1990 and 2006.² This finding means that EU climate and energy policy is failing to deliver on its principal objective and should be revisited.

Inconsistent climate policy

Politicians have been successful in alerting the public to the potential threat of climate change. It has been more difficult to encourage the same public to take actions that would alleviate the threat. Without public support, it will be impossible to pursue any climate policy which imposes costs on society with no clear benefits. This is largely the case today because there are some important disconnects in the arguments put forward:

- Given that the demand for commodities and anthropogenic GHG emissions have risen alongside a steep and continuing rise in global population, it might be pertinent to ask

⁵ Harris, P.G. and J. Symons (2013), “Norm Conflict in Climate Governance: greenhouse gas accounting and the problem of consumption”, *Global Environmental Politics*, 13:1, Massachusetts Institute of Technology, February.

what level of population is sustainable and what life style that population should expect to enjoy.

- As international trade has grown, so has the gap between emissions assigned to developed countries under production accounting compared with consumption accounting.
- The impacts of climate change will continue for many decades, regardless of actions taken today.
- Current policy measures aim only to prevent “dangerous climate change” by limiting global temperature rise to 2°C. They cannot prevent climate change, yet policy measures are often justified as necessary steps to prevent climate change.
- Current policy will not benefit today’s generation, only future generations. For this reason, there is little incentive for people to act.
- Ambitious policy goals in the EU, even if met, will have no perceptible impact on solving the climate challenge. This means that voters will be unwilling to accept any costs, because there are no benefits.
- Marginal carbon-abatement costs are lowest in developing countries. The Kyoto Protocol’s flexibility mechanisms are designed to capitalise on opportunities to reduce emissions at least cost. Despite the clear environmental efficiencies, the EU is gradually withdrawing its support for the flexibility mechanisms.

The increasing production of goods in the developing world for consumption in the West, and the growing numbers of affluent developing-world citizens living consumerist lifestyles, is rendering these inconsistencies increasingly obvious.

(Harris and Symons, 2013)⁵

The UK example

The coal industry is disturbed that laws are being enacted in the UK which discriminate against coal by setting CO₂ emission performance standards that cannot be met by even the most modern, most efficient and cleanest coal-fired power plants. Moreover, the UK government will not permit new coal plants to be built without CCS, despite the fact that this technology is not yet fully demonstrated at scale. These policy measures do nothing to protect the environment because, under the EU ETS, CO₂ emissions are capped anyway across the EU.

In another example, the UK government is backing Europe’s largest regeneration project with £9 billion on a site that is located largely in the floodplain of the River Thames. The Thames Gateway project will see an estimated 200,000 new homes built by 2020 which would be at risk later in the century as sea levels rise. The multi-billion Thames Estuary 2100 Project

(estimated at £10-20 billion)⁶, which includes a new tidal barrier, is the government's response, but leaves many wondering why a government that promotes progressive climate policies would expose itself to such high climate impact risks. More generally, spatial planning policies assume a great reliance on private transport – a sector that is largely immune to the UK's GHG reduction policies. If the UK government itself disregards the impacts of climate change, then it should come as no surprise that many observers become frustrated by the selective nature of its policy making.

The route forward: carbon consumption targets not carbon production targets

Policy makers must recognise that there will be no support for costly measures – neither from the public nor from treasuries. Instead, climate and energy policy should promote measures that are economic today, that improve people's lives today, and that can be replicated around the world today. Many of the current measures taken by EU member states are expensive, have no material impact on climate protection and cannot be adopted by other, less wealthy regions.

A successful climate and energy policy must combine all three aspects of a sustainable society – economic competitiveness, energy security and environmental protection – within a framework that is effective in diverting resources towards emissions abatement in developing countries.

Fundamental political obstacles confound adoption of an effective and economically efficient global response to climate change because there is a mismatch between the affluent (mostly European) states that are most enthusiastic about responding to climate change and the locations where abatement efforts can be most productive. Evidence suggests that the developing world is home to over two-thirds of the lowest-cost abatement opportunities, and will account for 97 per cent of anticipated growth in energy-related carbon dioxide (CO₂) emissions before 2030. Moreover, constraining emissions enough to limit global warming to 2°C above the pre-industrial average would require annual investment of US\$140–175 billion in the developing world between 2010 and 2030.

(Harris and Symons, 2013)⁵

⁶ Parry, M. *et al.* (2009), *Assessing the Costs of Adaptation to Climate Change – a review of the UNFCCC and other recent estimates*, International Institute for Economic Development (IIED), London.

Annex I – Responses to questions on the 2015 international climate change agreement

Question 1: How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2°C?

This question asks how “free riders” can be avoided in any future global climate agreement. In practical terms, this is only possible if penalties are imposed that make it more economical to join and comply with an agreement rather than remaining outside or reneging. Such penalties should impose a cost on countries that choose to free ride. This means establishing a system of import duties, imposed on goods and services that originate from those countries. This would lead to trade wars, reduced GDP because consumers would be denied the comparative advantages of today’s global economy and may even lead to security threats as tensions build. A more equitable solution would be one that offers greater prosperity for all through more trade, faster technological development and rational investment of scarce capital. For this reason, a future international agreement should be based on “consumption” emissions, not “production” emissions and be integrated with trade agreements.

Question 2: How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?

By switching from production-based assessments of carbon emissions to consumption-based assessments (*i.e.* “carbon footprints”), a truer picture of each economy’s contribution to global emissions would emerge. Policies could then aim to reduce carbon footprints which would be fundamentally more effective, because such an approach is fair and avoids carbon leakage.

Question 3: How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?

In democratic societies, this will happen when voters decide. Politicians must therefore offer convincing arguments in favour of “mainstreaming” climate policy across all policy areas. To date, EU climate policy has imposed costs which, in some member states, have risen to levels which are becoming difficult to justify. People must want to buy low-carbon energy – it cannot be forced on them.

Question 4: What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?

The debate on equity has been well rehearsed, over many years. The “contraction and convergence” model, as proposed by the Global Commons Institute since the early 1990s, is equitable and fair. It aims to allow developing countries emissions to at first grow whilst developed countries emissions contract, before all countries’ emissions converge to a level which is equal on a *per capita* basis. The process of following this path is more problematic because, although good in principle, it demands a significant transfer of wealth from developed to developing countries. Trillions of dollars would be transferred as “consumption entitlements” or “production permits”. Either way, citizens of developed countries would pay for emitting GHGs – a previously free common good. No politician has attempted to stand for election on the basis of such a transfer of wealth and it seems unlikely that anyone would ever be elected on the basis of creating such a large flow of unearned income. Much work has been done on sectoral agreements which were seen as a way of encouraging developing countries to take on commitments. Overachievement of generous sectoral emission targets would be rewarded with tradable certificates. Sectoral agreements are a second-best option to a comprehensive international agreement: they would require complex administration, monitoring and verification. Given that such agreements would not cover all actors in a particular sector, the risk of carbon leakage is ever present and would require further measures, including border measures.

Question 5: What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How can the 2015 Agreement further incentivise the mainstreaming of adaptation into all relevant policy areas?

Tackling adaptation is a challenge for policy makers because it means explaining to society at large that even the most stringent climate and energy policies will not halt the impacts of climate change. People will then question why they are being asked to pay for both mitigation and adaptation. Governments may find it difficult to justify large investments in both, unless the investments are economic in themselves. It is for this reason that the coal industry promotes a three-step clean coal strategy that begins with emission reductions from investments in efficient new power plants – investments that make economic sense. EU climate and energy policy should welcome such investments. Instead, we have the situation of an unfavourable policy towards coal which means investments are virtually frozen and the preference of industry is simply to run older, less-efficient power plants for as long as possible. This does not set a good example to the rest of the world: the EU should create a framework to enable the modernisation and renewal of its older coal-fired power plants.

Question 6: What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?

EURACOAL notes with some disappointment that the EU has from 2013 banned from the EU ETS CERs from CDM projects in non-LDCs and from all projects that reduce some of the most potent GHGs (HFC-23 and N₂O). This has pushed CER prices close to zero (c.€0.01/tCO₂ for grey CERs in April 2013 and €0.35 for green CERs in May 2013)⁷. This has had a devastating effect on projects such as the CDM-approved project to demonstrate the world's first near-zero methane emission coal mine at Duerping in Shanxi Province which is being developed by an EU company. Thus, the EU carbon market is no longer driving change elsewhere in the world; it has become an isolated market. This is a great shame because, as the question suggests, financing and technology transfer can be promoted through market-based mechanisms. However, EU climate and energy policy is moving away from cost-efficient global actions and focusing instead on expensive domestic actions. From a carbon mitigation perspective, it would be better for the EU to invest in solar PV in dry ecozones, including those outside the EU. Finally, if the EU is not satisfied with the CDM, then it should seek to change the rules agreed through the UNFCCC rather than unilaterally destroying the whole edifice.

Question 7: How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

Transparency and accountability are now well developed under the UNFCCC with well-designed national reporting requirements. Carbon emissions – or at least their reduction – have become a unit of currency. For money, the long-established accounting profession helps to protect against fraud by ensuring that financial reports are “true and fair”. Ultimately, state authorities deal with fraudsters by imposing fines or custodial sentences. The field of carbon trading is far less developed in terms of protecting the innocent and the EU should continue to develop the checks and balances that will be necessary to maintain trust and confidence in what is likely to become a much larger market over the coming years. Trade sanctions are the most powerful way of holding countries accountable to their commitments. Hence, UN climate negotiations and WTO trade negotiations must be linked.

Question 8: How could the UN climate negotiating process be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

Over the last 25 years, globalisation has been the biggest force driving global change. The growth in economic interdependence – and the related movement of people and exchange of cultural ideas – has lifted millions out of poverty and opened up new horizons for much of the

⁷ Vitelli, A. (2013) “UN carbon emission credits drop to record 1 cent as EU ban nears”, Bloomberg, 24 April. Point Carbon (2013) “Green CER premium crushed as sellers unwind 2012 hedges”, 14 May.

world's population. It has been the success story of the new millennium and cannot be reversed. Globalisation has put pressure on natural resources, as evidenced by the rise in commodity prices. Almost half of the additional demand for energy has been met by coal and it remains the world's most abundant fuel for the future with resources to last for over two thousand years. Given the linkage between globalisation and today's environmental challenges, it is now imperative that future UN climate negotiations are conducted alongside the WTO trade policy framework. Only when adherence to UN climate agreements is linked to trade agreements can one expect countries to join and comply with any new UN agreements. The negotiation forum and dispute resolution process supervised by the WTO should be extended to deal with climate agreements in a way that addresses carbon leakage.

Question 9: How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

The EU needs to demonstrate that wealth creation and climate protection can be compatible. To date, EU climate and energy policy has tended to impose costs on the economy whilst other major economies have focused on jobs and growth. By showcasing what can be achieved economically – more efficient power generation, for example – then the EU could convince all stakeholders that a balanced route to sustainable development exists. If the EU continues to prioritise some of the most expensive low-carbon technology options for support, then scarce capital is not used effectively and other regions and countries will be reluctant to follow. The top-down negotiation process, led currently by Ban Ki-moon, needs to be supported by bottom-up processes that are supported by voters and tax payers.

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