New EU Climate Change Package Fails to Tame King Coal

Media Brief from E3G (1)

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The European Commission has retreated from its ambition of making the EU the first advanced economy to decarbonise its power sector by scaling back plans for developing and deploying carbon capture and storage technology.

Even if the EU meets its new, ambitious renewable energy targets, around 70% of new power capacity in Europe will come from fossil fuels over the next 25 years. High gas prices and fears over dependence on Russia are making coal the new fuel of choice, with 40 major new coal power plants planned to be built in the next 5 years. This will undermine the EU's own 2050 emission targets, and the EU's global climate objectives.

In 2007 the Commission put forward an ambitious plan to tackle global coal use by building 12 large scale demonstration plants using carbon capture and storage (CCS), aiming to make CCS mandatory for all new plants by 2020, and retrofitting all plants built after 2010. This package would have decarbonised the EU power sector by 2050, and created the new technology needed to tackle rapidly growing coal emissions in China, India and the USA.

The new climate package steps back from these ambitions. It fails to provide guaranteed EU funding to deliver the CCS demonstration plants, and may only look at mandatory deployment of CCS as a last resort if private sector investment in CCS is slow. It fails to drive global cooperation through strengthening programmes on CCS with China, India and the USA.

The package may require power stations to buy 100% of the permits needed to cover their emissions from 2012, which would provide a strong disincentive to build new coal power stations. But this provision may be weakened in the final negotiations.

Nick Mabey, Chief Executive of E3G, said:

"Europe is rightly investing billions of Euros in forcing the development and deployment of renewable energy, but renewables alone cannot reduce the scale and pace of emissions growth in China, India and the USA. European leadership requires a far stronger package of funding and regulation to drive the development of carbon capture and storage at a global scale, as only this can preserve the climate security of European citizens"

Background

Tackling Coal is the Critical Task for the EU

Over the next 25 years the EU will build up to 850 Gigawatts (GW) of new power stations, more than the USA and nearly as many as China. Even if the EU meets its renewable energy targets, around 70% of this investment will be in coal or gas fired power stations (2). With gas prices high, and fears about dependence on Russian supplies rising, investment in coal is increasing - nearly 40GW of new coal power stations are planned by 2012 alone, mainly in Germany, Poland and Eastern Europe (3).

Any fossil power plants built after 2010 will still be in operation in 2050, the date by which the EU plans to have reduced its total GHG emissions by 60-80%. Unless these plants can become effectively carbon neutral by applying carbon capture and storage technology (CCS) there is no chance of the EU hitting its overall climate change objectives without scrapping a whole generation of infrastructure worth hundreds of billions of Euros.

However, the climate change package fails to deliver strong enough incentives to avoid a lock-in to dirty investment, and will not drive the development of carbon capture and storage and other clean energy technologies. Estimates of future carbon prices in the ETS are not high or certain enough to drive deployment of CCS, even after 2020, and, as with renewable energy technologies, a mandatory approach is needed to give effective market incentives for private investors to move forward risky technologies.

As the European Commission itself recognises, “the target of halving 1990 global GHG emissions by 2050 will never be met unless the energy potential of coal can be exploited without ballooning emissions.”

Without Europe leading on developing these technologies the USA, China and India will carry on investing in dirty coal - removing any possibility of limiting climate change to 2°C.

5 Critical Areas in the Climate Package

1. **Reducing incentives for building new coal power plants**: the package may give stronger disincentives for building new coal plants by requiring new plants to buy 100% of the permits needed to cover their emissions at auction from 2013. Unless a strong international agreement is reached companies will also be limited in the amount of cheap credits they can buy outside the European Union to cover their emissions. **It is critical that 100% auctioning in the power sector and limits on purchasing emissions outside the EU are agreed to make new plants pay the full cost of their emissions.**

2. **Additional Funding for European CCS Demo Plants and other Clean Technologies**: The climate package will not provide any new European funding for delivering the 12 CCS demo plants agreed by the European Council in 2007. The European Commission is asking Member States to apportion up to 20% of their Emission Trading auction revenues to pay for CCS and other new technologies, and will review the potential for additional EU funding at the end of 2008. **Without additional EU funding it is highly unlikely that the 12 CCS demonstration plants will be built. New funding could be delivered through a combination of Member States pledging ETS auction revenues, using some ETS permit allocations to directly fund CCS demonstration plants, and undertaking an ambitious review of EU funding sources in 2008. This need must be clearly signposted in the package.**

3. **Making Carbon Capture and Storage (CCS) Mandatory:** the 2007 Coal Communication from the European Commission argued for mandatory use of CCS on all new fossil power stations built after 2020, and retrofitting of all plants built after 2010. The March 2007 European Council endorsed deployment of CCS by 2020 if technically possible. The current package pulls back from this approach and only threatens to consider mandatory regulation in companies fail to invest fast enough in CCS, and it contains no provisions on retrofitting plants. **Without a strong signal that CCS will be required in the future it is unlikely that companies will invest in CCS at scale, as prices in the ETS will be too uncertain and low to make the first wave of plants profitable. Regulation for mandatory deployment should be kept as the default option until the results of the demonstration plants can be reviewed in 2015.**

4. **Making new fossil plants carbon capture ready**: the package moves away from requiring any new fossil fuel power plants built after 2010 to be retrofitted with CCS, with a much weaker regulatory obligation to just consider the technical feasibility of CCS for new plants. **All new plants should be required to undertake a full economic, financial and technical review of CCS retrofitting as part of their permitting process; private investors in utilities should require similar analysis as due diligence for power plant financing.**

5. **Building International Cooperation**: tackling new coal build in Europe is important, but will not deliver climate security unless CCS technologies are also deployed in other major economies which are also dependent on coal - notably China, India and the USA. **Europe must deepen its cooperation on CCS and coal with all major consuming countries, including by providing substantial funding for collaboration on research and commercial scale demonstration, and developing mechanisms for technology sharing with developing economies.**

Notes to Editors

1. E3G is a non-profit European environmental organisation with the mission to accelerate the transition to sustainable development. E3G is currently based in London, Brussels and Berlin. More information can be found at www.e3g.org.

2. Figures from International Energy Agency (2006) and Euroelectric (2007).

3. RWE analysis 2007