

A summary of the Confederation of UK Coal Producers response to the Government's energy policy consultation

September 2002

In July 2002, the Confederation of UK Coal Producers (COALPRO) presented its initial response to the Government's energy policy consultation. In this summary, we reiterate the main points made in our initial response, provide some supplementary information, and explain why Government should now make a clear choice on the future of indigenous coal production. Previous submissions made by COALPRO, and individual members of the Confederation, to the Performance and Innovation Unit during 2001 are still relevant; they include future production plans which should inform the DTI's energy policy team.

Policy actions called for by COALPRO

We recommend a number of broad policies:

- Recognition that indigenous coal production has a national security value.
- Support UK coal producers under EU State aid rules.
- Environmental regulation that encourages the cleaner use of coal, not an end to its use.
- Accept the reality that coal is a flexible and economic fuel for power generation.
- A Clean Coal Obligation to support, for example, new IGCC power stations.

There are some specific actions which the Government can take immediately:

- Do not implement the EU Large Combustion Plants Directive any more rigorously than other Member States.
- Remove the presumption against opencast coal mining in Mineral Planning Guidance note 3 (and NPPG 16 in Scotland).
- Move ahead with the supercritical boiler retrofit project at an existing coal-fired power station (DTI, 2001).
- Remove the 2006, 75% energy crop requirement under the Renewables Obligation Order.

The key issues

1. Gas supply security

The projected over-dependence on gas is well understood, but cannot be in the nation's interest. It is at odds with the Secretary of State for Trade and Industry's and OFGEM's legal responsibility to "secure a diverse and viable long-term energy supply" (Utilities Act 2000, Part II, Section 9).

2. Coal - cheap and plentiful

Coal is a viable, long-term energy supply, available cheaply from many regions of the world. Nothing we do

in the UK will stop this fuel coming to market. The UK's best strategy would be to set the highest standards for coal use by deploying, and encouraging others to deploy, those advanced clean coal technologies that reduce the environmental impact of coal use.

3. The energy policies of our competitors

For security reasons, other countries value indigenous energy production; the UK should as well by continuing to support its domestic coal industry. If the Government chooses not to, then mines will close, unable to compete with cheap, imported coal from vast surface mines in developing countries.

A page from the German Ministry of Economics' recent energy report is reproduced in Box 1 overleaf. The report clearly states that Germany chooses to subsidise its coal production to "help ensure supply security". COALPRO agrees entirely with the sentiments expressed by the German government.

In France, a massive nuclear programme in response to the oil crises of the 1970s, means that almost 80% of the country's electricity now comes from nuclear power stations. As in Germany, the French government actively supports its energy industries to the extent that both countries have "national champions" who are establishing themselves as dominant, international players (eg RAG (coal), EdF (electricity), GdF (gas), E.ON (electricity / gas), RWE (coal / electricity)). Such a strategy is certainly in the national interests of France and Germany. By contrast, the UK has decimated its electricity industry in the name of competition. COALPRO questions if this has been in our own national interest.

The USA, unlike the UK, is already heavily dependent on imported energy supplies. It provides us with a view of where we will find ourselves in a few years time as North Sea oil and gas reserves deplete. It is therefore relevant to examine US energy policy. Extracts from the National Energy Policy, the so-called "Cheney report", are reproduced in Box 2. Once again, COALPRO finds itself in agreement with the policy recommendations now being implemented, and notes that the 10 year, \$2 billion US clean coal programme is vastly in excess of the UK's own recent spend of less than £5 million per annum on clean coal.

Finally, the Japanese have always felt vulnerable to energy supply disruptions given that they have almost no indigenous reserves. Their fuel mix for power generation is consequently very well-balanced, as shown in Table 1.

Table 1 - Fuels used for electricity generation in Japan during 2000 on an electricity supplied basis
(source: IEA database, 2002)

nuclear	29.5%
gas	27.3%
coal	22.1%
oil	10.4%
hydro	8.8%
combustible renewables and waste	1.5%
geothermal	0.3%
solar/wind	<0.1%

Box 1 - German energy policy on coal

6. Lignite and hard coal are indispensable for electricity production, for they lower the risk of import dependency.

- Under the assumptions of Scenario II, the decarbonization (replacement of high-carbon energy sources with low-carbon or carbon-free energy sources) in the electricity sector would be a climate protection strategy that, on paper, could be done at favorable cost parameters. But if for reasons of climate protection the domestic generation of electricity on the basis of coal is reduced, that would not mean an elimination of the use of coal in Europe. Sufficient coal reserves are available, above all in the Eastern European candidates for accession to the EU. In addition, considerable amounts of import coal are available on world coal markets at favorable prices, making them competitive with gas. The massive reduction of coal use in Germany would only reduce the national CO₂ balance, without, however, doing anything for global climate protection.
- A reduction of the use of coal for electricity generation would also narrow energy supplies in Germany to the two energy sources oil and gas. The supply and price risks already featured by the heat market and even more pronounced in the transport sector would be reinforced in, of all sectors, electricity as the industrial growth energy. For this reason, the domestic energy reserves lignite and hard coal, as well as a growing share of renewable energies will continue to be indispensable.
- In the seventies, the path of “away from oil” was taken as a lesson from the oil crises, with the result that there is practically no electricity generation nowadays on the basis of oil. A policy that assesses the energy sources only in accordance with their climate-compatibility takes no account of these lessons from the past. It would result in a “trend toward gas” and, with concentration on a single energy source, would bring the danger of having us repeat the experience of the seventies.
- The higher CO₂ emissions resulting from coal use must be offset by greater efficiency in power stations and greater effort to reduce CO₂ emissions in transport and space heat. The use of domestic lignite and the preservation of a core holding of German hard coal which would ensure access to the coal deposits is important also from the structural and employment policy perspectives.

For this reason:

Enhance power station efficiency

Research must be targeted on systematically developing and using the technological potentials of improving the efficiencies of power stations.

Do not abandon lignite in the name of climate protection

The competitiveness of lignite-fired power stations should not be endangered by changes in the framework conditions governing the energy sector.

Safeguarding German hard coal

Germany is working in the EU to ensure that every Member State has the possibility of covering part of its primary energy needs by support for non-competitive or not-yet competitive domestic energies. In Germany, the domestic resources of hard coal and renewable energies would be included in such a category.

extract from: Bundesministerium für Wirtschaft und Technologie, *Sustainable Energy Policy to Meet the Needs of the Future Energy Report*, June 2002

Box 2 - US energy policy on coal

Recommendations:

★ The National Energy Policy Development (NEPD) Group recognizes the importance of looking to technology to help us meet the goals of increasing electricity generation while protecting our environment. To that end, the NEPD Group recommends that the President direct the Department of Energy to continue to develop advanced clean coal technology by:

- Investing \$2 billion over 10 years to fund research in clean coal technologies.
 - Supporting a permanent extension of the existing research and development tax credit.
 - Directing federal agencies to explore regulatory approaches that will encourage advancements in environmental technology.
- ★ The NEPD Group recommends that the President direct federal agencies to provide greater regulatory certainty relating to coal electricity generation through clear policies that are easily applied to business decisions.

extract from: US Department of Energy, *National Energy Policy - report of the National Energy Policy Development Group*, May 2001



Figures 1 & 2 - Waste to energy with coal using a British Gas Lurgi IGCC at SVZ in Germany
(© Sekundärrohstoff-Verwertungszentrum Schwarze Pumpe GmbH)

4. Valuing the cost of carbon emissions

The Government could, at a stroke, eliminate the coal mining industry and coal-fired power generation by introducing punitive carbon taxes or emissions trading. Climate change is a global problem demanding global solutions and tough, unilateral domestic measures would achieve very little. In the following section, we examine the way government policies can simply shift emissions to other parts of the world. Here, we merely note that an effective emissions trading scheme must:

- include all greenhouse gases;
- avoid penalising early action taken since the 1990 Kyoto baseline;
- freely allocate emission allowances on an historic basis;
- cover all sectors, including transport and domestic; and
- encourage investments that will reduce emissions.

Above all, “careful thought will need to be given to ways of crediting reductions in CO₂ emissions from coal use without unwittingly incentivising merely a further shift from coal to gas generation” (DTI, 2001).

If the Government decides that placing a value on carbon emissions is a policy objective, then it must also place a value on energy supply security and ensure that this is properly reflected in market prices.

5. The fallacy of UK’s falling CO₂ emissions

This section expands on Section 12 in COALPRO’s initial submission.

The UK Government has been happy to present our country as a leader in the race to reduce CO₂ emissions. On a production basis, this is true, albeit the fortuitous result of the “dash-to-gas” during the 1990s. However, on a consumption basis, the picture is one of rising emissions. Intuitively, we know that heavy manufacturing has moved away from the UK, yet we still consume the products of these industries. The impact of this on UK employment is well documented, but the environmental impact has received less attention. In many cases, production has shifted to countries with higher energy intensities and commensurately higher CO₂ emissions. By accounting for our imports and exports on an emissions basis, it is possible to plot the CO₂ emissions that result from UK consumption as shown in Figure 3.

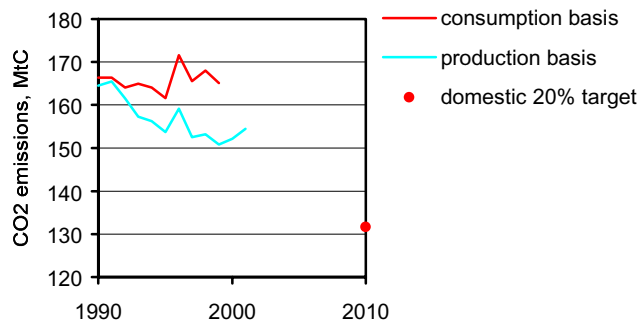


Figure 3 - UK carbon dioxide emissions on a production and consumption basis

(sources: DTI Energy Trends, March 2002; UK Pink Book, 2001 (with incomplete data for 1990-1993 from earlier editions); IEA CO₂ emissions from fuel combustion database, 2002)

COALPRO believes that the Government should assess its climate change policies on a consumption basis to properly account for the true impact of UK economic activity. Along with Life Cycle Analyses for alternative fuel choices, this would provide a sound basis for energy policy decisions.

6. Waste strategy

The Government’s Waste Strategy White Paper (Cm 4693), published in May 2000, estimates that between 21 and 166 new waste to energy plants will be required to meet the requirements of the EU Landfill Directive. The strategy is faltering because of a lack of public acceptance of plants which combust waste. The solution exists in the form of a small number of IGCC plants; processed waste would be transported from waste recycling facilities to utility-scale gasification plants where it would be converted into electricity. The world-leading, British Gas Lurgi gasification technology is ideal for this application, a technology that was developed with the financial support of the UK government. A commercial plant has recently been commissioned in Germany (see Figures 1 and 2), so there are no technical uncertainties. The Government should provide the incentives needed to rescue its waste strategy via the IGCC route.

7. The choice

Cheap, imported coal, from regions with low labour costs and little regard to the health, safety and environmental impacts of mining, continues to displace indigenous production. Without Government support, this trend will continue and the UK will lose the security benefit of domestic production. The choice lies with Government and COALPRO asks for a clear, long-term policy statement that is both pragmatic and rational.

Reference

DTI (2001) *Review of the case for government support for cleaner coal technology demonstration plant - final report*, London: Department of Trade and Industry, 13 December 2001.

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