

EIB – Consultation Paper on Energy Sector Lending Policy

The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output. CoalPro is also a member of Euracoal. CoalPro is pleased to be able to respond to this consultation paper.

It is CoalPro's view that the EIB must pursue a lending policy in the energy sector that prioritises not only low carbon projects but also those which will contribute to affordable energy for Europe's people and businesses. Wealth creation and competitive energy markets must be essential objectives and a balanced approach should be followed. Europe is the only major economic area in the world which remains in recession and the EIB's energy sector lending policy must be geared, amongst other objectives, to ending this situation.

In particular, CoalPro objects strongly to the EIB's obsession with gas for power generation, on two counts. First, whilst a switch from coal to gas will reduce carbon emissions in the short term, gas is not low-carbon and such a policy will not achieve a low-carbon economy. On the contrary it can only lead either to stranded assets on a large scale or decarbonisation objectives not being met.

Secondly, gas is simply too expensive and in this context, there are numerous statements and assertions in the consultation paper that are simply untrue, or a distortion of the truth. For example, it is contended in section 3:1 that the exploitation of unconventional gas has led to supply/demand imbalances and the de-linking of oil and gas prices in some markets, the implication being that gas has become cheaper, or could become cheaper, relative to coal.

In fact the opposite is true. Increased shale gas production in the US has displaced some coal which has made its way onto the world market. As a result the world coal price has fallen and the price differential between coal and gas has widened. For example, in the UK, the fuel cost of generation from coal is now LESS THAN HALF that of gas and coal-fired generation has increased by some 40% to date in 2012 compared with 2011 with gas generation falling to a similar extent. There has been a similar experience in Germany.

Nor will this be a short-term phenomenon because the issue is market structure as much as gas availability. In the US, there are multiple gas producers in competition with each other such that marginal revenues are inexorably forced down to marginal costs. In Europe, and elsewhere outside North America, the gas market is dominated by oligopolistic oil and gas majors and national gas companies and they will act to ensure their oligopolistic profits are maintained. There is thus no real prospect of the link between gas and oil prices being broken, and no evidence of it thus far. The EIB should desist from its overt and/or implied support for gas investments as opposed to coal until the gas supply industry gets its prices down to more realistic levels, i.e. by 30% to 40%, to ensure energy for Europe's people and businesses is affordable.

The consultation paper is similarly unrealistic with respect to carbon prices. The statement in section 3.2 that ETS carbon prices are below those needed to support investment in low-carbon technologies is true, but irrelevant. The price would have to rise enormously and immediately to achieve this. There is no prospect that this will

happen. The ETS carbon price is a blunt instrument that, at any likely increase, will merely drive investment to the next cheapest option, i.e. from coal to gas. **THIS IS NOT LOW CARBON.**

It is known that the Bank uses an imputed carbon price to evaluate investment. This carbon price should reflect the market. It should not be 'invented' to achieve a particular outcome. The contention (in 3.2) that low carbon prices may distort investment decisions between carbon intensive technologies is simply preposterous. On the contrary, it is the use of a completely unrealistic price that will distort decisions. The Bank cannot divorce itself from reality.

I now turn to the specific questions raised by the consultation paper.

4.1 General energy and economic context

There is obviously a trade-off but the Bank should be mindful of the present difficult economic situation in Europe and recognise that this will not be alleviated without affordable energy for its citizens and businesses. Within this overall picture, energy sector investment will undoubtedly contribute to growth and employment and the ranking of sub-sectors should be based on rational criteria rather than value judgments. Care should be taken to ensure that investment which creates jobs in the energy sector does not destroy jobs in other sectors. The current economic crisis will inevitably reduce demand but prices, particularly of gas, have proved unresponsive to this.

4.2 Renewable Energy

It cannot be assumed that continued investments will lead to cost reductions and CoalPro would like to see more specific evidence. CoalPro is not competent to comment on the other questions in this section.

4.3 Energy Efficiency

CoalPro is not competent to comment.

4.4 Security of Supply

CoalPro is not competent to comment on electricity transmission and distribution issues.

4.5 Fossil Fuel

Gas-fired generation should only be supported if and when the price differential between coal and gas narrows very substantially. This is essential if the Bank is to contribute to keeping electricity prices down for Europe's citizens and businesses and to supporting Europe's economic recovery.

In the longer term, coal and lignite fired generation must be combined with CCS **BUT THE SAME HAS TO APPLY TO GAS.** In the medium term, coal and lignite fired generation will provide essential back-up to intermittent renewables and inflexible nuclear and is able to perform this essential role far more cheaply than gas.

The evaluation criteria should include the extent to which carbon emissions are reduced, cost of electricity generated and, as a minimum initially, CCS readiness.

There may be significant scope for the development of shale gas resources in the EU but this is unlikely to be a 'game changer' as in the US. Market structure will prevent this.

Under present policies, including those of the Bank, the share of natural gas is likely to grow further. At present prices, however, this will be damaging to Europe's citizens, businesses and economy. Nor will it provide environmental benefits as gas is a high carbon fuel.

The best approach to securing gas supply and reducing import dependency is to avoid an increasing reliance on this expensive, high carbon fuel.

There may be a risk of stranded assets as a result of investment in gas infrastructure, but this is no greater than the risks facing major investment of any kind in any sector. Normal commercial considerations should apply.

The consultation paper does not mention investment in coal mining projects in Europe. This is a serious omission. CoalPro is aware of a large UK project to increase hard coal production that apparently passed all tests but was rejected by the EIB on the grounds that the output could not be guaranteed to be supplied to a CCS equipped power station. This was a ludicrous decision. As a consequence, hard coal imports into the UK and the EU will be higher than they would otherwise be, employment in highly paid, highly skilled jobs will be lower than it would otherwise be, and there will be a general loss of other economic benefits. Overall carbon emissions will be higher due to transport emissions from imported cargos. The Bank's lending criteria must change to support investment in coal extraction projects if its lending policy is to be consistent with EU policies. These policies are not antipathetic to coal extraction.

4.6 Nuclear

Nuclear power will continue to play an important base load role but is limited overall because its inflexibility does not complement intermittent renewables. It makes sense, subject to national policies, to extend the lives of nuclear power stations if it is safe to do so. CoalPro understands that the reconsideration following Fukushima is limited to Germany where carbon emissions may rise in the short to medium term because of higher fossil fuel generation, but curtailed in the longer term because of higher generation from renewables.

4.7 RDI

CoalPro is not competent to comment.

4.8 EIB external and Cotonou mandates.

Several hundred million people remain without access to electricity with all the consequences for poverty and poor health that that entails. Higher cost, low carbon

electricity will reduce substantially the rate at which this problem can be addressed. It is a difficult balance to strike but affordability is the most critical issue in extending access to electricity supply.

Annex 1 – Criteria for selection of energy projects

CoalPro wishes to comment only on section 4, Fossil fuel energy projects.

CoalPro supports the Banks' approach of assessing projects on the basis of cost, including externalities. However, the imputed cost of externalities should be based on market realities and not on some artificial basis designed to achieve a particular outcome. This kind of circular reasoning should have no place in the Bank's lending criteria.

CoalPro is also not opposed to the additional criteria that it is proposed to apply to new coal and lignite generation projects but believes **THERE ARE NO OVER-RIDING ENVIRONMENTAL ARGUMENTS WHY THESE SHOULD NOT ALSO BE APPLIED TO GAS.** Criteria designed to support replacing existing coal and lignite plants with higher-efficiency, lower-carbon plants are welcome but not criteria designed to replace low cost coal with expensive gas.

A rational policy needs to be developed and applied to coal extraction projects, particularly where the alternative is imported coal, the consequence of which will be higher overall global carbon emissions. There is no reason whatsoever why any 'additional' criteria should be applied to such projects.