



Industrial Strategy Team  
Department for Business, Energy and Industrial Strategy  
1 Victoria Street  
London  
SW1H 0ET

17<sup>th</sup> April 2017

Dear Sirs,

### **Government Green Paper – Building our Industrial Strategy**

I am pleased to make a submission to the consultation on the above Green Paper on behalf of CoalImp – the Association of UK Coal Importers and Producers.

CoalImp represents UK coal producers, major coal users, transport companies, ports and other infrastructure operators. The ten members (listed on the CoalImp website<sup>1</sup>) account for the majority of UK coal production and the handling, transportation and use of UK coal imports.

This Green Paper follows a separate consultation on the future of coal-fired generation in the UK – *Coal Generation in Great Britain: The pathway to a low-carbon future* – to which CoalImp has submitted a detailed response.<sup>2</sup> This 'Coal Consultation' was noteworthy in the scant regard paid to industrial strategy in its proposals for an *orderly* transition and in its underlying assumptions and impact assessment. A number of the points raised by CoalImp in response to the Coal Consultation therefore bear reiterating in response to the industrial strategy Green Paper.

I should make clear that the membership of CoalImp covers a spectrum of opinions on certain matters, with some members having principal and/or significant interests in sectors other than coal. The submission, therefore, represents a majority view, and should not be interpreted as being endorsed by each individual member.

Yours faithfully,

**Nigel Yaxley**  
**Managing Director**

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<sup>1</sup> <http://www.coalimp.org.uk/5.html>

<sup>2</sup> <http://www.coalimp.org.uk/resources/CoalImp+Submission+to+Coal+Closure+Consultation.pdf>

## Introduction

1. Following a period of high coal demand earlier this decade, the coal market has seen a major reduction over the last year or so, as a direct result of Government policies. The UK's unilateral Carbon Price Floor has caused the premature closure of coal-fired power stations, and very low levels of summer running at those that remain. These remaining plants, however, are proving all the more essential to meet winter demand.
2. Notwithstanding Government proposals to close all unabated coal plant by 2025, in the interim, coal plant remains an essential part of the energy mix, and is capable of providing the most affordable and secure transitional power capacity in the UK. But there has been an unprecedented sudden, rapid and continuing collapse in the market for coal-fired electricity following the hike in the Carbon Floor Price (CPF) since April 2015. As well as seriously damaging the remaining indigenous coal production industry, the market collapse is also impacting upon rail and port infrastructure businesses.
3. Government has clearly taken credit for the collapse in the coal market – for example in a parliamentary written answer on 12<sup>th</sup> September 2016<sup>3</sup>:

*"The role of coal for electricity generation has declined rapidly in the last couple of years due to the success of the Government's policies to penalise emissions of carbon dioxide and other pollutants and encourage investment in lower carbon alternatives."*

4. However, Government has taken little responsibility for the fall-out from these policies. As well as in coal mining, other businesses have been destroyed and jobs have been lost across the coal supply chain, affecting railways, ports, power stations and supporting industries.
5. During Winter 2016/17 we have seen two developments which should give Government pause for thought:
  - Firstly, coal generation has increased during the winter months often to levels of around 20% of total electricity supply, demonstrating coal's continued importance to the generation mix during periods of higher and peak demand;
  - Secondly, the capacity auction for 2020/21 took place in December 2016; once more, this auction awarded contracts to existing coal plant, demonstrating that coal remains the optimum economic solution until such time as it is closed by regulation.

When considering these outcomes, Government should also reflect that regulating to close unabated coal is relatively straightforward, but overcoming the complex web of regulatory, financing and practical hurdles to bring forward new plant is far more challenging.

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<sup>3</sup> Written question – 45332: <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-09-06/45332/>

6. The CoalImp response to this consultation is chiefly concerned with two of the ten 'pillars' – *Upgrading infrastructure* (pillar 3) and *Delivering affordable energy and clean growth* (pillar 7). However, as stated in the consultation summary, the 'pillars all reinforce one another', and our comments are also relevant in terms of *innovation* (pillar 1), *skills* (pillar 2) and *driving growth* (pillar 9).

## **Industrial Strategy and electricity generation infrastructure**

7. Government should consider, as part of its Industrial Strategy, how the country can derive maximum value from its old coal plants before they close. CoalImp believes that existing coal plant is ideally placed to provide an affordable source of capacity in the medium term, helps to deliver security standards at lowest cost to the electricity customer, and is strongly preferable to the construction and operation of diesel engines.
8. In the Executive Summary of the Coal Consultation it is stated that "*Government wants to see an orderly transition away from unabated coal generation*".<sup>4</sup> CoalImp is strongly supportive of the concept of an *orderly* transition, but is unconvinced that Government's aspirations for this are met by its proposals.
9. Key to the orderly transition is the ability for new generation capacity to be delivered on time; it is clearly not sufficient simply for the market signals to be in place – building new capacity on time also needs to be a practical proposition. CoalImp is not expert on the question of future build rates, but notes doubts previously raised by ImechE<sup>5</sup>, and other commentators, pointing to the challenge of building enough new capacity to meet a 2025 deadline.
10. These concerns are surely exacerbated by the additional uncertainties brought about by Brexit, probably not taken into account when the Coal Consultation was originally conceived. In a submission to MPs on the BEIS select committee, EDF has said Britain would have to import goods and skilled labour from around the world in order to make the "*very substantial investments in new infrastructure*" needed to keep the lights on. "*There is a risk that restrictions on trade and movement of labour will increase the costs of essential new infrastructure developments and could delay their delivery,*" it said.<sup>6</sup>
11. Building a new generation of gas stations cannot be viewed in isolation, but has to be considered alongside HS2, and Hinkley Point C etc. as well as developments elsewhere in the world, at a time when the UK may seem a less attractive place for investment and may struggle to find the skills and materials needed. There is already construction risk surrounding Hinkley, and finance for all major new projects will carry an additional risk premium post Brexit. The multinational companies, traditionally relied

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<sup>4</sup> Coal Consultation Executive Summary – paragraph 6

<sup>5</sup> Institution of Mechanical Engineers - *Engineering the UK Electricity Gap*:  
<http://www.imeche.org/docs/default-source/position-statements-energy/imeche-ps-electricity-gap.pdf?sfvrsn=0>

<sup>6</sup> *The Times* 24<sup>th</sup> January 2017 – "*Brexit risks pushing up Hinkley cost, EDF warns*"

upon to build new power stations, have increasingly stretched balance sheets, and may decide to invest scarce resources elsewhere in Europe.

12. In response to publication of the Government's industrial strategy green paper on 23<sup>rd</sup> January 2017, the chief executive of the Balfour Beatty construction group, said that it was not merely a case of skills, but numbers. *"The UK simply doesn't have sufficient skilled workers to deliver all the infrastructure projects earmarked for the 2020s,"* he said. *"This skill shortage is not unique to construction."*<sup>7</sup>
13. This issue surely lies at the heart of industrial strategy. In these circumstances it is negligent to disregard the people and associated skills involved in the coal supply chain (mining, infrastructure and generation) many of whom could play a part in delivering and operating the new capacity required to replace coal.
14. In her Foreword to the Industrial Strategy green paper<sup>8</sup>, Prime Minister Theresa May talks of a Plan for Britain that *"will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East."* She goes on to say, *"Underpinning this strategy is a new approach to government, not just stepping back and leaving business to get on with the job, but stepping up to a new, active role that backs business and ensures more people in all corners of the country share in the benefits of its success."*
15. This approach seems lacking from Government's approach to the coal industry. A holistic approach is needed – not simply a mechanism to destroy an entire industry, whilst stepping back and leaving the vagaries of the energy market to pick up the pieces. The fact that coal is a high carbon energy source should not colour perceptions of the commitment and skills of those who work in the sector – most of whom are based in the very areas and communities cited by the Prime Minister.

### **Strategy for other industries relying on coal**

16. Coal is an essential raw material in the production of steel, and metallurgical coal (metcoal) will therefore still be needed in the UK. In the case of the cement industry, the use of waste and low-value feedstock has already been maximised, and coal is still required for kiln stability. Coal also remains a competitive fuel for industrial, commercial and domestic consumers, especially in areas which are not gas-connected.
17. UK-produced coal makes these industries more competitive. The volatility of international coal prices over the last year or so, where the steam coal prices doubled and metcoal prices more than trebled, demonstrates the importance of competitive UK supply. Given the additional risks created by Brexit, further disruption to the coal supply chains for steel, cement and others should be avoided.

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<sup>7</sup> The Times 24<sup>th</sup> January 2017 – *"May strategy 'is golden opportunity missed'"*

<sup>8</sup> Green Paper – page 3

18. The Industrial Strategy must recognise the inter-reliance of these sectors and their importance in providing affordable raw materials for infrastructure and growth across the whole country.
19. Both customers and UK suppliers, in steel and other sectors, need time to adapt to the impacts of power station closures on coal supply and infrastructure. Coal qualities are not interchangeable, so loss of the generation market also threatens these customers.

### **Strategy for redeploying skills in the coal supply chain**

20. It should not be overlooked that the coal phase-out will entail the destruction of an entire industry. Remaining jobs will be lost across the coal supply chain, affecting coal producers, railways, ports, power stations and supporting industries. As part of the Industrial Strategy, policies should be considered which mitigate the impact of a coal phase-out on those businesses and geographical areas most affected.
21. Despite the large falls in production outlined, surface mining remains an important employer and contributor to the local economy in some areas, predominantly in Scotland, Wales and the North of England. Contrary to what is stated, the final closure of power stations, whenever this occurs, will clearly have an impact on mines that supply them.
22. The impact of the coal phase-out on UK mines, and on rail companies and ports, should be properly considered. The suggestion in the Coal Consultation that "*the Government is able to work with local partners, including the Jobcentre Plus' Rapid Response Service*"<sup>9</sup> implies that this is not being taken sufficiently seriously – either in terms of the impacts on jobs and communities, or in terms of the opportunities provided by the highly skilled people in the coal supply chain.
23. As stated above (paragraph 13), as part of the Industrial Strategy, ways should be explored to assist the people and associated skills involved in the coal supply chain (mining, infrastructure and generation) to play a part in delivering and operating the new capacity required to replace coal.

### **CCS – Strategy for affordable energy and clean growth**

24. The Coal Consultation cites international climate change leadership as a consideration of Government<sup>10</sup>, and the timing of the initial coal phase-out proposal to coincide with the Paris Climate Conference was clearly not coincidental. However, the abandonment of the CCS programme by Government, around the same time, surely undermines any sort of leadership position the UK may have wished to hold from its coal phase-out policy.

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<sup>9</sup> Coal Consultation Paragraph 68

<sup>10</sup> Coal Consultation Impact Assessment – paragraph 26 ff.

25. Following the Government's withdrawal of funding for the CCS competition at the end of 2015, there was a chorus of disapproval around the decision, together with reiteration of the importance of CCS, and calls for a new policy. CoalImp strongly endorses these calls, such as in the 'Oxburgh Report'<sup>11</sup>, and believes that this must be a fundamental element of Industrial Strategy in the future.
26. A new policy on CCS spans across many of the pillars of industrial strategy – most clearly in upgrading infrastructure, but also investing in innovation, developing skills, supporting businesses, delivering affordable energy and clean growth, cultivating world-leading sectors and driving growth. Key to this policy, though, is creating the right institutions – the issue specifically addressed by Lord Oxburgh.
27. Most commentary on CCS now concerns gas, as it is set to become the UK's principal source of baseload electricity. A new 'dash for gas' could resolve short-term power shortages caused by premature coal closures, but would 'lock in' CO<sub>2</sub> emissions for decades in the absence of rapid progress with CCS.
28. CoalImp believes that a strong case still exists for new coal-fired CCS. With the jury still out on any realistic large-scale development of UK shale gas, over-dependence on imported gas risks security of supply and/or higher prices, and ignores the climate impact of methane losses in the supply chain.
29. Coal resources are super-abundant and are spread across all continents. Proven world coal reserves amount to around 900 billion tonnes, equivalent to over 100 years supply at current rates of usage, with the largest reserves in the USA and China<sup>12</sup>. Climate change is a global phenomenon and requires a global solution. The UK accounts for less than 2% of global emissions, and the EU only 11%. The largest emitters are the largest coal users with the largest reserves – there is no solution to climate change which does not include a solution for coal.

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<sup>11</sup> Report of the Parliamentary Advisory Group on CCS:

[http://www.ccsassociation.org/index.php/download\\_file/view/1043/508/](http://www.ccsassociation.org/index.php/download_file/view/1043/508/)

<sup>12</sup> Source – BP Statistical Review of World Energy 2016: <https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf>