CoalImP
Association of
UK Coal Importers
and Producers

Business, Innovation and Skills Committee
House of Commons
London
SW1A 0AA

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Submission to BIS Committee Inquiry on the Government's Industrial Strategy

I am pleased to make a submission to the Inquiry on the Government's Industrial Strategy on behalf of CoalImP – the Association of UK Coal Importers and Producers.

CoalImP represents UK coal producers, major coal users, rail companies, ports, and other infrastructure operators. The twelve members (listed on the CoalImP website[1]) account for the handling, transportation and use of the majority of UK coal production and imports.

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.

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[1] http://www.coalimp.org.uk/5.html

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Summary

- Following a period of high coal demand earlier this decade, the coal market has seen a catastrophic collapse over the last year or so, as a direct result of Government policies. As well as seriously damaging the remaining indigenous coal production industry, the market collapse is also impacting rail and port infrastructure businesses.

- The UK's unilateral carbon tax means that UK industry is disadvantaged, not only against worldwide competition, but compared to its nearest neighbours in Europe. Energy policy decisions have been taken with little or no consideration of wider Industrial Strategy, and it is to be hoped that the combining of responsibilities in the new Department may lead to more joined up thinking. Alongside any assistance which may be considered for energy intensive businesses, to mitigate the impact of the carbon tax, indigenous coal production and related industries should also be eligible for help.

- Whatever the outcome of the expected coal phase-out consultation, in the meantime, 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 economic 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 of new diesel engines.

- As part of an Industrial Strategy, policies should be considered which mitigate the impact of a coal phase-out on those businesses and areas most affected, predominantly in Scotland, Wales and the North of England.

- Following the Government's withdrawal of funding for the CCS competition at the end of 2015, there has been 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 for a new policy on CCS, and considers that this must be a fundamental element of Industrial Strategy in the future.

- Most commentary on CCS now concerns gas, but 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.

- The UK has turned its back on the opportunity to take the lead with CCS and, just as with technologies such as solar, the economic benefits may be won by countries like China. However, it is perhaps still not too late to move forward, and CoalImP urges Government to include consideration of coal-fired CCS in its Industrial Strategy. This would also create a future market for coal competitively mined in the UK, which still has access to substantial coal resources.

Introduction and Background

1. Following a period of high coal demand earlier this decade, the coal market has seen a catastrophic collapse 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.

2. It would, however, be premature at this stage to 'write off' coal as an important part of the electricity mix; low levels of coal burn in summer are not unexpected in current circumstances but, in the winter months, one may expect to see coal plant back on line. UK electricity capacity margins are at historically low levels, coal plant has been successful in bidding for Capacity Market contracts, and in the meantime some plants are also covered by the National Grid's Contingency Balancing Reserve.

3. Notwithstanding Government proposals to close all unabated coal plant by 2025, in the interim, coal plant is capable of providing the most economical 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) from April 2015. As well as seriously damaging the remaining indigenous coal production industry, the market collapse is also impacting rail and port infrastructure businesses.

Carbon Price Floor

4. Government has clearly taken credit for the collapse in the coal market – most recently in a parliamentary written answer on 12th September [2]:

> *"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."*

5. 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.

6. Economic modelling shows that the CPF – set at around five times the level paid by our European competitors – increases electricity bills, undermines industrial competitiveness, exports jobs and encourages imports of coal-fired power from the continent [3]. The tax does nothing to reduce CO_2 emissions; these are subject to a pan-EU cap, so our European competitors can simply increase emissions, and enjoy lower bills at our expense.

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[2] Written question – 45332: http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2016-09-06/45332/

[3] NERA Economic Consulting - *Review of the impact on the GB Electricity Market and wider UK economy of removing the UK's Carbon Tax on Electricity Generators*: http://www.coalimp.org.uk/resources/NERA+-+UK+CO2+Price+review+phase+2+-+Summary+of+Key+Messages+-+FINAL.pdf

7. Carbon savings from unilateral UK action can be illusory. Imported goods from China and elsewhere rely on coal-fired electricity, so global emissions are not reduced. It also cuts across European and international efforts to develop consistent and co-ordinated emissions trading schemes.

8. The unilateral carbon tax means that UK industry is disadvantaged, not only against worldwide competition, but compared to its nearest neighbours in Europe. This lack of a level playing field, even with Europe, is likely to be exacerbated by Brexit. As an example, high electricity prices have been cited as one of the contributory factors of the crisis in the steel industry.

9. So-called 'green growth' is of questionable benefit if it simply relies on subsidies from the taxpayer or electricity consumer and is accompanied by 'brown decline' in other parts of the economy which have to be internationally competitive in order to survive.

10. These are prime examples of energy policy decisions being taken with little or no consideration of wider Industrial Strategy, and it is to be hoped that the combining of responsibilities in the new Department may lead to more joined up thinking.

11. In the 2016 Budget, it was announced that *"the government is maintaining the cap on CPS rates at £18 t/CO2, uprating this with inflation in 2020 21, in order to continue protecting businesses"* [4].

12. CoalImP wonders which businesses are *'protected'* under such a punitive tax rate, other than those which depend on subsidy, but recognises that this policy is unlikely to be reversed in the short term. Therefore, alongside any assistance which may be considered for energy intensive businesses, to mitigate the impact of this tax, indigenous coal production and related industries should also be eligible for help.

Phase-Out of Unabated Coal by 2025

13. At the time of writing, the Government consultation to phase-out unabated coal by 2025 is still awaited. However, Government's commitment to this policy was reiterated in parliament on 12th July[5], so the working assumption is that it will go ahead. CoalImP will, of course, respond to the consultation in detail, but believes the following issues are relevant to this inquiry:

    - Frequent Government statements in parliament have pointed to the very low estimates for coal generation by 2025 based on existing policies, confirmed by the latest set of Updated Energy and Emissions Projections from DECC [6]. Regulating further to bring in a

[4] Budget 2016 Paragraph 1.19: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf
[5] Hansard 12 July 2016 Volume 613 Column 186: https://goo.gl/EH8l79
[6] Updated energy and emissions projections: 2015: https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2015

fixed guillotine has little if any benefit in terms of emissions, and is an unnecessary risk in terms of supply security.

- It undermines the investment already made by plant to be compliant with the Industrial Emissions Directive and which therefore had a reasonable expectation of survival beyond 2025. Government policies which lead to stranded investment, undertaken to comply with earlier policies, clearly have no place in a coherent Industrial Strategy.

- CoalImP is not alone in its concerns, with ImechE [7] and other commentators pointing to the challenge of building enough new capacity to meet a 2025 deadline – not generally people who oppose Government climate change objectives, but people who put pragmatism and engineering reality above political dogma.

14. The UK's decision to turn its back on the world's most abundant and low cost fuel will be welcomed by many climate campaigners in the developed world but, importantly, will not be followed by many in the developing world, from whom we increasingly import the goods we all take for granted.

15. Whatever the outcome of the phase-out consultation, in the meantime, 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 economic 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 of new diesel engines.

16. An example of the current importance of coal to the system was the late September heatwave, and associated air-conditioning load, combined with low wind availability.

17. Coal is also an essential feedstock for the steel industry, and remains a competitive fuel for industrial, commercial and domestic consumers, especially in areas which are not gas-connected.

18. Finally, it should not be overlooked that the 'coal phase-out' will entail the destruction of an industry (especially in light of the Government cancellation of the CCS competition, covered in the next section). Remaining jobs will be lost across the coal supply chain, affecting coal producers, railways, ports, power stations and supporting industries.

19. As part of an Industrial Strategy, policies should be considered which mitigate the impact of a coal phase-out on those businesses and areas most affected, predominantly in Scotland, Wales and the North of England.

[7] 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

Carbon Capture and Storage

20. Carbon Capture and Storage (CCS) has been a sorry story of broken manifesto promises, procrastination and failed competitions, which has run on for nearly ten years. This has been despite a cross-party consensus and almost universal acknowledgement that it is a necessary part of decarbonisation and that the UK is so well placed to deliver it.

21. Industry has been prepared to step up, but the opportunity afforded by existing skills and learnings and potential projects will not be available indefinitely. Bold new ideas are need from Government as soon as possible, and no industrial strategy would be complete without them.

22. Following the Government's withdrawal of funding for the CCS competition at the end of 2015, there has been a chorus of disapproval around the decision, together with reiteration of the importance of CCS, and calls for a new policy. It is not the intention here to review in detail all the commentary on this subject, but some examples are cited below.

23. The Energy and Climate Change Committee's February report *Future of carbon capture and storage in the UK* [8] commented:

> *"This decision came as a shock to the industry and investors. Pulling the plug on the competition without warning in this way was damaging both to the relationship between Government and the industry, and to investment into the UK."* [9]

24. The National Audit Office also covered the decision in its report, *Sustainability in the spending review*[10], saying HM Treasury did not bring together information on the potential long-term impacts of cancelling the CCS competition (para 2.10), and noting DECC's calculation that without CCS it would cost an additional £30 billion to meet the 2050 carbon targets (para 4.99).

25. More recently, the 'Oxburgh Report' [11], published in mid-September 2016 says[12]:

> "*UK action on CCS now will deliver lowest cost to the consumer. There is no justification for delay. Heavy costs will be imposed on current and future UK consumers by a continued failure to enact an effective CCS policy."*

26. And commenting on the Hinkley decision, the Committee on Climate Change (CCC) said on 20th September[13],

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[8] Energy and Climate Change Committee Report: http://www.publications.parliament.uk/pa/cm201516/cmselect/cmenergy/692/692.pdf
[9] Page 3, Summary
[10] Report of the National Audit Office: https://www.nao.org.uk/wp-content/uploads/2016/07/Sustainability-in-the-Spending-Review.pdf
[11] Report of the Parliamentary Advisory Group on CCS: http://www.ccsassociation.org/index.php/download_file/view/1043/508/
[12] Page 4, para 5

> "*The Government's decision on Hinkley is a starting point. …….. It is also only one part of an energy policy that meets the challenges of cost, security and carbon reduction. This includes competitive auctions for a range of renewables (including ongoing commitment to offshore wind) and renewed policy for carbon capture and storage."*

27. CoalImP strongly endorses these calls for a new policy on CCS, and considers that this must be a fundamental element of Industrial Strategy in the future. The Oxburgh Report comments[14]:

> "*CCS in industry represents some of the cheapest available carbon abatement in the UK economy. However UK industry does not have the incentive, scale or financial capacity to support the development of CCS infrastructure*."

28. 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_2 emissions for decades in the absence of rapid progress with CCS.

29. 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.

30. 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[15]. 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.

31. The UK has turned its back on the opportunity to take the lead with CCS and, just as with technologies such as solar, the economic benefits may be won by countries like China. However, it is perhaps still not too late to move forward, and CoalImP urges Government to include consideration of coal-fired CCS in its Industrial Strategy. This would also create a future market for coal competitively mined in the UK, which still has access to substantial coal resources.

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[13] *Energy policy is about more than Hinkley, says CCC*: https://www.theccc.org.uk/2016/09/20/hinkleystatement/

[14] Page 6, paras 20,21

[15] 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