Minister for Business and Industry
EU Member State

04. November 2010

With reference to: Commission Proposal to allow operating (closure) State Aid to the coal industry to 2014

Dear Minister,

Green Budget Europe would like to expressly encourage you to stand by the European Commission’s Proposal for a Council regulation that would allow operating (‘closure’) state aids to the coal industry until 2014 and to resist any attempts to extend this deadline. There are a number of compelling arguments for an end in state aid for coal as soon as possible and a phase out as proposed by the Commission.

Coal subsidies go against many fundamental objectives of the EU
The European Union is committed to taking effective measures to reduce its greenhouse gas emissions by 20%, to increase the share of renewable energy to 20%, and to increase energy savings by 20% by 2020. Achieving these goals requires a shift to a greener economy, to smart, sustainable and inclusive growth, as proposed in the Europe 2020 strategy. Extending coal subsidies against this background would represent a backward step.

Creating a level playing field
In relation to the internal market, state aid to coal mining distorts competition in energy markets and impacts negatively on the competitiveness of energy production from sustainable, renewable energy sources. By creating incorrect price signals, subsidising coal production inhibits a shift to cleaner and more sustainable energy sources and encourages wasteful consumption.

The magnitude of this distortion is such that in Germany, each job subsidised in the coal sector costs over 80,000 Euros, amounting to over 2 billion Euros in 2010.1 In Spain, subsidising domestic coal cost 1 billion Euros in 2010 – an investment in an industry that employs less than 7,000 miners in times of ongoing economic and fiscal crisis.2

In the Impact Assessment on the proposal, it is clearly noted that “the Commission wishes to apply horizontal State aid rules in as many sectors as possible and with regard to energy policy favours a move towards renewable energy sources and an environmentally

1 German Federal Environment Agency (UBA) 2008.
2 IEA, 2009.
sustainable use of indigenous energy sources” (p.21). Besides, the Commission’s State Aid Action Plan calls for a shift in financial support from sectoral objectives, such as coal mining, to horizontal objectives, such as environmental protection and the research, development and innovation of new technologies. We call on all Member States to endorse again these aims.

**Subsidies in times of fiscal austerity**

It is a matter of necessity that public money be spent efficiently, particularly in times where fiscal resources are scarce. The best possible use should be made of public finances, which should be invested where they can have a long-term, sustainable and positive economic, environmental and social impact. Investment in environmentally damaging technologies and uncompetitive industries represents a step back, rather than a step forward towards the long-term goals of the EU.

**Impact on employment**

In terms of the social impact, one of the most often cited motivations for extending the coal regulation is prospective job losses, mainly concentrated in some regions of Germany, Spain and Romania. While some job losses are inevitable, the social impact of these losses can be mitigated by providing employment services and training programmes geared towards integrating former miners into other more forward-looking and innovative sectors of the economy. Crucially, expenditures to achieve this aim can thus be continued by national governments under the current proposal beyond 2014 for another fifteen years (Article 4 and Annex 1 of the Regulation).

Furthermore, it has been shown that more jobs can be created in the renewable energy sector than would be lost in the coal sector. Research has shown that moves towards renewable and energy saving industries can bring large numbers of long-term, local jobs. The Commission’s own 2006 Renewable Energy Roadmap calculated that 650,000 jobs could be created in the sector by 2020.

**Security of supply**

An argument frequently put forward in favour of an extension of the coal regulation is security of energy supply. However, subsidized coal accounts for only 5.1% of EU electricity production and has only a marginal impact on the security of energy supply. Although these figures are higher in Spain (14%) and Germany (9%), these two countries are also leading in the field of renewable energy production in the EU, with levels of 15.4% and 20.6% respectively.³ This demonstrates that the innovation is already available, offering up the potential to increase investment in this area and away from high-polluting energy production, such as coal.

Further, it is claimed that ending domestic coal subsidies will result in an equivalent amount of imports. However, the impacts of recent electricity reforms, and the growth of renewable energies and the ETS pollution pricing result in diverse responses.

Lastly, the urgency of the global climate challenge which demands a 80-95% reduction of greenhouse gas emissions until 2050 requires maximum support for low carbon energy and transport systems. For all these and the other obvious environmental reasons we reiterate once again our call on you, Mr Almunia, to oppose any extension of production aid to the coal industry beyond 2014 by supporting the Commission’s proposal without significant amendment.