

GreenBudgetEurope

European expert platform on environmental taxation and green fiscal reform

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

Green Budget Europe expressly encourages the European Commission to stand by its Proposal for a Council regulation that would allow operating ('closure') state aids to the coal industry until 2014 and to resist any attempts on the part of Member States 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 strict measures to reduce its greenhouse gas emissions by 20%, to increase the share of renewable energy to 20%, and to increase energy efficiency by 20% by 2020. Achieving these goals requires a shift to a greener economy, to smart, sustainable and inclusive growth, as proposed in the EU2020 strategy. Extending coal subsidies against this background represents 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.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 crisis.²

In the Commission's own Impact Assessment on the expiry of Regulation 1407/2002 on State Aid to the coal industry, 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 sustainable use of indigenous energy sources" (p.21). We call on you as Commissioner for Energy to stand by 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 Roma-

¹ German Federal Environment Agency (UBA) 2008.

² IEA, 2009.

nia. 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 are not part of the State aid prohibited under the Treaty on the Functioning of the European Union (Article 107) and can thus be continued by national governments under the current proposal beyond 2014.

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.

For all these and the obvious environmental reasons we reiterate once again our call on the European Commission to act in the broader interest of the EU and to oppose any extension of state aid to the coal industry beyond 2014.

³ European Commission, Impact Assessment on the Expiry of Regulation 1407/2002 on State Aid to the Coal Industry.