The coal industry in Europe: Heavily dependent on subsidies

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Despite earlier commitments to phase out fossil fuel subsidies, European countries continue to hand out billions of euros to the coal industry, every year. Keeping uneconomic mines and power plants open, giving large export subsidies for coal and creating tax friendly regimes – governments are actively supporting a sunset industry.

In this briefing, we describe the most important coal subsidy streams in Europe. We also single out the biggest culprits when it comes to state involvement and support, and we explain the (changing) role of the international (financial) institutions in the coal economy.

State of play

A recent flurry of reports has shown that the coal industry in Europe is on its knees, fraught by low electricity prices, competition from renewables and failed investments. But one major reason why the sector continues to operate is because of substantial financial support by European governments.

There are many ways to calculate fossil fuel subsidies. Governments are very reluctant to disclose information on how they are supporting fossil fuels. Therefore figures on fossil fuel subsidies can vary greatly. Basically one identifies four categories of fossil fuel subsidies: consumer subsidies (that make fossil fuel cheaper for consumers); producer subsidies (that make fossil fuel extraction and production cheaper for businesses); pre-tax subsidies (which relates to all kind of financial subsidies to producers and consumers to make fossil fuels cheaper); and post-tax subsidies (which relates to the non-inclusion of external costs in the costs for fossil fuels).

The International Monetary Fund (IMF) in June 2015 published a major report indicating post-tax fossil fuel subsidies projections for 2015. Total subsidies for the EU Member States are calculated at 202 billion dollars (for 2015) or 340 dollars per EU citizen. For the Balkans and Turkey, the total subsidies are calculated at 50 billion dollars or 520 dollars per citizen.

Moreover, in the EU alone coal companies got 10 billion euros annually (in the years 1970-2007) in the form of pre-tax subsidies.

Coal is the most carbon-intensive and air-pollution intensive energy product, but it enjoys state support and friendly tax regimes instead of being driven out of the market. The climate and air-pollution impacts of burning coal are not reflected in its price (which is also an outcome of the Emissions Trading Scheme not working properly).

A short history on fossil fuel subsidies

Most of the subsidies directed towards the fossil fuel industry, were established before 2000. They were created in an era of very different economic and environmental circumstances. They can form a guarantee for starting high-cost investments like building new coal power plants, keep employment figures up in the coal sector (often in deprived regions where mining takes place), or prevent 'energy poverty', i.e. lack of access to electricity and heating for the poor.

But with the energy system dramatically changing, and urgency to act on bringing down carbon emissions, the subsidies are quickly turning into a major stumbling block in the transition to a decarbonized economy. On paper, governments are recognizing the need to get rid of fossil fuel subsidies. In 2009, the G20 members – including the European Union – committed to phase the subsidies out as they had severe negative economic, social and environmental impacts. Sadly, this phasing-out is only going at snail's pace, reveals a recent report by the OECD.

But despite that governments do not act quickly because they are often deeply involved in the coal sector. There are plenty of political motives to keep the subsidies flowing, ranging from keeping labour unions happy to supporting state-owned coal companies. Moreover, export credit agencies are also used to export coal technologies abroad (also out of the EU), further supporting coal technology companies expand their business globally.

Forms of coal subsidies

So what do these fossil fuel subsidies look like? According to the OECD there are up to 800 ways that governments use to stimulate the extraction, refining or combustion of fossil fuels. Focusing on coal, we can identify the following major groups of support:

- **Producer subsidies** – reducing the cost of production (for mining as well as burning coal), for instance with cash handouts, by building public energy infrastructure, or giving funds for research and development purposes.
- **Consumer subsidies** – governments pay the difference between the market price of energy and the price for companies and households. For instance, they do this by fixing the energy prices.
- **Tax cuts** – subsidizing high energy users by lowering their energy tax rates by giving mining companies free access to public land (no payments of royalties), by giving water rights for free.
- **Capacity payments** – paying coal companies to keep their plants operational, in case there is peak demand so they can quickly turn the coal units on.
- **Export credits** – providing international (development) finance for coal projects abroad.
- **Transition** – giving money to regions and mining operators to rehabilitate former mining areas, pay for early retirement of ex-coal workers et cetera.

Negative effects of coal subsidies

In a nutshell, continuing support for coal is bad in several ways:

- Low prices lead to an increased consumption and dependence on coal, resulting in a high emission lock-in of a country's energy system.
- More carbon emissions and health risks through the exposure to coal pollutants.
- Subsidies are a highly inefficient way to cover energy costs for poor people, as the benefits are mostly captured by rich households and heavy users (check this IMF report, page 5).
- They limit the transition to renewables, as new forms of energy become less competitive because the old ones are artificially kept cheap.
- Exporting coal technologies, especially to developing countries, results in more coal dependency and a risk of increased climate change.
- The burden of subsidies given away by governments is in fact on citizens whose taxes are being spent on subsidizing coal even when it's against their will.

Benefits of zero coal subsidies

Abolishing the subsidies would, next to taking away the aforementioned negative effects, lead to a number of co-benefits, such as:

- Improving the budget of often cash-strapped European governments. Worldwide, fossil fuel subsidies eat up a big chunk of many state budgets. For example, a country like Spain still has trouble to tackle its budget deficits, while it continues to support the coal industry.

- Take away market distortions between coal and renewables, boosting investments in the latter category. According to the IEA, one of the most harmful effects of fossil fuel subsidies is that they damage the competitiveness of low-carbon technologies.
- Decrease environmental pressure on mining areas. Rather than being emptied of its coal content, the regions where mining is halted can redevelop its habitat and diversify its economic activities, while improving air, water and soil quality.

International policy developments

Though energy policy choices remain an 'exclusive' competence for the EU member states, their room for state support has diminished. Since October 2014 it is forbidden to keep uneconomic mines open with state subsidies. If EU Member States wants to grant state aid to mines during the process of their closure, it has to notify the Commission and ask for an exemption to the **EU's competition and state aid rules.** Further on, in the EU coal subsidies as a whole should be phased out by 2018.

Another important push against coal subsidies can come from the **OECD**. Several members of this club of the 34 richest countries in the world are now supporting a **total ban on coal investments by export credit agencies**. But the OECD is heavily divided on the proposal, with members like the United States, the United Kingdom and France supporting the ban, while Germany, Poland, Japan, South Korea and Australia want to keep the export of coal technology going. In September 2015 the EU reached a common position on the issue, which is regarded as weak in a report by a group of NGOs.

In the meantime, international financial institutions like the **EBRD** and the **EIB** have pledged to no longer invest in coal. The EBRD states it 'will not finance coal fired generation except in rare and exceptional circumstances.' The EIB introduced stringent criteria for financing coal power plants, in 2013. Further on, at recent G7 and G20 meetings, (further) promises for decarbonization of the economy before 2100 and a phase out of 'inefficient' fossil fuel subsidies have been made.

Country examples

Here are some striking examples of coal subsidies by different countries. They show clearly how big the state involvement is but also that subsidy policies are widely divergent. Showing that coal subsidies are still an issue that need to be addressed.

Germany

Germany is the biggest supporter of coal of all EU member states. It gives around three billion euros a year to the industry, mainly to keep German coal competitive to imported coal. This support will be phased out by 2018 because of EU regulations. Germany also gives an energy tax relief for energy-intensive processes, does not require mining companies to pay a royalty fee, rehabilitates lignite mining sites in East Germany and pays for early retirements for miners.

The current government plans to spend hundreds of millions of euros in capacity payments for old and dirty lignite power plants – a plan which has sparked controversy and could be challenged by the European Commission.

Poland

The Polish state is heavily involved in the coal industry in terms of co-ownership. From 1990 to 2012, it handed out about 16.8 billion euros on subsidies for the coal energy sector in Poland. The lion's share of coal subsidies go to state-owned firms like PGE, Tauron, Energa and Enea. Moreover all of these utilities receive free emission allowances under EU's Emission Trading Scheme. Poland uses all types of subsidies to boost the coal sector. Plants are being kept open in case there is peak demand. There is also generous support for plants that co-fire coal with small shares of biomass.

The Polish government wants to continue support for keeping uneconomic mines open, despite the fact that this is in conflict with EU state aid rules. Further on, money is spent on employment restructuring after mines have been decommissioned.

Greenpeace Poland has an informative report on how Poland is subsidizing the past.

Spain

Coal production is decidedly uneconomic in Spain. As part of the EU mining-closure state aid regulations, the Spanish government has given local mines a monstrous amount of 22 billion euros in public aid between 1992 and 2014. According to the National Renewable Energy Plan in Spain, subsidies of 214,000 euros are spent per employee per year in the coal sector. In contrast, these subsidies-per-employee in the renewables industry are only around 10,000 euros.

Rather than seeking to wind down mining, Madrid is now considering doubling the current subsidies for Spanish coal plants to make them continue to burn domestic coal, and keep mines open through financing coal plant life-extensions to meet EU pollution standards, possibly violating WTO and EU state aid rules.

Turkey

The Turkish coal producers received approximately 550 million euros in state subsidies in 2013. This figure includes direct transfers to the hard coal industry, subsidies to exploration of coal resources, rehabilitation of power stations and coal aid to poor families. Turkey's government-funded coal exploration program has increased coal reserves by over 50 percent, opening up 5.8 billion tons of new coal to be mined.

In general, the government provides producer support as well as consumer support, in the form of coal aid to poor families. Imports of hard coal are also subsidized, as well as R&D in the fossil-fuel sector. These subsidies are complemented by explicit or de facto exemptions from environmental regulation.

The Western Balkans

The Western Balkan countries, together with Moldova and Ukraine, are part of the Energy Community Treaty with the EU, meaning they have to adhere to most of the EU rules for state aid in the energy sector. But still, new coal power plants are planned in the region with considerable state support.

For instance, Serbia's government has directly taken a loan from China Exim Bank to construct a new unit of the Kostolac B power plant and the expansion of Drmno mine, thus relieving the project sponsor Elektroprivreda Srbije of risks connected to loan repayment. The full scale of state support in the Western Balkans is extremely difficult to grasp as the data is scarce. Check this report of CAN Europe on coal policies in the Western Balkans.

Table: examples of coal subsidies

COUNTRY	GOVERNMENT SUPPORT	PERIOD
Germany	30 billion euros	1999-2011
Poland	16.8 billion euros	1990-2012
Spain	22 billion euros	1992-2014
France	1.2 billion euros	2011-2014
EU (Brussels)	144 million euros	2010-2014
Turkey	550 million euros	Annually

For more information on coal in Europe, go to www.coalmap.eu for a set of interactive maps.

We also have a policy section on our website – here you may find the contact details of our coal policy coordinators for further enquiries.

Useful sources

- CAN-"Missing Pieces, Steps to phasing out dirty fossil fuel subsidies in Europe" http://www.caneurope.org/can-and-press/779-steps-to-phasing-out-dirty-fossil-fuel-subsidies-in-europe-2
- IMF study and national data: http://www.imf.org/external/pubs/ft/survey/so/2015/NEW070215A.htm
- Ecofys (November 2014) Subsidies and costs of EU energy (study by order of European Commission)
- OECD (2015), OECD Companion to the Inventory of Support Measures for Fossil Fuels 2015, OECD Publishing, Paris
- http://www.oecd.org/site/tadffss/data/
- http://ec.europa.eu/economy_finance/publications/economic_briefs/2015/pdf/eb40_en.pdf
- http://priceofoil.org/content/uploads/2014/06/Coal-Subsidies-Toolkit-v1.2.pdf
- http://www.odi.org/subsidies-change-the-game
- http://bankwatch.org/sites/default/files/EnCom-stateaid-study-08Jun2015.pdf
- https://www.urgewald.org/sites/default/files/wwf-nrdc-oci_under_the_rug_international_coal_finance_embargo_2nd_june_15.pdf

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