

24 February 2015

Dear Commissioner Malmström,

We, the signatories of this letter, are alarmed by the unintended consequences of the Commission’s proposal of 28th January 2015 to restrict export credits for coal-fired power plants. This preliminary proposal suggests that energy efficiency might become a mandatory standard and that maturities would be reduced for Super Critical and Ultra Super Critical technologies:

Basic classification of power plant technologies and eligibility for ECA support				
Technology class	Definition	Energy Efficiency Standard	Indicative Emission level (g CO₂/ kWh)	Type of ECA support possible
Supercritical technology	Pressure above 221 bar (typical supercritical steam cycle operating parameters are 245 bar pressure and temperature between 540 C to 570 C)	>40%	795-855	Maximum repayment term: 8 years
Ultra-supercritical technology	Pressure above 221bar, steam temp. around 600 degree Celsius and more	>43%	below 794	Maximum repayment term: 10-12 years

Whilst we are fully supportive of the Commission’s decarbonisation objectives, we believe that, if adopted without any further specifications, the proposed parameters could have a detrimental impact on European industry and also create a high carbon lock in in economies in transition and accession states. The proposals will create a strong and unfair treatment between the different regions of the world depending on their access to quality fuels and low cooling temperatures. It is important to understand, that efficiency and/or CO₂ emission performance criteria, depend strongly on the quality of the fuel utilised and the geographical situation of the project¹. Establishing these criteria as shown above without any reference calculations would potentially exclude OECD manufacturers from real projects with ECA covered financing due to competition from non-OECD countries.

The European industry is wary that these parameters will greatly curtail the competitiveness of OECD Technology providers as well as having unintended consequences on the environment:

¹ See position papers released in November 2014 in the context of the OECD Civil Society Meeting in Paris (attached)

Fact: Coal-fired power plants currently provide over 40% of the world's electrical power and many more are going to be built in the coming years. According to the New (NB: not Current) Policies Scenario of the IEA, there will be 764 GW net new coal-fired power plants worldwide by 2035, with more than 300 GW of those built mostly in developing countries in the next 5 years. In order to contain CO₂ emissions it is essential that these are built with the highest technological standards as developed by, amongst others, the European equipment suppliers. In addition to these new power plants in the developing countries, it should be noted that the existing power plants in the developed countries will also need to be renovated to reduce their emissions.

Fact: A large number of new coal-fired large power plants in developing countries are built with technology that is well below the highest available standards (i.e. Super- or Ultra Super Critical). Asian suppliers account for a large share of these lower standard power plants, and their share of the coal-fired power plant export market is growing. Supported by generous home export finance suppliers from China have in the last 5 years gained over 40% of the export market, with cheap sub-critical technology accounting for over half their exports. This has hindered the expansion of the Ultra Supercritical technologies currently exported only by the European and Japanese equipment manufacturers which currently only represent 13% of the global export market.

Fact: Higher ambient air and water temperatures in many developing countries mean poorer cooling conditions and reduced efficiency. Most coal-fired power plants in developing countries use locally extracted fuels which are often of lower quality. Although some countries may have the option of importing higher grade coal from elsewhere, with cost impacts, transport emissions and above all energy security, developing countries may want to continue to be able to make use of their local fuel resources. These factors affect both the efficiency and the CO₂ emissions making them less suited for use as main criteria.

Fact: European equipment suppliers represent an industry of over 100.000 qualified professionals. In the last ten years this industry has accelerated its investments in R&D to improve the efficiency of coal power plants and develop Carbon Capture and Storage solutions. Although market and policy conditions have not yet allowed CCS to be deployed in Europe, Ultra Super Critical technology has been successfully exported but for an only small number of projects.

Result: The CO₂ footprint of new coal-fired power plants in developing countries is higher than it should be and there is a very real risk that the problem will get worse if European suppliers are excluded from the markets by the removal of export finance.

Putting the brakes on the export capacity of our European industry would send the wrong signal at the wrong time. It would indicate the end of R&D efforts on coal in Europe and accelerate delocalisation of our best engineering competencies as qualified employment opportunities would shift outside the EU. It would also undermine Europe's CCS capability and ambitions and our ability to renovate and modernise existing coal-fired power plants, which is critical for ensuring continued reliable power supply.

Any OECD regulation should follow the structure of all OECD sector agreements and therefore the project finance conditions should be applicable. The provisions of Article 7 and Annex VI to the Arrangement must be applied.

The proposed repayment schedule foreseen will widen the level of competitiveness between OECD Technology providers and the non-OECD competitors we strongly urge the European Commission to keep 12 years for SC and to extend to 14 Years for USC installations. For Units applying CCS, the period shall be 18 years.

We also ask that the power plant class <500 MWel should be evaluated under special performance conditions and be granted 12 years repayment maturity terms provided their performance reaches the level of the best quarter of the comparable installed fleet in the region considered. Indeed this class of plant is mainly used in specific countries or in isolated areas where the grid cannot support higher plant unit capacities. While indispensable to kick-start emerging economies with their specific situation, in this class it is today often not economically feasible to use highest steam parameters due to the unit costs and the commercially available equipment size for these advanced technologies.

We urge you to reconsider the proposal for the OECD Export Credit Group meeting in March, and confirm that the Commission aims to extend export credit support for the best Super Critical and Ultra Super Critical coal-fired power plant technologies according to performance parameters and indicative efficiency levels as they are deemed representative of the CO₂ intensity of a power plant.

We suggest the following table and text for your consideration:

Basic classification of power plant technologies and eligibility for ECA support			
>500MWel			
Technology class	Main Criteria Definition	Indicative plant net reference Efficiency level (on coal LHV)²	Type of ECA support possible
Supercritical technology	Pressure above 221 bar (typical supercritical steam cycle operating parameters are 245 bar pressure and temperature between 540 C to 570 C)	>39%	Maximum repayment term: 12 years
Ultra-supercritical technology	Pressure above 240bar, steam temp. around 600 degree Celsius and more	>43%	Maximum repayment term: 14 years

² Plant net efficiency levels may vary for the same plant, depending on the fuel used and on site and climate conditions. Reported efficiency values are referred to the following standard conditions: use of bituminous coal of upper international export quality, 12°C water temperature, use of wet cooling tower, ambient air temperature 15°C, 60% relative humidity, air pressure 1 bar

CCS readiness: *The EU considers it essential that Carbon Capture and Storage as a concept is further promoted. The CCSU's provisions on CCS (18 years maximum repayment term) should in the EU's opinion be maintained in any event. In addition and in line with the European industrial emissions directive, all new projects above 500 MW financed under the Arrangement should assess therefore also fulfil the conditions of CCS Readiness by a specific feasibility study.*

Review clause: *Due to the fact that USC plants are technically feasible and already established in some markets, it seems to be reasonable to review their "preferred status" from time to time and downgrade them to "standard" once the technology is accepted widely on the world markets. This evaluation should be carried out every five (5) years.*

Specific conditions for the rules above: *For specific countries energy access imperatives and the lack of private sector financed alternatives may make it occasionally appropriate to consider supporting the installation of new coal power generation which are not in supercritical technology (e.g. smaller unit size power plants below 500 MWe). In such cases ECA support, with a maturity period of 12 years, would be justified as long as the plant complies with a suitable performance improvement criteria versus the power generation plants in the area, i.e. the performance of the best quarter of the comparable plants in the area.*

The industrial and sector organisations would welcome a meeting with you at your earliest convenience to discuss this critical issue.

Sincerely yours,

EPPSA, EUTurbines, VDMA

Copy to:

Latvian Presidency of the Council of the European Union

European Council: President Tusk, Members of his Cabinet

European Commission: President Juncker, Vice-Presidents Šefčovič and Katainen, Commissioners Arias Cañete & Bieńkowska, Director Generals Ristori (DG ENER/CLIMA) and Demarty (TRADE)

European Parliament: President, Vice-Presidents, ITRE, ENVI Committees