Emissions Performance Standard (EPS) – a key to countering the EU's coal addiction

The European Union needs an Emissions Performance Standard (EPS) for CO2 from power plants as it will prevent lock-in to the worst-polluting infrastructure. It will also provide a clear investment signal for the decarbonisation of the sector by complementing the Emission Trading System (ETS), and binding climate, renewable energy and efficiency targets. In this way, the EU 2030 climate & energy framework will provide regulatory certainty for all market actors throughout the EU.

Europe needs instruments that solve the problem of carbon pollution in reality, not theory

- In every economy-wide decarbonisation study**, early decarbonisation of electricity supply** is the linchpin for cost-effective cross-sectoral decarbonisation.

- The ETS will likely not provide a sufficient price signal in the near term, failing to prevent the construction of new high-carbon assets, which will put **pressure on the carbon price** later: the worst of both worlds. This may unsettle political support for the ETS, as well as negatively impact European competitiveness. An EPS provides an earlier, more stable, signal - smoothing the ETS price trajectory.

- None of the proposed reforms to the EU ETS right now would be sufficient to ensure a complete shift away from coal and lignite. The International Energy Agency has explicitly stated **that non-price measures are required** in tandem with a CO2 price.

- An EPS would not replace the carbon price but would complement it by providing a safeguard that **encourages investment flows** only to energy resources that can contribute to achieving EU decarbonisation objectives.

- The coal and lignite power plants being built today have a lifetime of at least 40 years. **CO2 capture readiness requirements** are a cosmetic measure that will not prevent coal emissions.

- An EPS for existing plants should also be introduced. This could be done in line with existing timetables under the **Industrial Emissions Directive**, allowing newer, more efficient and flexible plants to operate for a limited timeframe, but removing older, inefficient and inflexible plants from the system.

The IPCC has restated the risks of climate disruption from the continued use of fossil fuels. Given the urgent need to reduce global carbon emissions to a safe level, getting policies right is now critically important.

How would an EPS operate?

- Could limit emissions either on a per KWh or annualized operation basis.
- A clear trajectory for lower levels over time, set now, but open to revision if necessary.
- Exemptions strictly limited to where needed for the functioning of the system.

An EPS is not a technology mandate, and complements other measures

- **Flexibility is retained under an EPS** as it does not mandate the construction of particular technologies; for example, implementing CO2 capture, switching to renewable energy or other technologies are possible ways of complying with an EPS. Uptake will be determined by the market.

- Currently there is considerable overcapacity in Europe's power sector. Perversely, the use of highly polluting coal is rising. An EPS, as part of a policy package, helps ensure a timely exit for the energy **resources least needed by the electricity system** (i.e. high carbon; inflexible; polluting).

- Across Europe, **capacity mechanisms** exist or are being introduced that serve to provide direct financial support to conventional power plants regardless of their carbon intensity. An EPS would at least ensure that these revenue streams do not support energy from coal and lignite.

- Developing an EPS within the broader EU legislative framework would make it easier to ensure **coherence and complementarity** than following a piecemeal approach.

There is growing support globally for stopping carbon pollution at the source

- Europe has long claimed leadership on climate action, but has seen **rising emissions from coal** power stations due to the low CO2 price and cheaper coal imports. This is a threat to both Europe's delivery of domestic decarbonisation and to its international influence.

- The **USA and Canada** have announced measures that limit the CO2 emissions from new coal power stations. **China** has introduced limitations on coal plant construction in certain provinces. The USA will next year introduce proposals to limit CO2 emissions from existing power stations.

- The **World Bank and important private sector financiers** have also stated that they will not fund new unabated coal projects, unless there are exceptional circumstances.

It is essential for Europe to have ambitious renewable energy and efficiency targets for 2030. Nonetheless, to ensure closure or clean-up of **Europe's worst carbon emitters** and to prevent building new ones, a **targeted policy intervention such as EPS** is also needed.

- Moreover, action by Europe to introduce an EPS would **strengthen the hand of advocates for emission reductions in the USA and China.** The inclusion of existing plants within an EPS framework would be particularly valuable.

Movement towards an EPS is already taking place in Europe, and requires a coordinated approach

- An EPS for CO2 is already beginning to be part of EU climate and energy policy, by virtue of the fact that **the European Investment Bank** has decided to no longer fund any new power generation projects that emit more than 550gCO_2/kWh. **The European Commission** recommended a level of 450g, demonstrating its interest. The EIB's EPS level will be reviewed by EU institutions and the Bank next year in order to check compatibility with any 2030 framework for climate and energy.

- The **European Bank for Reconstruction and Development,** following other financial institutions, has recently adopted measures which should phase out its financial support to the development of coal plants and promote increased investments in renewable energy and energy savings.

- **Some member states** have already introduced an EPS. UK has legislated for an EPS at 450 g CO2/kWh level in December 2013. If a national approach is followed, CO2 emissions reductions may be limited as cuts in one country could allow for increases in another within the overall ETS cap. It would be more effective, and would also ensure compatibility with the internal market and competition rules, to implement an EPS at EU level.

- As of 2016, the **Industrial Emissions Directive (IED)** introduces tougher pollution limits on large combustion plants for sulphur dioxide, nitrogen oxides and dust, but not for carbon dioxide. Introducing an EPS for CO2 would yield an integrated package that would work in tandem with the limits on other pollutants to contribute to health, environment and climate objectives at least cost.

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