Coal Transitions: insights from an international research project on the future of coal

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Coal Transitions: an international research project

Six leading research teams from 6 major coal using economies: China, India, South Africa, Australia, Germany, Poland.

Exploring feasible and just pathways to coal transitions, compatible with <2°C goal of Paris Agreement
1. (Paris-compatible) transformation of the energy system
2. Avoiding stranded assets
3. Avoiding stranded workers
4. Regional economic transition
5. International dimension (esp. for major exporters/importers)
Coal transitions are happening

36 governments have pledged to phase out coal before 2030.

Other large coal using countries, including Germany, South Africa, Spain, are exploring strategies to phase out coal.

Others, such as China, EU, are serious about reducing coal use.
But more effort is needed to keep well below 2°C

Globally, demand growth has essentially levelled out since 2013, despite big differences in trends across countries.

Several factors at play.

Global demand will probably go into secular decline from 2020s..

« Well below 2°C » requires bringing demand down more quickly…
Alternatives to coal power becoming more affordable and reliable

Mini-grid and off-grid solutions in India or Africa can be cheaper and more reliable than new coal plant

Solutions to variability of renewables are numerous and advancing.
For major economies, technically and economically possible to phase out coal from power and heating.

E.g. Electricity mix pathways for China:

- With 2030 peaking and late decline of emissions
- With 2025 peaking and progressive decline of emissions

A key issue is planning phase down of existing assets (avoiding stranded assets facilitating integration of decarbonised power):

If you avoid newbuild today, and apply a mandatory 25-year asset lifetime, many countries could largely avoid stranded assets and be consistent with <2°C goal.
Coal phase outs can be economically affordable with the right policy framework

Some countries face virtually zero or negative incremental cost to coal power phase out

South Africa and Australia for example could exploit and abundant natural RES and aging fleets to phase out by ca. 2040

But key conditions:
- Infrastructure development/planning
- Broaden portfolio of renewables
- Improve power market design
- Develop residual dispatchable resources (e.g. storage, hydro, biomass, or other solutions) for remaining load
Coal extraction regions often suffer from significant problems (predating climate mitigation).

Climate policy can add to this or it can be an opportunity to take some control of existing trends and manage transition to the future.

Solutions must be context specific. Some selected insights…

• « Anticipation. Anticipation. Anticipation! »
• Facilitate inclusive dialogue on a chosen future for key stakeholders
• Be concrete: set a timeline with clear milestones
• Differentiated and targeted solutions for different worker types
• Jobs transfer programs generally better than retraining.
• Regional economic resilience and diversification strategies can succeed over long-term, but solutions depend on economic geography and local competitive advantg
• Dedicated governance framework for FF transitions necessary, often to simply ensure companies fulfil their responsibilities, do not hijack process.
• Coal transitions raise multi-level governance issues
• Invest for the next generation, save money and protect « human capital »
Coal transitions can help achieve other societal goals:

- Cheaper and more reliable access to power for the energy poor.
- Avoiding local pollution/resource competition, esp for water, air and soil.
- Better health & more desirable and liveable local environment.
- Avoided fiscal costs of supporting uncompetitive industry.
- Manage risks to energy system from international coal market.

Water resource constraints & Indian coal
Main conclusions

1. Coal transitions are happening already, but more effort is needed for Paris goals.

2. <2°C-compatible coal transitions that ensure energy security and affordable electricity for all are technically and economically feasible.

3. A socially just transition for coal sector workers and citizens of coal producing regions is possible.

4. Coal transitions can help to provide numerous co-benefits for society.
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South Africa’s coal transition in the context of Paris

Jesse Burton
Reference case electricity build

Figure 6. Electricity generation by source (TWhs) and share of coal in generation (%) 2015-2050 (NDC scenario)
Reference emissions

**Figure 7.** Greenhouse gas emissions from energy supply and use (2015-2050) by sector (Mt CO2-eq) (NDC scenario)

- **Power**
- **Refineries**
- **Others**
- **Industry**
2°C/low-PPD electricity

Figure 12. Electricity generation by source (TWhs) and share of coal in generation (%) 2015-2050 (2°C scenario)
Figure 14. Greenhouse gas emissions by sector, 2015-2050, 2°C scenario

2°D/low-PPD emissions
Key conclusions of meeting 2ºD

- Coal power is phased out by 2040
- Plants close 5-15 years earlier than in the committed lifetime reference
- There is currently no plan for the workers at those plants or the mines that supply them
- Coal-to-liquids is phased out 10-15 years earlier
- Industrial emissions grow – needs further research and policy support to transition
- more rapid closures = higher risk
Why plan? Protect workers

Total Coal Mining Employment in South Africa
Historical and Projected (1975 - 2045)
Short-term implications

- Current supply crisis – no coal, failing coal plants
- Very high coal costs

- Eskom unilaterally announced early closures – but has not set aside funds for decommissioning, smoothing the transition, or planning

"[This] is not just an arrogant decision, but a hostile act of provocation directed at workers and their unions," – COSATU
Future of coal in South Africa

• Overall the trade-off between cost and environment no longer exists but 2°C will require faster phaseout
• The challenge now is managed decline
• Should we keep coal plants open artificially, with negative cost effects on downstream industries and consumers?
• Better to support the transition for workers and communities directly
• Build worker transition plans, and inclusive, resilient economies
Thank you

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Thanks to our research associates and funders in the Coal Transitions study (KR Foundation)

Thank you also to my co-authors at ERC: Tara Caetano and Bryce McCall
New coal cost and time overruns
Coal IPPs - raise costs & emissions
## Table 13.1 Annual subsidy estimates by category for South Africa

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct transfers</td>
<td>–</td>
<td>830</td>
<td>830</td>
<td>1,001</td>
<td>169</td>
<td>134</td>
<td>12.8</td>
<td>17.0</td>
<td>1,707</td>
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<tr>
<td>Government revenue foregone</td>
<td>24.3</td>
<td>18.8</td>
<td>126</td>
<td>397</td>
<td>506</td>
<td>512</td>
<td>566</td>
<td>578</td>
<td>267</td>
</tr>
<tr>
<td>Sasol market price support</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>127</td>
<td>a</td>
<td>a</td>
</tr>
</tbody>
</table>

*Note: All amounts in 2016 USD million.*

*a No transfers for that subsidy in a given year or lack of data.

*Source: Authors’ calculations; Lott 2016; see Lott et al. 2016 for assumptions.*
<table>
<thead>
<tr>
<th>Power plant</th>
<th>Primary Mine (if relevant)</th>
<th>Contract end</th>
<th>Decommissioning per IRP 2018/ 50 year LOPP *</th>
<th>Cause of supply risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amot</td>
<td>Arnott/Opimum/multiple</td>
<td>2015/2023</td>
<td>2029</td>
<td>Eskom refusal to recapitalise/invest at Arnott mine; Corruption; Short-term contracting.</td>
</tr>
<tr>
<td>Camden</td>
<td>Usutu/multiple</td>
<td>2023</td>
<td></td>
<td>Insufficient supply from co-located mine.</td>
</tr>
<tr>
<td>Grootvlei</td>
<td>Palaea/multiple</td>
<td>2028</td>
<td></td>
<td>Full volumes not secured; Limited supply options; High transport costs.</td>
</tr>
<tr>
<td>Hendrina</td>
<td>Optimum</td>
<td>2026</td>
<td></td>
<td>Export risks - Fixed price contract; Mine in business rescue; corruption; Under delivery of contractual volumes; Limited alternative supply options (transport infrastructure constraints at the station).</td>
</tr>
<tr>
<td>Duvha</td>
<td>Wolvekrans</td>
<td>2034</td>
<td>2034</td>
<td>Export risks – Fixed price contract (no margin for mining company on the contract).</td>
</tr>
<tr>
<td>Kendal</td>
<td>Khutala</td>
<td>2033</td>
<td>2043</td>
<td>Under delivery of contractual volumes; Contract does not match end of station life; Life of mine is approaching and requires new investment; No agreement or extension to CSA negotiated yet for new open cast; Large shortfall in volumes from early 2020s when mine reaches end of life; Financing, contracting, timing risks of new investment.</td>
</tr>
<tr>
<td>Kriel</td>
<td>Kriel</td>
<td>2019</td>
<td>2029</td>
<td>Contract does not match end of station life; Life of mine reached 2019; New capex required or new contract/tender; Mine development risks; Potential higher costs of coal at new mine.</td>
</tr>
<tr>
<td>Komati</td>
<td>Koornfontein</td>
<td>2028</td>
<td></td>
<td>Higher cost supply (corruption); Under delivery of contracted volumes; Mine in business rescue.</td>
</tr>
<tr>
<td>Kusile</td>
<td>New Largo</td>
<td></td>
<td></td>
<td>Station volumes not secured; Tied mine not yet developed; Transport constraints and costs of imports.</td>
</tr>
<tr>
<td>Lethabo</td>
<td>New Vaal</td>
<td>2029</td>
<td>2040</td>
<td>Contract does not match end of station life.</td>
</tr>
<tr>
<td>Majuba</td>
<td>multiple</td>
<td>2051</td>
<td></td>
<td>No long-term supply; Rail line construction delays; Multiple contracts including Tegeta (business rescue).</td>
</tr>
<tr>
<td>Matla</td>
<td>Matla</td>
<td>2033</td>
<td></td>
<td>Eskom failure to recapitalise the mine; Under delivery of contractual volumes from cost-plus contract; Switch to multiple short-term contracts; Mining right lapses 2025.</td>
</tr>
<tr>
<td>Mochudi</td>
<td>Grootageluk</td>
<td>2038</td>
<td>2041</td>
<td>Supply risks associated with single mine supply to two stations; Export risk; Fixed price contract.</td>
</tr>
<tr>
<td>Tutuka</td>
<td>New Denmark Multiple top up contracts</td>
<td>2029</td>
<td>2040</td>
<td>Long-term undersupply from cost-plus contract; Multiple short-term contracts; Contract does not match end of station life.</td>
</tr>
</tbody>
</table>
Learning from past transitions to build phase-out pathways

Coal transition(s) in Germany

Jörn Richstein,
based on report with Hanna Brauers, Philipp Herpich, Christian von Hirschhausen, Ingmar Jürgens, Karsten Neuhoff, Pao-Yu Oei
Katowice, 06.12.2018
In Germany reducing emissions means reducing coal.

Share of coal in total CO2 emissions from energy (incl. industry & transport)

- Hard coal/total energy CO2
- Lignite/total energy CO2

based on AG Energiebilanzen (2017).

Coal transition(s) in Germany
Jörn Richstein, 06.12.2018
To reach a two degree scenario (95% reduction), Germany needs to speed up

![Graph showing emissions trends from 2005 to 2050 across different sectors.](image)

- Energy sector
- Industry
- Trade and Commerce
- Residential
- Transport
- Agriculture
- Waste

Based on Öko-Institut e.V and Fraunhofer ISI (2015).
This means quickly reducing emissions, especially in the power sector.

Based on Öko-Institut e.V and Fraunhofer ISI (2015).
So what’s stopping us?

- NOT the technical perspective – high shares of RES possible
  - But good power market design necessary
- NOT the economic perspective – a transition is affordable and beneficial
  - But some key barriers
    - Structural breaks in lignite mining areas & effects on workers
However, Germany has plenty of experience with coal transitions.

- **Domestic hard-coal was uncompetitive (up to 4x)**

- **Substitutional processes in households and industry**

- **Reunification: Production in the east was inefficient, and other sectors modernized – substituted lignite**

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Coal transition(s) in Germany
Jörn Richstein, 06.12.2018

Based on Statistik der Kohlenwirtschaft e.V. (2017d), Statistik der Kohlenwirtschaft (2017b, 2017c) and Verein der Kohleimporteure (2017).
.. the biggest structural breaks have already occurred

Employment in coal mining sectors in Germany, based on Statistik der Kohlenwirtschaft e.V. (2017d).
Just transition is necessary, lessons can be learned from past transitions.

Multi-level, polycentric governance and planning
Participation & consensus of relevant stakeholders

National or supranational (structural) policy level

Regional (structural) policy level
- Workers & Citizens
- Economy & Industry
- Infrastructure
- Education & Research facilities
- Soft location factors

Energy system

Finance
Social security and pension system

Fossil fuel based economy → Decentralized renewable energy system

Note: The size of each area does not implicate any valuation in terms of financial volume or importance of the dimensions.
Thanks for your attention

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References

- Statistik der Kohlenwirtschaft e.V. 2017a. “Steinkohle.”
COAL TRANSITION IN POLAND

Jan Witajewski-Baltvilks
Consumption of coal in Poland expected to drop

Energy mix under 3-fold reduction in emissions

Sectoral decomposition of coal consumption

Source: Witajewski-Baltvilks et al. (2018a)
Drop in consumption implies phase-down of coal sector, unlike in most EU countries.

Coal phase-down will take 30 years – no massive lay-offs expected

Source: Witajewski-Baltvilks et al. (2018a)
Cushion for the regional economy

- Educational policy: direct new cohorts to growing sectors
- Help laid-off workers to find new jobs
  - 10,000 additional jobs in Silesia may be created with ambitious retrofitting programmes
  - individual skill diagnoses will ensure that workers receive tailor-made retraining
- unconditional cash transfers should be offered only to workers close to retirement age
Thank you

The research leading to this paper was performed under the Coal Transition project that received funding from the KR foundation.

For more details, consult

- Witajewski-Baltvilks et al. (2018a). Managing coal sector transition under the ambitious emission reduction scenario in Poland. *IBS research report 03/2018*
- Witajewski-Baltvilks et al. (2018b). Risks associated with decarbonising the Polish power sector. *IBS research report 05/2018*

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A Just Transition Strategy in Spain

Begoña María-Tomé Gil
Union Institute of Work, Environment and Health of Comisiones Obreras

Implementing Coal Transitions to Raise Climate Ambition. UNFCCC COP24 Side Event
Background in Spain: Coal Sector

1990
- 234 mining companies
- 19.3 million tons of coal production
- 45,212 workers

2012
- 15 mining companies
- 6.5 million tons of coal production
- 3,400 workers

2017
- <10 mining companies
- 3.7 million tons of coal production
- 1,700 workers
Background in Spain: Coal Thermal Power Plants

- 15 coal-fired power plants, 10,000 MW (10% of the installed power)
- 10 plants are likely going to close before 2020
- The closure of some of these plants is going to increase the negative impact on the coal regions
“Framework Agreement for a Just Transition from Coal Mining and Sustainable Development of Mining Regions for 2019-2027”
A Just Transition Agreement for WORKERS

- A good agreement for the DIRECT WORKERS (early retirement, redundancy payment for young miners, better compensations for workers with silicosis)
- A Labour Adjustment Program for NON PRE-RETIRED WORKERS AND SUBCONTRACTORS WORKERS to have priority access to training and re-skilling and to restoration activities.
- It is estimated the agreement can benefit 600 workers, 60% of employees will be eligible for early retirement
A Just Transition Agreement for COMMUNITIES

- 250 millions Euros for business initiatives and projects for the development

- Additional measures:
  - Restoration Plan for affected areas by mining operations
  - Energy Efficiency and Renewable Energies Plan
  - Just Transition Contracts
Additional positive elements for advancing JT in Spain

- A Climate Change and Energy Transition Bill
- A Just Transition National Strategy
- An Urgent Action Plan for the affected coal mining regions
Trade Union Contributions

• The major Spanish Trade Union, Comisiones Obreras (CC.OO.) has presented a proposal on how to develop a JT framework and necessary instruments.
Uncertainties and challenges

• How to survive to the changes of the governments?
• How to finance the just transition with guarantees and continuity over time?
• How to engage energy companies (utilities) to reinvest in sustainable economies in the affected territories and communities.
• How to finance the just transition with guarantees and continuity over time?
• We need to strengthen national tripartite social dialogue to be part of this process and monitor the implementation of the adopted policies
Thank you very much

Begoña María-Tomé Gil

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Lessons learned

- The lack of an audit of the results of the 24,000 million euros received through public funds.
- The lack of coordination between state and local administrations.
- The absence of a strategy behind all these investments made.
- Many of the funds were used unfairly to put those regions on the map, to provide them with the level of public services and infrastructures of the Spanish average.
- Not all funds have been used for anything, infrastructure has been developed and business initiatives have been launched in the sectors, especially in recent years. However, the economic crisis wiped out many of these immature projects (for example, renewable energies).
International Labour Organisation
Office in Madrid

ILO Office in Madrid:

• Has announced a collaboration agreement with the Spanish Government to implement correctly the ILO guidelines about JT
• has published a report with the opportunities of the energy transition and challenges in terms of employment (energy generation, energy efficiency in buildings and mobility)