

UFE supports the creation of an ambitious price corridor as part of the European carbon market

UFE has always called for a strong signal price for carbon at the European level to ensure a successful transition to a low-carbon economy, and, as such, supports all initiatives aiming at strengthening the EU ETS.

Until now, energy efficiency measures and the development of renewable sources of electricity have led to lower CO₂ emissions levels. This decrease had not been properly taken into account when the goal of lowering CO₂ by 20% by 2020 was initially set. This phenomenon, which has become more pronounced with the economic crisis and lower levels of electricity consumption, has led to excess quotas in the carbon market and to a sharp decline in CO₂ prices.

Today, as a result, market players are facing:

- low CO₂ prices that do not drive players to make operational and investment decisions to use and develop low-emissions technologies, including renewable energy sources and energy efficiency, which remain the greatest opportunities for reducing CO₂ at a low cost;
- and the absence of strong signal price over the long term, meaning a lack of clarity on CO₂ price changes, while low-carbon technologies are part of long-term investment strategies and generate long-term returns.

Expensive emission reduction strategies are therefore favoured over more economically efficient measures, and the economy is being weaned off of carbon in an expensive and non-optimal fashion. However, a carbon signal price should be the real driver of investments in low-carbon technologies and solutions, leading to the possibility of success for the European strategy to fight climate change and to reduce Europe's energy dependence on fossil fuels.

In theory, the creation of the Market Stability Reserve (MSR) should help to resolve this situation, but a meaningful price is not expected before 2025-2026, and remains an uncertainty.

That is why, today, in the absence of a currently meaningful carbon signal price, it is essential to readjust and to reinforce the EU ETS through structural measures. In that sense, UFE recommends:

1. The creation of a CO₂ price corridor on the EU ETS at the European level:

A price corridor within the European carbon market, as proposed by the French Government, would essentially guarantee greater predictability of CO₂ pricing trends. Such a measure would create a strong and credible incentive for the use, maintenance, and development of energy sources that are carbon free (wind, solar, nuclear, hydro) or low carbon (gas) over coal and oil.

Furthermore, such a European corridor would strengthen the ETS mechanism as a key part of the transition to a low-carbon economy by relying on the stability reserve that will be established in 2019.

Progressive changes to price levels between a minimum (price floor which consists in an auction reserve price applicable to 100 % of the electricity sector allowances) and a maximum (price cap) prices would help to guarantee coherent and predictable incentives over time for all parties involved in the ETS.

2. Laying out an ambitious trajectory for the corridor's minimum price at the European level for the electricity sector

The French Government's proposal suggests several reference points for the corridor's lower threshold. These projections foresee a lower threshold price level of about €29-33/t in 2030, with an intermediary price point of between €10-18 in 2020.

As ADEME (French Environment and Energy Management Agency) and RTE (French TSO) recently jointly published a study that showed that with current European electricity generation capacity, a price of around €30/t is necessary to immediately reduce emissions in the European electricity generation sector in a meaningful way (by about 100 million tonnes of CO₂/year, i.e. by 15%), UFE hopes to make this corridor proposal even more ambitious.

In order to produce such effects even more quickly, in a way that will have a significant impact on the fight against climate change and on weaning the European economy off of carbon, UFE is proposing a focus on creating a progressive corridor trajectory that reaches €30/t as quickly as possible – 2025 at the latest – given that the ADEME-RTE study shows that a meaningful CO₂ reduction occurs from such a price level.

3. Taking into account the impact on carbon-intensive industries and consumer purchasing power

To limit the impact that such a measure would have on economic competitiveness, it seems necessary to create compensatory measures for the direct and indirect effects on industries impacted by the measure and on household purchasing power.

For example, UFE supports the idea that the price corridor should be accompanied by complementary EU ETS measures such as the following measures proposed by the French Government:

- maintaining completely free quota allocation for those sectors that are most at risk of carbon leakage, by targeting relevant sectors;
- introducing a compensation mechanism for industries impacted by the measure. The Government has notably already introduced a compensation mechanism for indirect costs as part of the finance bill. According to Medef (Movement of the Enterprises of France), in 2016, 85% of 2015's costs will be reimbursed in line with the European limit, i.e. €93 million, or a reduction of about €3/MWh, for a total of 6-20% savings on electricity bills. This mechanism should be complemented with compensatory mechanisms applicable to all the industries that are directly impacted by the measure;
- and accelerating the establishment of an innovation fund to stimulate the development of low-carbon technologies in the European economy.