



Union Française de l'Électricité

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Position Paper

UFE's position on the revision of the Emissions Trading System (EU ETS) and the Effort Sharing Regulation (ESR)

1. The EU ETS must be reinforced as a core instrument of decarbonisation in the EU

Carbon pricing is a very efficient tool to guide investment decisions and behaviours. Therefore, the carbon price level on the EU ETS market must send **adequate signals** to stimulate industrial investments in low-carbon technologies.

Considering the proposed target of at least 55% of GHG emissions reduction by 2030 and carbon neutrality by 2050, an adequate and **predictable carbon price trajectory** is essential to ensure the EU ETS plays a key role in decarbonising the EU economy, while guaranteeing a smooth and efficient transition.

- To ensure **visibility** of the price signal UFE is in favour of creating a **carbon price floor of at least 30€/tCO₂, which could regularly be increased.**

2. The parameters of both the EU ETS and the MSR need to be reviewed

A review of the EU ETS parameters is needed to ensure sectors under the EU ETS are subject to a sufficient price signal to decarbonise.

- **UFE strongly recommends strengthening the cap by (i) a one-off reduction (rebasings) and (ii) increasing the linear reduction factor (LRF),** to reflect the actual emissions level more accurately.

The operational parameters of the market stability reserve (MSR) also need to be revised, in order to allow the MSR to better address unexpected demand or supply shocks and react faster to market imbalances. **The fine tuning of the MSR will depend on multiple parameters,** including updated renewable and energy efficiency targets, the EU ETS revision (scope, possible rebasing of the cap, increased LRF) and the introduction of a CBAM.

- **It is premature to decide upon the future feeding rate of the MSR before an impact assessment** comprising several scenarios based on the above-mentioned parameters (EU ETS scope, renewable and energy efficiency targets) is carried out.
- **Following an impact assessment, the thresholds activating the MSR (currently set at 400 and 833 million allowances) will also have to be adapted** to better reflect the future evolution of emissions.

Besides, when it comes to addressing carbon leakage for European industries, the future of free allowances in the EU ETS will need to be assessed in light of both the scope and parameters of the upcoming carbon border adjustment mechanism (CBAM).

- **In case a CBAM was implemented for the specific sectors of the EU ETS receiving free allocations**, a transition period between both mechanisms should be implemented before the necessary total phase out of free allocations can be envisioned.

3. The Effort Sharing Regulation (ESR) must be maintained for road transport and building

It is of utmost importance to ensure that all sectors are subject to a meaningful CO₂ signal, coming from either a market-based mechanism or a standard regulation.

UFE believes that **a market-based carbon pricing system to foster decarbonisation in all sectors, in particular decentralised ones, requires several conditions that are difficult to fulfil simultaneously**. Applying a carbon-pricing system to **road transport and building** sectors which are by nature decentralised, would risk being ineffective and would not yield to a sufficient price level.

Indeed, only a carbon price of around 150-200€/tCO₂¹ in 2030 would drive substantial behavioural changes in road transport and building. But introducing a CO₂ price and increasing it sharply to reach this level would be very difficult due to lock-in effect in these sectors: this would hardly be acceptable to consumers, especially low-income households.

This particularly holds true for the building sector, where **those deciding on CO₂ performance of building (owners) are not those who would bear the cost of a carbon pricing system (tenants)**. This is all the more problematic as the housing rental market is, most of the time, imperfect and poor households are over-represented among tenants: it highlights that **only legislations targeted at owners will be efficient**.

Moreover, the carbon price in the EU ETS is not expected to reach such a high level in the coming years, **whereas sectoral legislations² have proven successful in decarbonising road transport and building**. Therefore, it is unlikely that introducing a carbon-pricing system would induce a significant additional reduction in GHG emissions, and the extension of the EU ETS to these sectors would risk destabilising the existing system.

¹ As highlighted by several reports, e.g. [Quinet report](#) from February 2019 (in French), [Agora Energiewende and Ecologic Institute](#) from March 2021, or [I.C.I.S.](#) from March 2021.

² Such as the implementation of CO₂ emission standards for road transport.



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- In this context, **it is more efficient to strengthen existing CO2 standard regulations to decarbonise road transport and building.**
- UFE also stresses the **key role that existing national targets in the ESR play** in ensuring Member States' commitment and accountability in the decarbonisation process, which should not be neglected.
- Therefore, UFE is **in favour of maintaining the road transport and building sectors in the Effort Sharing Regulation, even if an ETS were to be introduced for these sectors.** If and only if the carbon price for these sectors were to reach a level of 150-200 €/tCO₂, it could be considered to fully integrate these sectors in a separate ETS system. In any case, before any sector introduction into an ETS, a specific prior assessment must be undertaken.

When it comes to **maritime transport and aviation**, UFE is **in favour of their inclusion in the EU ETS**, given the CO₂ price level needed to decarbonise these sectors as well as their structure (comprising few stakeholders).