Marges de manoeuvre pour réformer le marché carbone européen

Direction générale énergie climat

Département de lutte contre l'effet de serre

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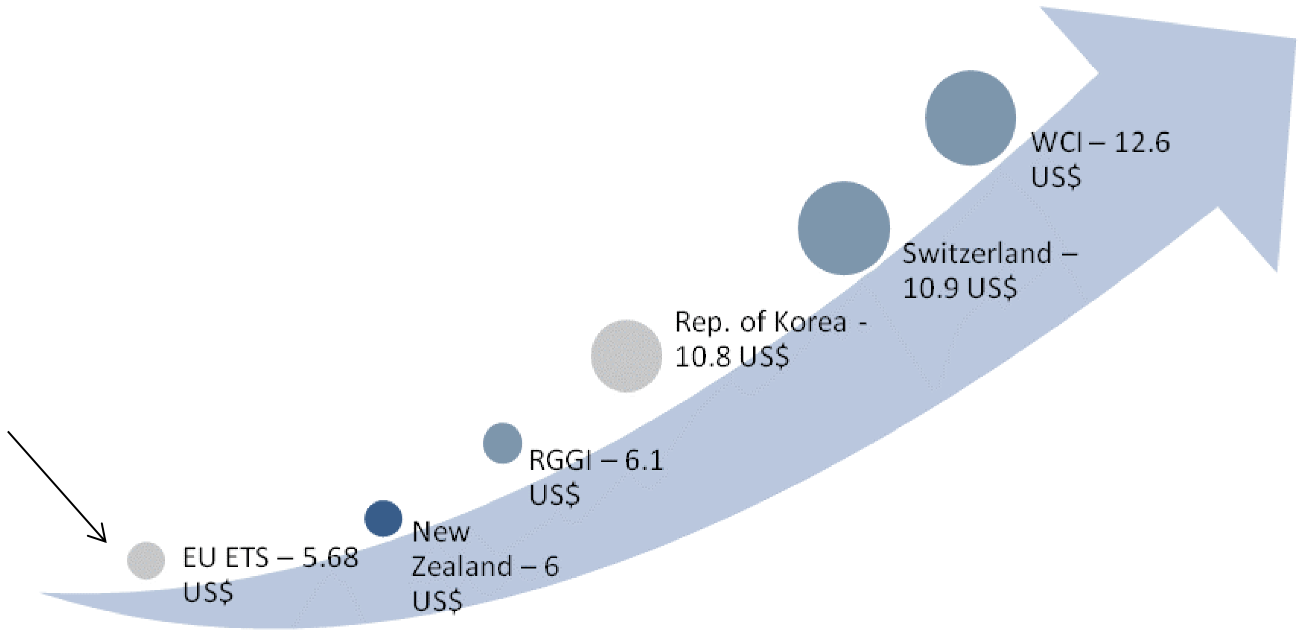
EU ETS carbon price vs other ETS carbon prices around the world



- **Article 4.19 of Paris agreement to communicate long term strategy for low carbon growth:**
  - Long term strategy for the flagship instrument of EU's climate policy?
- **EUAs price:**
  - Plunge by 80% since its higher level;
  - Plunge by more than 40 % since end of 2015;
  - Expected auction revenues for 2016 - 2020 have been divided by 2 in 1 month
  - Barclays last report ("2° C of separation") mentions the possibility to have CO_2 prices at 5€/tCO_2 in 2030

Source: based on Thomson Reuters, ICAP, March 2016

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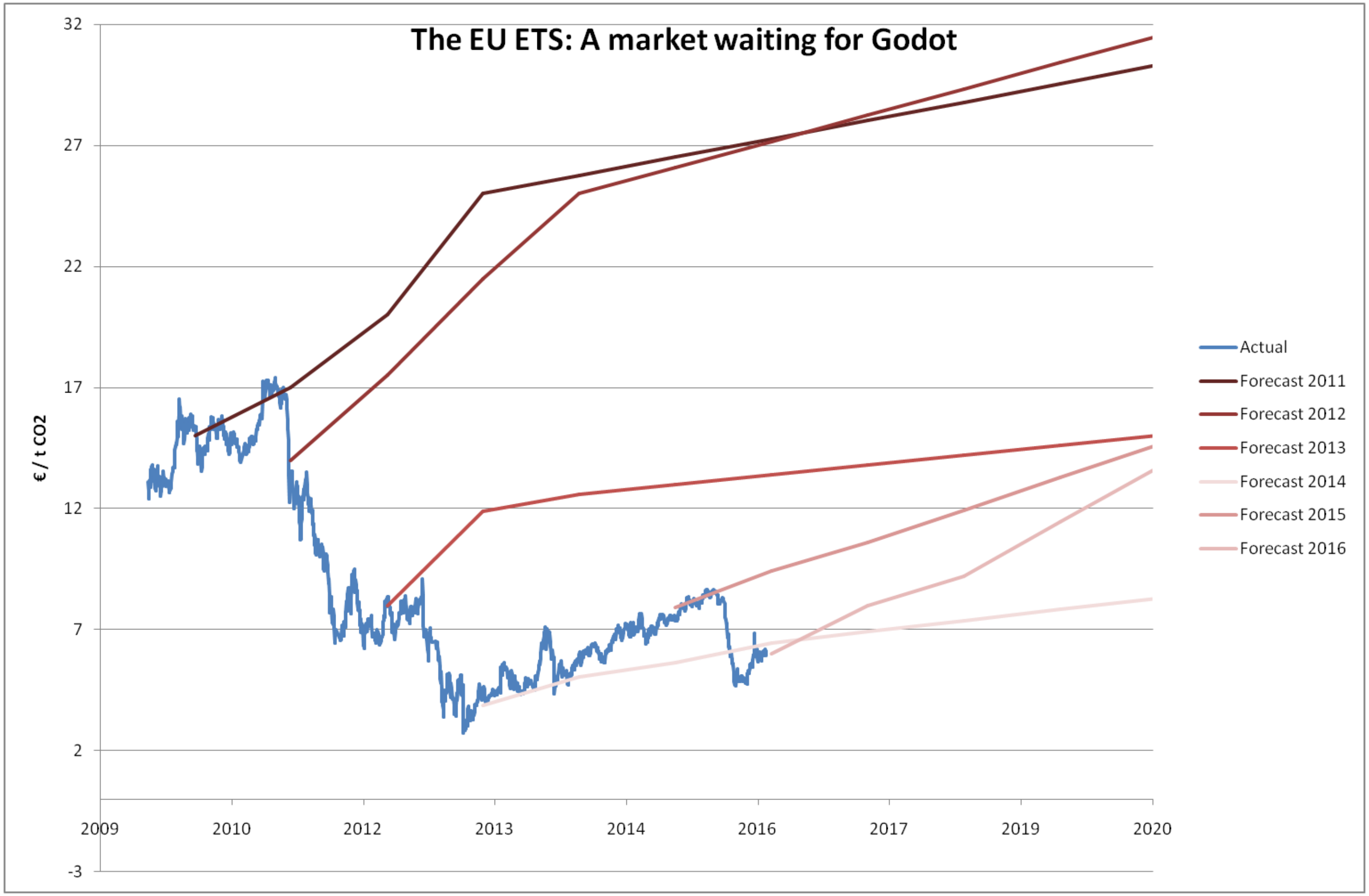
The EU ETS is falling short of EU's long term targets

- **Mestrallet-Canfin-Grandjean pre-report (downloadable from the ministry's website):**
  - The current price signal is not coherent with the EU's COP21 objective (80-95% by 2050 for 2 degrees)
  - Waiting for the MSR to kick-in just means that we are rolling the dice
  - Should we otherwise choose to have a carbon market as an actual basis for the EU's strategy toward long term decarbonization (to be defined by 2020, cf Paris agreement Art 4.19)?

- **A few numbers from the COM's papers to support this:**
  - **Impact assessment of the 2030 energy and climate framework (2014):** the LRF of 2,2% leads to -84% in 2050 instead of -90% (footnote 122) and the resulting price for the 2030 objective would be between 22 €/t and 40 €/t (p 138)
  - **Roadmap for moving to a competitive low carbon economy in 2050 (2011):** The EU ETS carbon price needed to comply with the ETS directive rises from € 36 per ton CO2 in 2030 (in constant prices of 2008) to € 100 to €370 by 2050

The EU ETS price: the everlasting gap between volume based expectations and actual price delivery



Source: DGEC based on Thomson Reuters' poll of analysists

- **While other countries are securing long term strategies for decarbonisation following COP21:**
  - Should we think that the price is going up from now on ("next forecast will be for real")?
  - Should we trust our luck with the current rules ("well you never know")?

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A price corridor for the EU ETS – Why?

- **The soft price collar FR proposes for discussion would let the market do its work:**
  - Minimum price and “maximum” price secures the market price between a minimum and a maximum;
  - The soft price collar is not a tax: see legal analysis (“Why a carbon price corridor is not a tax”, Matthieu Wemaëre, 2016)

- **A soft price collar for the European carbon market would :**
  - Create a strong incentive in favor of low-carbon investments: at least -100 Mt/y only for the power sector (French TSO’s (RTE) joint analysis with French energy efficiency agency (ADEME) – “Signal prix du CO_2”, 2016)
  - Improve renewable energies competitiveness, e.g. -30% subsidies required for onshore wind in France (idem)
  - Secure revenues for member states : no more uncertainties on the minimum price;
  - Offer a guarantee on minimum CO_2 prices ➔ better view on revenues to be used for climate purpose (including for the innovation fund, modernization fund or article 10c)

➔ A corridor is not designed to lead to an additional effort, just to guarantee we will get what we expect in term of carbon price signal

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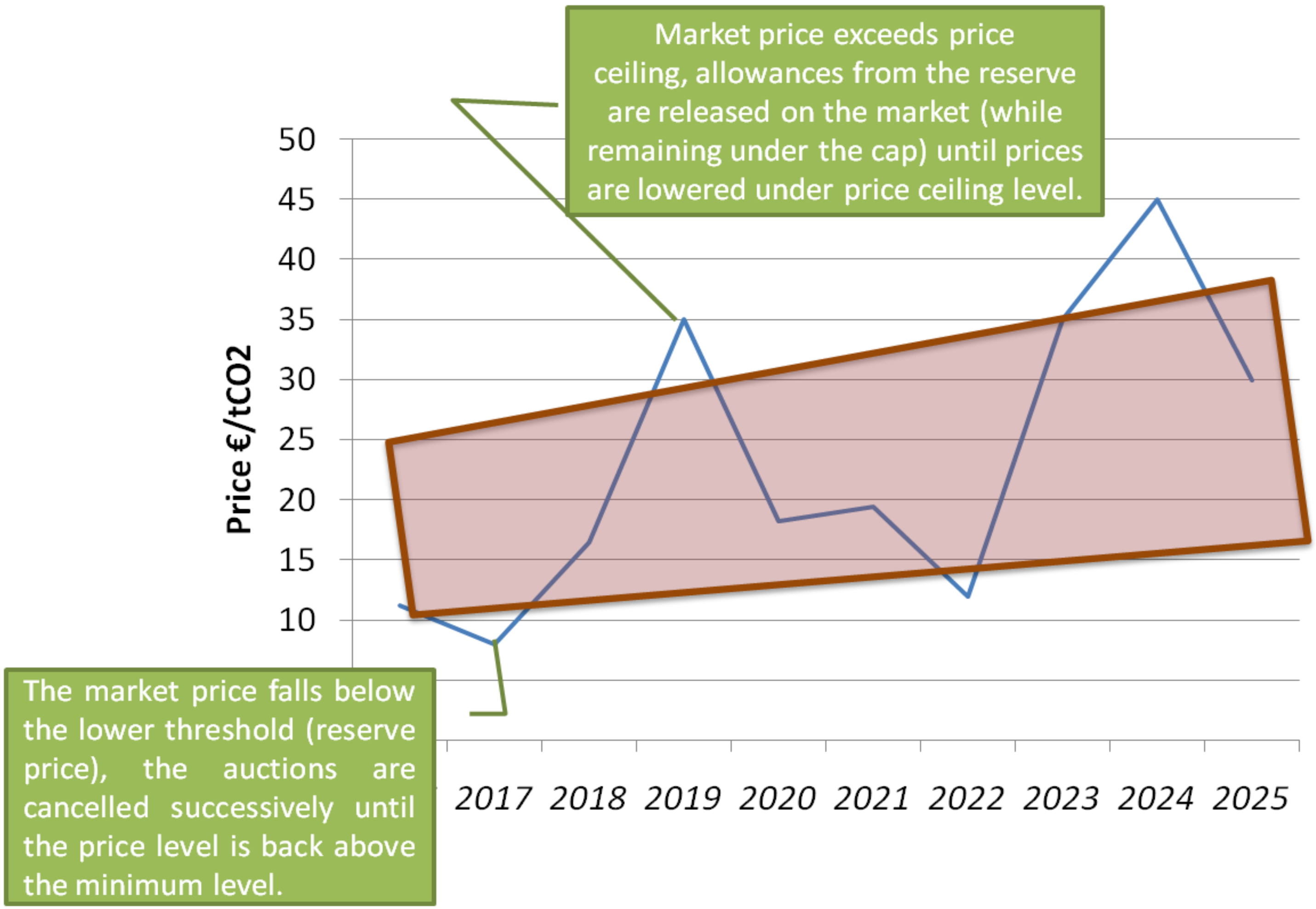
A price corridor for the EU ETS – How?



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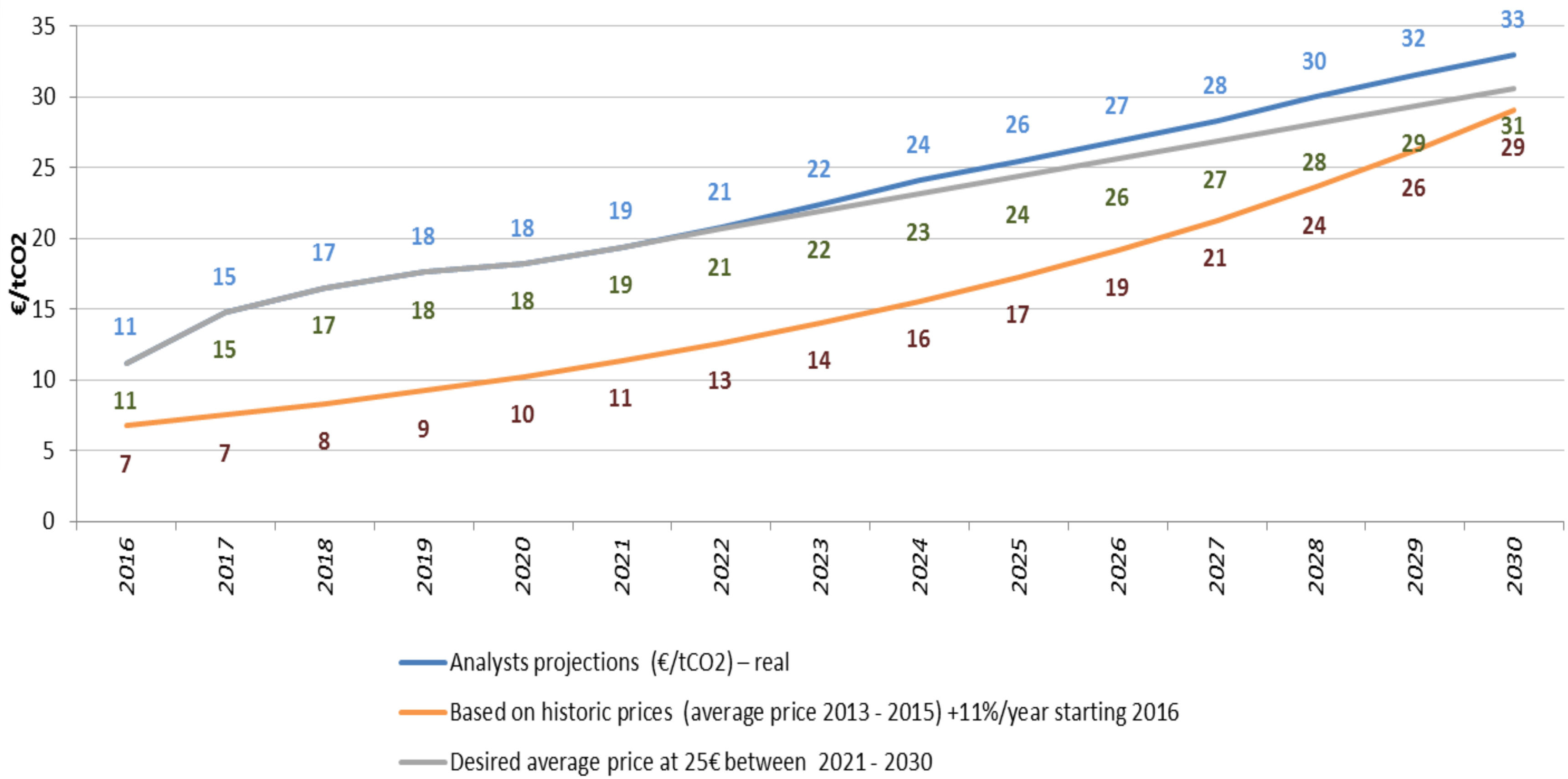
A price floor for the EU ETS – Which level?



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They support this message…

ALPIQ, axpo, centrica, CEZ GROUP, danskenergi, DANISH WIND INDUSTRY ASSOCIATION, DONG energy, DOOSAN, drax, EDF, edp, edp renewables powered by nature, EnBW, Eneco, enel, ENGIE, e·on, EWE, Fortum, Gamesa, IBERDROLA, MAINSTREAM RENEWABLE POWER, NORDEX, res powering change, SolarPower Europe, sse, Statkraft, VATTENFALL, Verbund, Vestas, Wind EUROPE

➔Letter of 10 June 2016:

"Despite adopting measures such as backloading, the MSR and an increased LRF, the surplus of allowances will continue to depress the market in the short to medium term, <u>keeping the EU ETS ineffective as a robust carbon price signal until late into the 2020s</u>."

"The gap between backloading finishing in 2016 and the MSR starting in 2019 should be addressed either through <u>adjusting auctioned volumes in a one-off "Post Paris" action, starting the MSR earlier or increasing the MSR outtake rate above 12%. We are also supportive of exploring a price-based corridor.</u>"

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Next steps

➔ Member States

- ❑ 20 June 2016: ENVI Council;
- ❑ S2 2016: SK Presidency (then MT & UK);

➔EP: Rapporteurs' reports are out. Amendments in COMITRE/COMENVI to be proposed until 15/28 June 2016 and to be voted in October/December

Sparking the debate on EU ETS ambition

A more resilient price signal…

- toward an EU ETS that would be less volatile, more predictable, and more able to trigger the low-carbon investments which the European Union needs

-comments on how to improve this proposal are welcome

… Accompagnied by more efficient carbon leakage risk protections.

- distribute the available supply of free allowances in a fairer manner and mitigate industries' risk of carbon leakage according to their exposure.

Thank you!

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