

# THE ETS SYSTEM REQUIRES OPTIMIZATION TO GUARANTEE A MEANINGFUL CARBON PRICE SIGNAL



*Position of the French electricity industry*

## THE ETS SCHEME REQUIRES OPTIMIZATION TO GUARANTEE A MEANINGFUL CARBON PRICE SIGNAL

The *Union Française de l'Électricité* (UFE) reiterates its support for the ETS mechanism, which still represents the most suitable solution for successfully making the transition to a low carbon economy for Europe.

Electricity industry professionals, however, are concerned about current CO<sub>2</sub> price levels on the European market, which are failing to send adequate price signals to stimulate industrial investments in low carbon technologies.

This situation merits an urgent response, which should take the form of a change to the existing architecture of the ETS mechanism, in line with ambitious long term targets for reducing CO<sub>2</sub> emissions.

## CHANGES TO THE AUCTION TIMETABLE IN PHASE 3: A NECESSARY FIRST STEP

In view of this, UFE welcomes the European Commission's proposal, put forward in July 2012, to reform the ETS mechanism.

This reform, which aims to postpone or 'back-load' the availability of some CO<sub>2</sub> allowances from 2013-2015 to the period 2018-2020, is a step in the right direction. It represents a necessary adjustment to the timing of auctions, which will help to reduce the volume of allowances available on the market and thereby restore a more meaningful carbon price signal, in the short term.

However, UFE is keen to emphasize that in order to be effective, any such project would need to apply to a significant volume of CO<sub>2</sub> allowances. For this reason, it supports the proactive approach proposed by the European Commission, with its option of withdrawing 1.2 billion allowances between 2013 and 2015.

Furthermore, it considers that the terminology employed in the draft directive to define the manner in which the Commission might intervene to review the auction timetable, is not sufficiently precise in its current form. Permitting the Brussels authorities to adapt the timetable "where appropriate" would generate uncertainty regarding the availability of allowances on the medium-long term market. This would serve to reduce the benefits for economic operators of active participation in the ETS mechanism. The text proposed by the draft revision of Directive 2003/87/EC therefore needs to be refined.

## A VITAL NEED FOR AMBITIOUS STRUCTURAL REFORM, GUARANTEEING THE LONG-TERM EFFICACY OF THE ETS SCHEME

In particular, whilst the French electricity industry takes the view that the "one-off" revision of the timetable for the period 2013-2020 represents a necessary first step, it emphasizes in the strongest terms that any such revision will be insufficient to allow the European carbon to function in an optimum manner over the long term.

It is essential that the current text be completed by a "structural" reform of the ETS mechanism, which must be carried out from 2013 and must be based on the following:

- ☞ Bring reform of the ETS mechanism into line with other public policies on climate change

There are currently several different climate change targets, which are not independent of one another: a 20% reduction in greenhouse gas emissions from 1990 levels by 2020; a 20% increase in energy efficiency by 2020; and 20% of the EU's total energy demand to be met by renewables by 2020. These policies need to be coordinated more closely if they are to be effective.

Policies adopted by Member States to help achieve the renewable energy and energy efficiency targets are leading to reduced CO<sub>2</sub> emissions, and in turn reducing the demand for allowances. This is forcing down the CO<sub>2</sub> price and weakening the credibility of the market as a low-carbon investment signal. In UFE's view, the "carbon price signal" should, on the contrary, reflect the importance placed on climate change by producing a CO<sub>2</sub> price sufficient to justify investment in low carbon assets.

#### ☞ **A RESTRICTIVE TARGET FOR CO<sub>2</sub> EMISSIONS REDUCTIONS AFTER 2020**

UFE would like to see a reduction target set for phase 4 as quickly as possible, in line with longer term targets looking ahead to 2050. However, in order to avoid introducing a step-change too quickly, the target would need to be smoothed across a number of intermediate points. Such a measure would provide the forward visibility needed for investment cycles in the sector, thereby limiting "shocks" due to economic operators taking early action.

#### ☞ **A DEBATE ON THE INSTITUTIONALIZATION OF THE MECHANISM FOR ADJUSTING SUPPLY AND RESOURCES FOR MONITORING AND REGULATING THE CARBON MARKET**

To give the system the credibility it currently lacks, UFE invites the EU authorities to examine the advantages and drawbacks of creating an independent European body to supervise the ETS system. This compact body would be tasked with ensuring that the market delivers a carbon price that reflects short term market developments, whilst also sending the right signals for long term investments. It would achieve this through the ability to make adjustments to the supply of allowances. In addition, it would be required to centralize information (transactions, prices, actual emissions, etc.) and to distribute it to participants in market transparency.

The power to set quantitative targets for CO<sub>2</sub> emissions reductions would remain within the remit of States and governments.

#### ☞ **WIDENING THE BASE OF ECONOMIC OPERATORS PARTICIPATING IN THE ETS SCHEME TO NEW ECONOMIC SECTORS**

Extending the ETS base to include new sectors would serve to ensure greater fairness between economic operators, by demanding an effort from all those who contribute to climate change. This measure would also boost market fluidity and strengthen support for the development of low carbon technologies.