Ifri : Ditching coal in North-Western Europe

France's proposal for a regional carbon price floor

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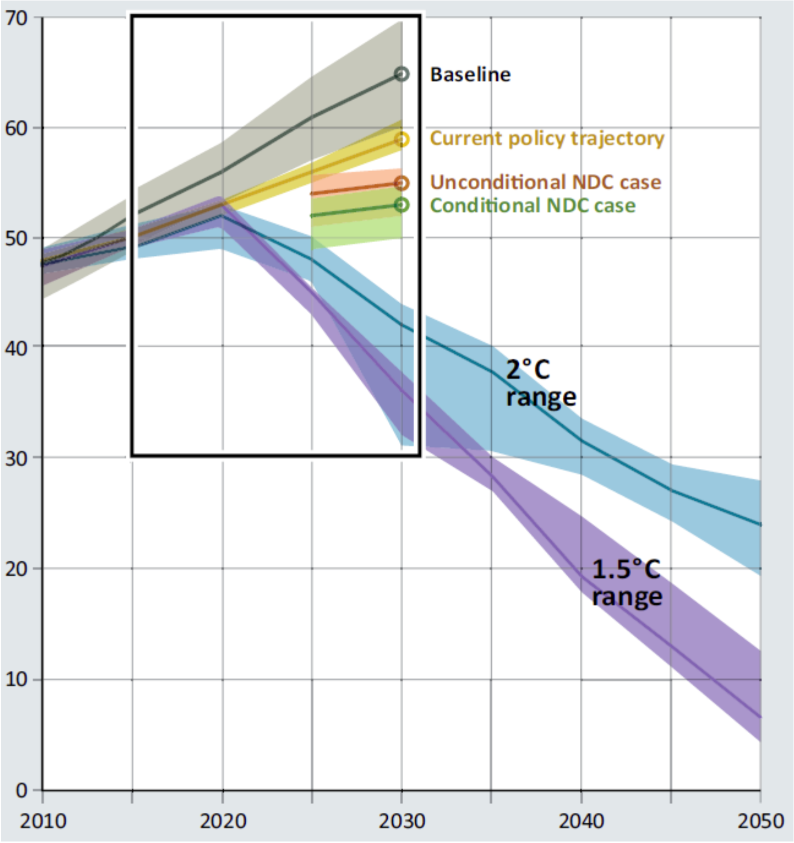
General context

- Commitments of the NDC are insufficient to reach the temperature goals of the Paris Agreement

- Significant additional efforts are required from all the Parties, including the EU



Source : UNEP Gap Report 2017

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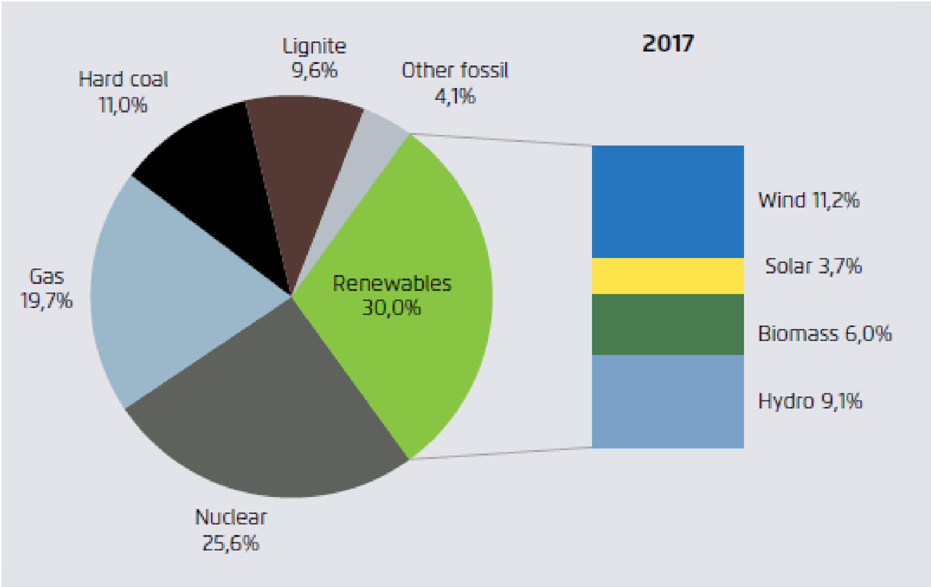
General context

- Electricity generation accounts for around 20 % of total EU GHG emissions.



Source : Sandbag and Agora “The European power sector in 2017”

- Accelerating the phasing out of coal would decrease significantly the EU emissions and contribute to respect the Paris Agreement.
- Various EU Member States have decided to reduce the share of coal, with some already committing to a global coal phase-out.
- These measures would lead to emission reduction, but **uncoordinated national approaches would be less efficient and have unpredictable impacts on the EU electricity markets**

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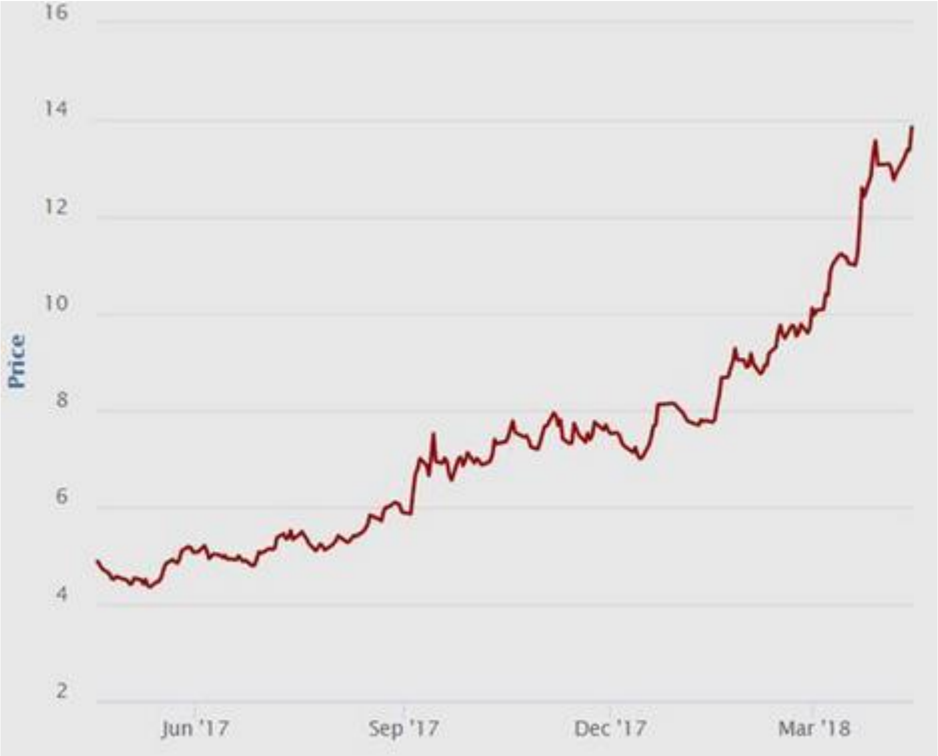
Price of EU ETS allowances

- EU ETS prices have remained too low during phase III until now to decarbonize the power sector and to phase-out coal



- These last months, prices have significantly increased
- The analysts predict an increase of the prices during phase IV, due to the revision of the directive, but **it will not be enough to reach the levels recommended by the Stern-Stiglitz commission** (40-80 $/t in 2020 to 50-100 $/t in 2030)

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Carbon price: a tool to phase-out coal

- Carbon pricing is an essential tool to provide the economic actors with a clear signal to move toward a low carbon economy

- With the current carbon price levels on the EU ETS, coal power plants come ahead of gas power plants in the economic merit order

- A **carbon price of 25 to 30 €/t** is needed to ensure a permanent switch between coal and gas

- France supports the implementation of a floor price at these levels for the electricity production sector, on the model of the UK carbon floor price.
  - ⇒ an additional tax to complete the ETS price up to the floor
  - ⇒ it could be put in place in a coordinated way by a coalition of willing Member States

- Such a carbon floor price would result in **a reduction of around 100 $MtCO_2$/an** if applied at EU level

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Interaction with the ETS

- Having a carbon floor price should not alleviate the pressure on the necessary decarbonization of the other ETS sectors

- The emissions reduction due to the carbon floor price would create a surplus of allowances that could reduce the ETS prices for the sectors outside the floor price mechanism.

- The new Market Stability Reserve would nevertheless absorb a large part of this surplus and then cancelled it from 2023 onwards.

- Additional measures could be put in place to ensure that the remaining part of the surplus is withdrawn.

- Hence, the implementation of the floor price will contribute to accelerate the transition for the electricity sector, without putting the price signal on other ETS sectors in jeopardy

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Non-climatic impacts of a carbon floor price

<u>Negative impacts</u>

- The carbon floor price would lead to an increase of the market price for electricity, with negative impacts for
  - Households
  - Business, especially for electricity-intensive industry

- It would also lead to negative social impacts on workers and regions that depend on the coal plants that would shut down.

<u>Positive impacts</u>

- The carbon floor price would lead to additional public resource:
  - Direct revenue of the tax
  - Increase of electricity market price means a significant reduction in the need for public support for renewable energy sources.

- The revenue could for instance be used to:
  - compensate the increase of electricity prices
  - help workers and regions affected by the closure of coal plants
  - lower other taxes
  - finance climate politics (e.g. incentivize energy-saving),
  - Or it could be directed to the public budget

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Current situation

- Great-Britain has already put in place a carbon floor price since 2013 on the electricity production sector. It is currently an additional tax of £18/t par ETS allowance.

- The Netherlands have announced a national carbon floor price on the electricity production sector starting in 2020 at 22 €/t, that will reach 43 €/t in 2030.

- At the One Planet Summit, on the 12th of December, the environment and climate ministers of Germany, the UK, the Netherlands, Sweden and France have jointly "committed to examining, or even implementing in some cases, a significant carbon price in relevant sectors".

- In Bruxelles the 5th March, France has organized a high level roundtable with Germany, Finland, Sweden, the Netherlands and the UK, but also Laurence Tubiana, a Member of the European Parliament (Bas Eickhout) and Eurelectric, to discuss the carbon floor price.

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