POLICY PAPER

CARBON MARKET WON'T HELP OUR PLANET
RENEWABLES AND EFFICIENCY WILL

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A the occasion of Paris climate conference, once again we can hear those preaching that "the market", using its invisible hand, is the best solution to combat climate change. Carbon markets worldwide would simply need to be linked so that, out of a sudden, millions of photovoltaic panels and wind turbines would pop up and thousands of coal power plants would close. Nothing is more wrong than that, as shown by ten years of climate policy in Europe.

Carbon market aficionados, aka **the "ETS gang"**, are mostly found in gas oligoplies gathered in the "Magritte group", in the British government and in the some departments of the European Commission such as DG CLIMA and the Secretariat General. However after ten years of carbon market policies, the European emissions trading system (ETS) shows a very poor track record.

When ETS was introduced in the early 2000, it promised miracles:

- Fuel switch of power plants from coal to gas
- Up-scaled investment for renewables and energy efficiency
- Climate finance - a source of income to invest in Europe and help developing countries
- A cap on EU emissions

In 2015, these expectations are far from being met.

1. "ETS only" does not deliver

Ten years after its birth, the **EU carbon market is broken or at best under intensive care**. The recently approved market stability reserve (MSR) is nothing else than **a plaster on a wooden leg**: this banking mechanism will at best be able to remove part of the massive over-allocation which flooded the system.

In addition, we have never been so far away from the promised switch from coal to gas. With falling prices of hard coal (notably due to the reduction of demand in the US and China) - the carbon price needed to push a hard coal power plant out of the power market has risen from 30 €/ton to over 45 €/ton. Germany and their massive coal exports are killing not only flexible gas in Germany but in the whole Central and Western Europe. This shows that **coal will remain economically viable** in the EU as long as the our policy relies on a combination of a depressed energy-only market and a broken carbon market. Not even speaking of lignite, which is even cheaper to exploit than hard coal... In order to move away from this situation, the EU will need a dedicated instrument to phase-out coal: increasing **emission**

performance standards for power plants.

Proponents of the carbon market consider that the ETS will allow the development of wind turbines and solar panels on its own, implying that the EU would not need any dedicated legislation on renewables for the post-2020 period. This "ETS only" approach is a nonsense!

In a context of huge production **over-capacity**, the wholesale electricity market reached historically low levels (25 €/MWh in Scandinavia, 35 €/MWh in Central and Western Europe). Only the UK, relying on a long-lasting "splendid isolation", shows market prices twice as high as in other parts of Europe. As a consequence, **not a single photovoltaic or a single wind turbine can be financed on the market**. On the contrary, dedicated policies on renewables with national targets and national support schemes triggered climate-friendly wind and solar investments.

The same is also true for energy efficiency: Europe leads the world on efficient new buildings, white goods, LED and, despite the "dieselgate", on efficient cars . This is nothing but the result of legislations like eco-design, energy labeling, CO2 and cars. These strong legislations on efficiency and renewables have made EU the world champion in climate mitigation, not the failed EU carbon market.

2. Organising a lost decade for EU energy transition

Large energy **oligopolies are facing the consequences of their wrong strategic choices** taken around 2005: investing in new coal plants instead in new renewables. The EU oil and gas industry sees a declining demand. Therefore, they intensively advocate for a "carbon markets only" approach without dedicated efficiency and renewables policy instruments.

These forces want to delay the energy (r)evolution which millions of citizens with their solar roofs, farmers with their biogas units and thousands of cities organised in the Covenant of Mayors have started. In order to achieve this result, **strange alliances are emerging**, notably between pro-climate British and pro-coal Polish governments, both of them attacking national binding targets for 2030.

Conclusion: a new role of carbon markets

The key answer for climate mitigation will come from policy instruments at all levels, local, national, EU. We will also need instruments to lower the capital costs for, in order to **address the fact that the "capital spread" between Germany and Greece is bigger than the solar spread**. And we need a phase-out scenario for the old centralised and rigid power plants combined with a **new market design** which rewards flexibility options like demand response, storage and interconnections.

After ten years of failure, pro-market agents should be more humble. Instead of promising "to save the climate" they should admit the limited role of ETS: **a safety net** to cap greenhouse gas emissions and **a money collection instrument** replacing taxation instruments. The latter is above all true for the EU: a carbon tax is likely never to emerge as its establishment is subject to a unanimous decision between 28 EU governments, while ETS is established following qualified majority procedure. ETS revenues can play a similar role as a carbon tax and that would be the only merit of this instrument.

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