AREVA's response to European Commission's public consultation on structural measures for the EU ETS

AREVA

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GENERAL COMMENTS

1. AREVA is strongly committed to contributing to decarbonising the EU economy and as such supports the EU ETS as a key instrument for achieving it.

AREVA supports a high and predictable carbon price as an incentive for achieving EU decarbonisation targets. This could be achieved through a variety of tools, including ambitious 2030 CO_2 reduction targets, a robust European Trading Scheme (ETS) and/or any other mechanism that would secure high enough a carbon price (e.g. carbon price floor).

AREVA remains strongly committed to the ETS as a key instrument for achieving an economy-wide decarbonisation by 2050 within an integrated EU internal energy market, provided it triggers investment decisions allowing the EU to reach long-term emissions reductions targets and in the absence of other EU-wide instruments in place. Therefore, AREVA supports the Commission's willingness to take structural measures to confirm the ETS and drive investment in CO_2 reduction: The ETS ensures effectiveness, respects a technology neutral approach and is based on market.

Globally (Australia, China and South Korea) carbon markets are emerging in order to foster investments in low carbon technologies. The EU has an opportunity to stimulate its own economy through the development of new and low carbon industries while at the same time continuing to show global leadership on climate change issues. However, policy makers must act now to support the ETS.

AREVA shares the Commission's analysis that, due to an over-allocation and free allowances, the current ETS price is too low and does not adequately reflect the cost of the CO_2 externalities. Consequently, the EU ETS currently fails to provide strong incentives for investments in low-carbon power generation technologies (for instance nuclear and renewables).

As a first and urgent step to stimulate the price of CO_2, AREVA supports the European Commission proposal for the "backloading" of allowances.

2. The proposed structural reform must concentrate on including the EU ETS in the post-2020 EU energy and climate strategy.

The "backloading" of allowances must be followed by structural measures to ensure a robust and predictable carbon price in a post 2020 framework to deliver the ambitious CO_2 emissions reduction objectives in 2050 (80-95%reduction for GHG).

Indeed, **the priority is not so much the modification of the framework to 2020 but an early adoption of a post-2020 framework**.

In this regard, AREVA would support the following priority policy objectives:

- Deciding on an ambitious CO_2 emissions reduction target for 2030 for the EU (at least 40% vs. 1990). This is mandatory to give a clear signal of the EU commitment to reduce CO_2 emissions. It is a necessary policy objective to ensure an efficient EU ETS ;
- Ensuring an appropriate carbon price signal, in priority through a strengthened EU ETS or through any other such mechanism (carbon tax, carbon price floor).

Because of plants retiring, **investments for the renewal of European power generation capacities have to be decided now and before 2020**; **low carbon technologies (renewable, CCS, nuclear) generally imply high upfront cost of investment and will not be selected if 2030 horizon is not clear enough as regards CO_2 emissions cap and trade: the risk of technology lock-in with fossil fuels is high.**

In this regard, AREVA regrets that the consultation paper does not provide the necessary comprehensive view, as it appears to concentrate upon short term solutions to 2020.

- Create an independent authority to manage the EU ETS, following the model of the ECB for money creation;
- Promote exportation of the model outside the EU; and
- Forward-looking industrial policy must give priority to boosting research, innovation and technological development. This can best be achieved by improving the research and innovation
- Legal framework and providing adequate financing to EU programmes.

Most of the options included in this Report are short-term adjustments, and do not address the incoherent structure of the EU 2020 climate and energy policy. A stronger coordination of the energy and climate policies towards 2030 is paramount. This is the reason why AREVA supports option c, as it would enable to set as early as possible a post-2020 target.

COMMENTS ON THE PROPOSED OPTIONS

Option a: increasing the EU reduction target to 30% in 2020

Energy and industrial projects have long lead-times, so companies are already planning investments beyond 2020 now. Making changes to the 2020 target is unlikely to have the desired impact as 2020 is already in the 'rear-view mirror' for businesses looking to make investment decisions.

Option b: retiring a number of allowances in phase 3

Retiring allowances in phase 3 is seen as a subsidiary option because it does not provide a long-term signal. However, as other options cannot take effect immediately, retiring allowances would help to quickly rebalance supply and demand.

Option c: early revision of the annual linear reduction

AREVA gives top priority to option (c) for an early revision of the annual linear reduction factor in line with a 2030 target. This is the only option that provides an opportunity to set a target for phase 4 (post-2020). The revision of the current 1.74% linear factor is necessary in order to meet the EU goal, and early revision has the clear merit of providing a stable long-term framework. We also emphasise that revising the linear factor will not by itself solve the problem of the ETS surplus without an accompanying resolution of the problem of policy overlap, so that the deployment of mature renewables and energy efficiency is driven by the carbon price.

Option d: extension of the scope of the EU ETS to other sectors

Ideally, all GHG emissions should be covered by the system, to avoid unintended arbitrage and consequences and to ensure technology neutrality. However, adding new sectors in the ETS through a cap increase (i.e. additional allowances) is risky and should be avoided in the short term: ETS history tells us that new sectors tend to be over-allocated when first cap estimates are made and this creates a risk to further increase oversupply rather than to reduce it. Including new sectors without increasing the cap would lower the surplus. However, this would not be without opposition and would add complexity to the system. New sectors are in theory a welcomed inclusion, but only into a system that already delivers incentives, which is not presently the case.

Option e: limit access to international credits

Option (e) may be better considered in 2015 in light of the outcome of the UNFCCC Durban process toward an international agreement.

Option f: discretionary price management mechanisms

AREVA shares the concern that this “would alter the very nature of the current ETS being a quantity-based market instrument [so that] the carbon price may become primarily a product of administrative and political decisions (or expectations about them), rather than the interplay of market supply and demand”.
However, this would be a second-best option in implementing a structural modification of the EU ETS to spur green investments. It would allow for adapting the system to future economic development in the EU