

French Authorities Position Paper

While the current pandemic causes a human tragedy and a historical economic setback, we should begin to prepare ourselves to rebuild our economy and to introduce the necessary recovery plans to bring sustainable progress in Europe. While doing so we must always remain focused on strengthening our resilience and addressing the persisting climate and ecological crisis. French authorities consider that the current crisis is a momentous event that should strengthen our resolve, in particular in achieving the success of the Energy Transition and our collective climate objectives, as defined in the Paris Agreement.

French Authorities reaffirm that a successful Energy Transition is a fair and socially inclusive transition, in which **ensuring a high level of public service will be a core element**. The current crisis has demonstrated the high expectations of our citizens regarding essential services, among which a safe and clean energy supply.

While a high level of integration of European energy markets is an important tool to achieve our public policy goals, it should remain in firm hands: the current situation shows that public intervention is a necessary component of our energy policies, to address the shortcomings of energy markets and ensure that – in full compliance with treaties and Union law – our goals are met regarding decarbonisation and diversification of our energy mix.

The cost of fossil energies should be proportionate to their true environmental impact in order to avoid burdening energy transition policies with any unnecessary risks.

Recent events have in particular led to extremely low fossil fuel prices that do not reflect their true cost for climate. These market conditions place a heavy risk on our energy transition policies, insofar as:

- they cancel incentives carefully put in place over the past decade to decarbonize our economies,
- and bring uncertainties which are detrimental to investments in the Energy Transition.

French authorities consider that these market conditions make a clear case for mechanisms ensuring that these energies remain consistently above a certain floor price, from the consumer perspective, guaranteeing that the true environmental cost of those energies is fully taken into account in investment decisions. Reflexions must also be initiated to reinforce political acceptability and social justice of such measures.

A reflexion must be initiated to identify the most relevant methods to ensure that environmental costs of fossil fuels are duly taken into account, beyond their sole market price, through a carbon price floor,

- either within the framework of the energy taxation directive
- or within the framework of an EU-ETS reinforcement
- or through a combination of these policies

Reinforcing the market stability reserve of the EU-ETS mechanism to provide visibility on carbon prices: such visibility is a necessity for the Energy Transition...

In addition to the fall of fossil fuel prices, the recent months have seen a decrease in emissions of the ETS, leading to a fall of the price of CO₂ on the ETS and the perspective of an important surplus of

quotas in the coming years, which will not deliver a clear signal for decarbonisation of our energy system and also for industry, hindering modernisation and decarbonisation investments.

In that regard, French authorities consider that a reinforcement of the EU ETS Market Stability Reserve must be implemented without delay to address the risk of resurgence of structural surplus.

In this context there is an urgent need to build consensus on the order of magnitude of the additional surplus of allowances generated by the crisis and to consider additional measures such as MSR rules, to deal with this surplus with the aim of not falling behind the EU's climate trajectory... **and strengthening the EU-ETS system, including the implementation of a border carbon adjustment mechanism.**

As indicated previously, initiatives must also be taken to set up, in a coordinated way, a price floor for carbon emissions, ensuring that appropriate visibility is brought to this price signal, securing in the medium-long term the investments necessary for our transition in the objective of carbon neutrality by 2050.

The current situation also calls for a rapid establishment of the carbon border adjustment mechanism, to prevent more effectively any carbon leakage arising from European economic stimulus policies, as proposed in the *Green Deal*.

While Member-States should remain mindful of the social and economical impact of climate action, French authorities believe that a more ambitious approach, including price floor measures, is necessary to meet our commitments and can be designed in a socially inclusive way, through redistributive mechanisms, and by reinvesting all the proceeds in the Energy Transition.

Improving our security of energy supply by securing the financing of decarbonized electricity production assets, to make up for market deficiencies

These solutions, albeit of their utmost importance, will not suffice to ensure the success of a *green stimulus*. The current market conditions have led to low electricity prices, jeopardizing appropriate financing of our decarbonized production installations and the coverage of their long-term fixed costs.

French authorities consider that the current energy markets framework cannot solely provide incentives for the necessary investments nor appropriate compensation for the production tools required to achieve the Energy Transition: electricity prices will remain determined by fossil-fired marginal plants, and do not reflect the real costs of our energy systems, in particular for decarbonized assets. This situation poses a double difficulty of long term sustainability, both for consumers, that do not benefit from the stability of prices that the cost structure of the installations they finance – or have financed – enables, and in terms of safety for producers, that do not always receive a fair compensation, proportionate to their contribution to our decarbonization.

A collective reflection should be initiated at the European level to give Member-States a more consistent framework to secure the financing of decarbonized electricity production tools, insofar as they contribute to the collective success of our climate commitments through a European industrial policy.

French authorities consider that the current crisis shows the relevance of a transition towards a more resilient electricity production system. This should be achieved by developing both a diversified decarbonized electricity mix, in which renewable energy sources, which demonstrate their relevance

through the crisis, play an increasing role along with other decarbonized sources, and a strong supply chain of critical components in Europe.

This clear goal, in line with the target for climate neutrality by 2050, as well as a strong policy framework which does not exclude low carbon technologies, will secure a stable, forward-looking investment environment for businesses, essential for green growth and job creation in the post-Covid19 European Green Deal.

The future guidelines for energy and environment should be in line with these objectives, in order to give the Member-States the tools to pilot effectively their decarbonized electricity mix. In particular, the possibility to perform tenders by technology, allowing the development of resilient, diversified energy mixes, and to include criteria regarding the local content of projects should be secured.

Finally, the French authorities are attentive to energy efficiency actions which play a major role in achieving climate objectives, and support in particular the wave of renovation of buildings mentioned in the European Green Deal.