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How to build long term vision in the short term policy decisions

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From Karsten Neuhoff

- Demand driven by speculative banking
- Dynamics not sufficient to mitigate impact of over supply
- Intervention needed

But analysis also confirms

- No element in policy to guarantee that prices should reach higher levels by 2020 or after
- If so, investors would come with lower discount rate
- Over supply (speculative banking) + lack of perspective (reinforcing wariness)

SHORT TERM AND LONGER TERM MARKET FUNCTIONS

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ST Expectations

- Fuel Switch : dark spread higher than spark spread?
- By 2020 : carbon price should cover most of premium for mature renewables

On the longer term

- Strategic investment : low discount rate on future turnover but resilience issue (fuel and C prices)
- The instrument should build confidence on prices evolution
- Time to provide political guidance on post 2020
- Influence “intangible” assets (strategic plans, R&D etc) : legacy of current policy goes further than just C emissions in 2020

Energy Roadmap

IDDRI Open discussion on pathways, clear C objectives

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	Div Supply	Energy Efficiency
Demand	3758	-10%
Nuclear	793	-24%
Renewables	1552	-5%
CO2	598	+1%

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Energy Roadmap

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	Renewables	Delayed CCS
Demand	3666	+3%
Nuclear	578	+39%
Renewables	1838	-18%
CO2	598	+4% %

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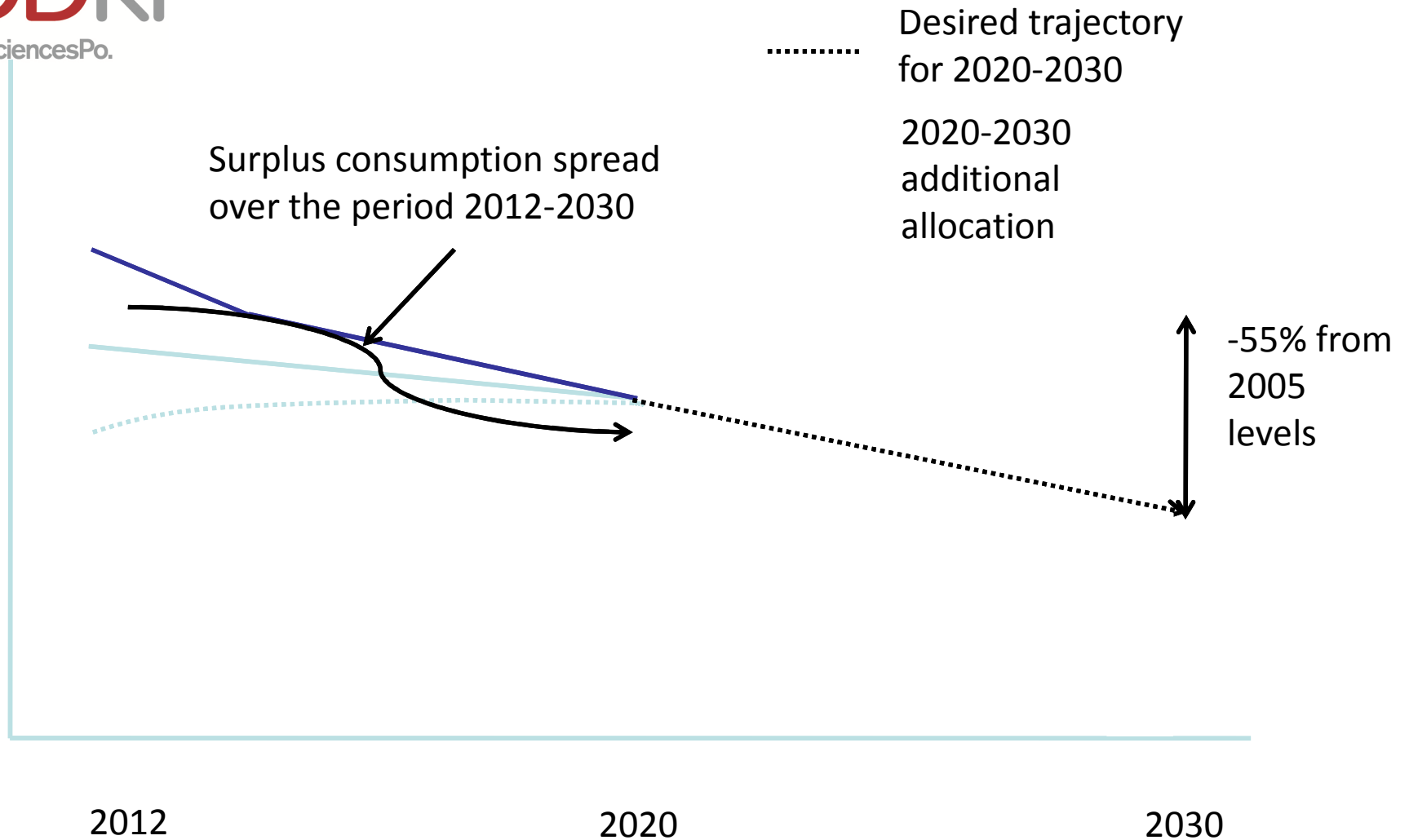
Open a discussion requiring legislation on period III would

- **Lose time** and jeopardize capacity to deliver legislation on post 2020 on time
- Embark on **meaningless discussions** in the absence of context
- **Weaken the credibility** of the C regulation and negotiation capacity

By contrast we must

- **Immediately launch discussion on future 2030 cap** and possible adjustments in design
- Make a **rapid but technical decision** in parallel on set aside

Given the situation currently, what is the desirable level and timing of allocation across the whole period 2012-2030?



Energy Efficiency into question

Clear from roadmap scenarios that

- Decarbonization imposes a larger use of electricity in final demand
- But also dramatic progress on energy efficiency

- Electric vehicles and effective heat pumps will not play a massive role before at least 10 to 15 years
- But need to prepare the ground by EE measures in transport (mobility) and building (stock improvement)
- On the short term, not much impact on electricity demand, but in line with EU objectives on Energy Security and Resource Efficiency

Divergence between actual discount rates of market players and “social discount rate” for Carbon

- Investment that would not deliver much C reduction in the short term (or at a higher price) would not be considered by economic agents but they make sense from a collective economic evaluation point of view (key to future low carbon options)
- Command and control or specific economic incentives needed to counter the myopic behaviour of the markets : not a contradiction, but a logical complement to a market based approach



Thanks for you attention!

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