

# Carbon pricing in Europe: where the UK and France leads, will Germany follow?

Blog post by Adviser Matthew Duhan, 19 May 2016

On Monday 9 May 2016 at 23:10 something remarkable happened. For the first time since 1882 coal made no contribution to UK electricity generation. At the same moment, Germany, Europe's leader in renewable energy and home to the Energiewende ('energy transition'), was generating three quarters of its electricity from a mixture of hard coal and even more polluting lignite (see figure).

Coal's retreat in the UK has a number of drivers, not least the falling price of gas, but the UK's carbon price floor has been important. While on 9 May the coal-fired power plants in Germany were paying the EU-ETS (Europe's carbon market) price of €5.89 for every tonne of CO<sub>2</sub> emitted, their British counterparts were paying £22.73/tCO<sub>2</sub> (€31.11); over five times as much.



Fig: Coal-fired power generation (MW)

The UK is not alone in supplementing the EU-ETS price. Sweden and Finland also have carbon taxes of different forms, and on Tuesday French Environment Minister Segolene Royal announced that from 2017 France will introduce a carbon price floor of around €30/tCO<sub>2</sub>. Together the four countries account for almost a third of the EU's GDP.

Why has France taken this step? And will Germany continue to resist? Following the success of COP21 in Paris there remains political momentum for more action in France, and big utilities such as EDF - whose generation fleet is dominated by low carbon nuclear - have voiced support for a higher carbon price. France is now hoping that its announcement will underpin a push for a wider European initiative to increase carbon prices by setting a 'price corridor' in the EU-ETS, including a floor and ceiling price for allowances. It is ambition that has found an echo - however faint - in a leaked draft of Germany's 2050 Climate Action plan due this summer that recommends a European carbon price floor "should be considered".

The French announcement will add to the pressure on the Germans to act, however the domestic German politics of carbon pricing and the related issue of the country's continuing reliance on coal are difficult, especially for the SPD wing of Chancellor Merkel's coalition government. Facing already poor opinion poll numbers, SPD leader and Economy and Energy Minister Sigmar Gabriel may lack the appetite for bold action before Germany goes to the polls in 2017. But with Germany struggling to meet its own carbon emissions reduction target for 2020, a lack of action of carbon pricing and coal is leaving the Energiewende looking flawed and Germany looking like a laggard.