

Do European climate and energy policies risk to postpone the energy transition?

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Abstract

In most European countries, electricity prices are currently too low to trigger new investments in efficient generation and network assets. These investments are essential to prepare the energy transition. The economic crisis resulted in a significant conventional overcapacity on European electricity markets while the low CO₂ emission price provides no incentive for ambitious mitigation investments. The current stalemate risks to become structural. European climate policies combine technology-neutral instruments like ETS with supplementary technology-imposing targets such as the RES and energy efficiency targets by 2020. The rigid supplementary measures to flank carbon pricing did contribute over generation overcapacity and low CO₂ prices. Because of banking between ETS Phases, the introduction of an ambitious Phase IV cap can influence market behavior and the CO₂ price between 2015 and 2020.

The main risk for the energy transition relates to a possible crowding out of energy transition investments by energy system expansion investments at the end of each recession. To minimize this risk, policy frameworks have to ensure the continuous funding of high energy R&D expenditures. Future recessions will always impact the CO₂ price in ETS. Allocating carbon taxation revenues to energy R&D budgets offers the advantage of a more predictable flow of revenues. As the energy transition will be delayed by 'stop- and- go' investment dynamics, policy designs should try to maximize predictability and stability. A radical reform of the European policy framework is therefore essential.