

## "Rising carbon price mothballs coal-fired power stations"

*"The carbon price is on the rise, and that will be no different in 2019. This is will influence the way we generate energy."*

### Carbon price has trebled in 2018

2018 was the year of tradable emission rights, also referred to as the 'carbon price', which almost trebled. At the beginning of the year, factories could buy carbon-emission rights on the market for just 7.50 euro per 1.000 metric ton. The price currently stands at about 20,50 euro.

### 40-27-27

Europe has introduced a number of measures in recent decades to curtail the greenhouse effect. It aims, for instance, to achieve the 40-27-27 target by 2030. In other words, Europe wants to:

- reduce carbon emissions by 40%
- generate 27% of its energy renewably
- reduce energy consumption by 27% through more efficient use (e.g. better fridges and LED lights)



### Tradable emission rights

Carbon price evolution



To achieve this objective, the EU introduced tradable emission rights in 2005. The system initially proved effective, but then began to develop holes due to the financial crisis. Industrial activity suffered a downturn, which meant demand for electricity also declined. Meanwhile the European Union continued to pump the same number of emission rights into the market, creating a growing oversupply. As a result, the carbon price gradually fell.

The European bodies met last year to reform the mechanism. Every year, the number of rights issued will be reduced and a proportion of the existing rights will be cancelled. Even though it will take several years for the oversupply to be wiped out, no one in the market is willing to sell emission rights 'cheaply', because of the substantial profits to be made by holding on for a few years.



## Higher gas prices make electricity more expensive

Despite the sharp rise in the carbon price, dirtier energy generators (those using coal) have yet to be obliged to shut down their power stations or convert them to gas. We can see this when we look at the components of the electricity price. The price of electricity in Germany continues to be determined by gas-fired power stations.

### Evolution of electricity prices

(in Belgium, € per Mw/h)



Higher carbon prices increased European demand for gas by stimulating gas-fired generation for the most efficient power plants. This resulted in turn in higher gas prices, pushing up the price of electricity by 40%.

2019 will be an interesting year. The reformed mechanism will come into effect, which will boost the carbon price further. We think that tradable emission rights will play an important role in how electricity is generated. This is because coal is expected to become too expensive, which will oblige energy producers to convert coal-fired power stations to run on gas.

Not only the utilities sector is affected, but a lot of other sectors are also exposed to the carbon price:

- **Energy-intensive industrial sectors**
  - Oil refineries
  - Steelworks
  - Production of iron, aluminium, metals, cement, lime, glass, ceramics, pulp, paper, cardboard
  - ....
  - Organic bulk chemicals
- **Commercial aviation**

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