

# CHART OF THE WEEK

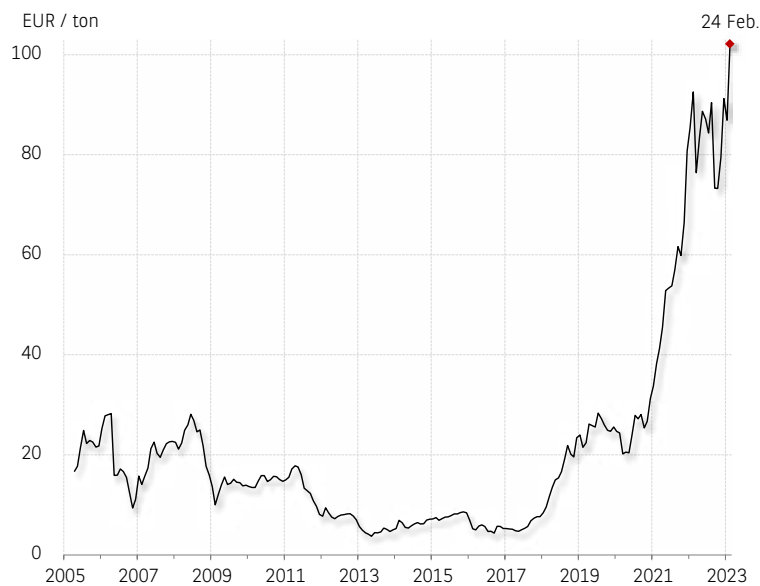


1st March 2023

## EUROPEAN CARBON PRICE AT AN ALL-TIME HIGH

Jean-Luc Proutat

### Carbon price in the European Union



Source: Refinitiv, ICE Exend, BNP Paribas

Polluting has never been so expensive. Since mid-February 2023, CO<sub>2</sub> permits have been trading at more than €100 per ton in the European Union for the first time since the European Union Emissions Trading System (EU ETS) was created in 2005.

Of course, current pressure in this market is partly down to the exceptional events of recent years. The post-Covid economic rebound has pushed up GHG (Greenhouse Gas Emissions) emissions and increased demand for allowances. The war in Ukraine increased further the pressure, driving gas prices to all-time highs and forcing trade-offs in favour of coal.

But that is not the whole story. In recent years, reform of the EU ETS has been accompanied by a rising EU carbon price. This is down to the introduction of a market stability reserve in 2019, allowing surplus quotas to be "stored" instead of reallocated in the market. The price signal became even stronger in 2021 when the EU ETS entered "phase IV". This brings with it tougher targets – with the aim of reducing the cap on emissions by 62% in 2030 relative to 2005 – and will phase out the free allocation of allowances, replacing it by 2034 with a Carbon Border Adjustment Mechanism.

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