

# **Financial regulation of Carbon Markets**

## **1st meeting of the Energy Derivatives Coordination Group**

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# Introduction to carbon pricing

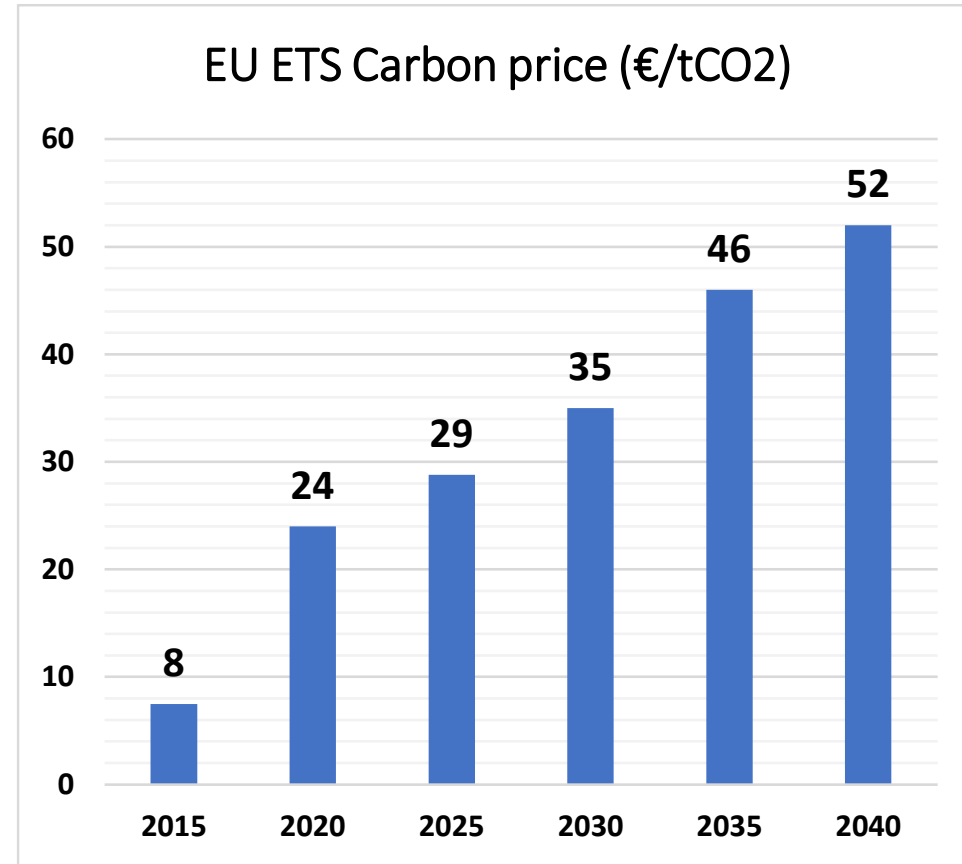
Carbon pricing is an instrument that captures the external costs of greenhouse gas (GHG) emissions

It puts an explicit price on GHG emissions, i.e. a price expressed as money per ton of carbon dioxide equivalent (€/tCO<sub>2</sub>).

Emitters restructure operation and investment as a response to the price signal

The economic impacts depend on marginal abatement costs – i.e. the price-elasticity of the emitter – *consumers are better-off when abatement is low-cost*

*Short-term responsiveness is generally lower than long-term, as investment takes time to implement*



Source: E3 Modelling






## Carbon pricing for the Contracting Parties





“No single energy market without single carbon price in the long run.” *Janez Kopač*

A carbon pricing  
design for the  
Energy Community

- Energy Community commitments to reduce greenhouse gas emissions;
- **Regulatory gap:** electricity prices in the EU markets account for externalities via the EU ETS, especially with **increasing electricity trade** between the Energy Community and EU member states;
- **Carbon Border Adjustment Mechanism**

# State of play in the Energy Community

EnC CP	Type	Status	Comments
 Albania	Carbon Tax	established since 2008	n/a
	ETS	under consideration	Intention to use international carbon pricing (NDC)
 Bosnia and Herzegovina	Carbon Tax	not implemented	n/a
	ETS	under consideration	Intention to use international carbon pricing (NDC)
 Georgia	Carbon Tax	not implemented	n/a
	ETS	not implemented	n/a
 Kosovo*	Carbon Tax	not implemented	n/a
	ETS	not implemented	n/a
 North Macedonia	Carbon Tax	not implemented	n/a
	ETS	under consideration	Intention to use international carbon pricing (NDC)

EnC CP	Type	Status	Comments
 Moldova	Carbon Tax	not implemented	n/a
	ETS	under consideration	Intention to use bilateral, regional and international carbon pricing (NDC)
 Montenegro	Carbon Tax	not implemented	n/a
	ETS	under development	The "Law on Protection from the Negative Impacts of Climate Change" of 2019 and the new regulation on activities emitting GHG of 22.02.2020 <sup>6</sup> define the basic elements for the implementation of the national ETS according to EU-ETS standards
 Serbia	Carbon Tax	not implemented	n/a
	ETS	under development	Serbia is expected to adopt legislative framework transposing elements of EU-ETS system in the foreseeable future
 Ukraine	Carbon Tax	established since 2011	n/a
	ETS	under development	<ul style="list-style-type: none"> <li>• ETS in line with its obligations under the Ukraine-EU Association Agreement</li> <li>• Currently, development of the main elements of the national MRV system according to EU-ETS standards</li> </ul>

- Emissions allowances for **compliance purposes** vs allowances for **trading purposes**

## *Primary market:*

- *New emissions allowances for member states - first events at which allowances are traded for a price / auctioned.*

## *Secondary market:*

- *trading directly with other companies covered by the system*
- *buying or selling from intermediaries, e.g. banks and specialist traders*
- *using the services of a broker*
- *joining an exchange that list carbon allowance products*

## The role of market oversight: lessons from the EU ETS

- Importance of good market function *e.g. fraud prevention*
- **Emission allowances classified as financial instruments** under MiFID 2 (2018):
  - ✓ Increasing **transparency** and simpler access to information
  - ✓ **Investor protection**
  - ✓ **Integrity standards**: avoiding manipulation
- Amendment to the VAT Directive: reverse charge mechanism derogation.



# Link with Financial regulation - EU ETS legislation

Area of EU Law	Directives/Regulations
<b>EU ETS legislation</b>	<ul style="list-style-type: none"> <li>• Directive 2003/87/EC (ETS Directive 2003/87/EC) <b>NB:</b> MRVA requirements of the EU ETS are harmonized with the MRR (Monitoring and Reporting Regulation) and the AVR (Accreditation and Verification Regulation)</li> <li>• Commission Regulation (EU) 389/2013 (Registry Regulation 389/2013)</li> <li>• Commission Regulation (EU) 1031/2010 (Auctioning Regulation 1031/2010)</li> </ul>
<b>Financial Law</b>	<ul style="list-style-type: none"> <li>• Directive 2014/65/EU on markets in the financial instruments (MiFID II)</li> <li>• Regulation (EU) 2015/848 of 20 May 2015 on insolvency proceedings (Regulation 2015/848)</li> <li>• Directive 2002/47/EC on financial collateral arrangements (Financial Collateral Directive 2002/47/EC, FCD)</li> <li>• Directive 98/26/EC on settlement finality in payment and securities settlement systems (Settlement Finality Directive 98/26/EC, SFD)</li> </ul>
<b>Tax Law</b>	<ul style="list-style-type: none"> <li>• Directive 2010/23/EU amending Directive 2006/112/EC (VAT Directive 2006/112/EC)</li> <li>• Council Directive (EU) 2018/1695 of 6 November 2018 amending Directive 2006/112/EC on the common system of value added tax as regards the period of application of the optional reverse-charge mechanism in relation to supplies of certain goods and services susceptible to fraud and of the Quick Reaction Mechanism against VAT fraud</li> </ul>

Source: EU ETS allowances legal framework



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**FOR YOUR ATTENTION**

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