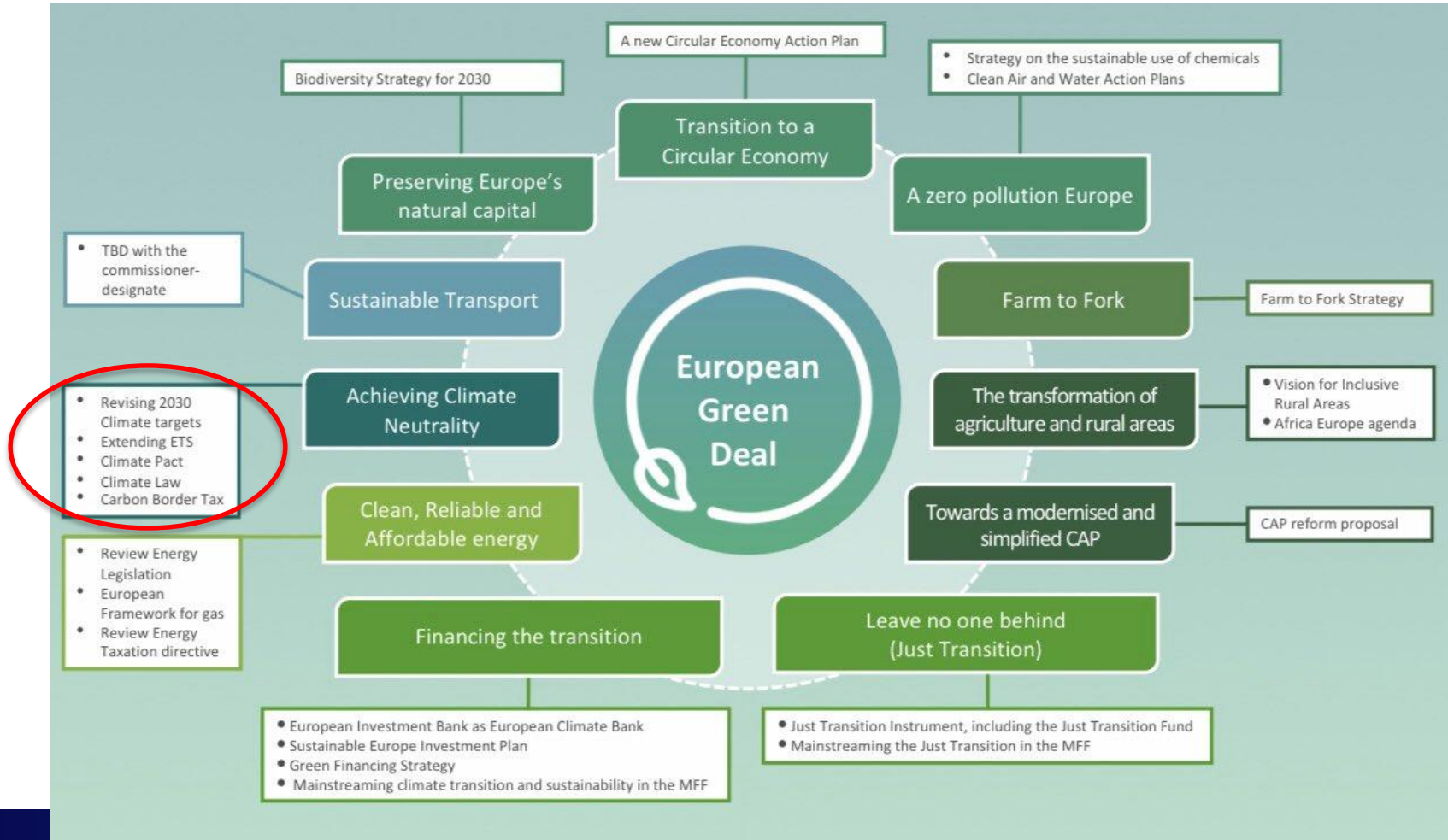


# **Energy Community towards green agenda: Carbon pricing as a stepping stone**

**9<sup>th</sup> Renewable Energy Coordination Group meeting**

**28 April 2020**

# The European Green Deal



## Emission trading



- Emission Trading System – “cap-and-trade” system;
- Carbon tax (direct carbon price, no pre-defined level of emission reduction);
- Fuel tax;
- Removing fossil fuel subsidies;
- Other regulations incorporating the social costs of carbon.



An ETS operates in the EU, Canada, China, Japan, New Zealand, South-Korea, Switzerland and the US

EU ETS covers cca. 45% of total EU emissions (11.000 installations) → cca. 20-25% auctioned

Transport, buildings, agriculture and waste are not in the ETS – but in the “Effort-Sharing Regulation”



**Florence  
Process**



## A snapshot of the EU ETS

### Phase IV. (2021 – 2030)

- Revised [EU ETS Directive](#);
- Monitoring, reporting and verification;
- Annual reduction of em. all. 2.2%\*;
- MSR will include a higher share of allowances; 1<sup>st</sup> review of MSR in 2021; from 2023 the amount of allowances in the reserve limited to the auction volume in prev. year;
- FREE ALLOCATION PROLONGED (1.) 100% for sectors @highest risk; (2.) for others phase-out from 2026 [30%] to 2030 [0%]; (3.) FA adjusted to actual production levels → 6 bln allowances to be freely allocated 2021-2030;
- Innovation Fund; + Modernisation Fund; + Phasing-out the use of international credits after 2020;



EUR 27 bln from auctions  
between 2012-2019  
→ In 2018 cca. EUR 15  
bln

2 auction platforms:



# Auctions

ICE FUTURES EUROPE

## EUA Futures

[Product Specs](#)
[Data](#)
[Expiry Details](#)
[Margin Rates](#)

[Options](#)

CONTRACT	LAST	TIME(GMT)	% CHANGE	VOLUME
 JUN20	21.090	4/20/2020 11:40 AM	-2.608	45

[INTRADAY](#)
[3 MONTHS](#)
[1 YEAR](#)
[2 YEARS](#)

LAST UPDATE TIME: 04-20-2020 12:00 PM GMT



## Linking the Swiss and EU ETSs

- EU-CH Agreement (signed in 2017, entry into force Jan 2020) - Negotiations between 2011 – 2016;
- Linking but NOT merging:
  - ✓ CH ETS remains with its own autonomous legal base (no EU law adopted);
  - ✓ Mutual recognition of emission allowances – polluters can use allowances from both systems;
  - ✓ Participation in auctions in both systems (account and registration still needed);
  - ✓ Compatibility, equal treatment and system security – “essential criteria” in the Annex of the Agreement → continuous update/amendment as the legislation evolves;
  - ✓ Aviation and TPPs now integrated in the CH ETS;
  - ✓ Trading spot emission allowances: in the EU = financial instruments (MiFID II) | in CH  $\neq$  fin. ins.

| pos. limit + OTC only

### EU ETS

- 11.000 installations
- ~ 2 bnt CO<sub>2</sub>eq
- 500 aircraft ops. 65 mnt CO<sub>2</sub>

### CH ETS

- 50 installations
- ~ 5,5 mnt CO<sub>2</sub>eq



## Linking the Swiss and EU ETSs

- Allowances can be held in and transferred between the EU and Swiss emission trading registries only at certain times at the beginning;
  - provisional solution to link the two registries from May 2020;
- Changes in Swiss legislation:
  - ✓ CO<sub>2</sub> Act and CO<sub>2</sub> Ordinance;
  - ✓ MSR is introduced in CH from 1 Jan 2020;
- The management and compatibility of the LA (including interpretation and dispute settlement) is ensured by a Joint Committee;
- Negotiations with third parties must be notified (e.g. EU to notify CH about negotiations with EnC);
- Conditions:
  - ✓ The system in the partner country is (1) compatible, (2) mandatory and (3) has an absolute emissions cap;
  - ✓ Agreement on “essential criteria” (ambition and stringency of the cap, equal treatment in free allocation and the use of international credits);
  - ✓ For fossil-thermal power plants, the existing compensation obligation are discontinued.

- **Objective:** to put the Energy Community on the track of decarbonization and to prevent the widening of the legal gap between EU MSs and CPs;
- **Principles:**
  - ✓ Taking into account CPs current situation;
  - ✓ Building on existing initiatives (Montenegro and Ukraine);
  - ✓ Establishing national measures first and then moving towards an EnC-wide regime;
  - ✓ Putting in place national allocation and then moving towards auctions;
  - ✓ Proposing a realistic scope of measures.
- **State of play:**
  - ✓ Recommendation R/2016/02/MC-EnC on preparing for the implementation of Regulation (EU) No. 525/2013 on a mechanism for monitoring and reporting GHG;
  - ✓ Initial stage of proposals (no formal procedure yet).



# Emission trading in the Energy Community

Adoption of ETS related acquis in the EnCTy

Transposition in CPs

- Ntl. CAs;
- Rules & regime for reporting, monitoring & verification of emissions;
- Plan and national allocation of allowances;
- Pricing on ntl. basis;
- EnC registry of allowances.

- Introduction of national auctions for allowances;
- Narrowing the scope of entitlements for free allocation.

- Expanding the scope of activities subject to auctioning of allowances;
- Linking the auctions among CPs – harmonized/central auctioning.

- Linking/merging with the EU ETS.

- Harmonized rules for emission trading both in the EU and in the EnCTy;
- Linked/merged auctions → converging carbon price.

2020 - 2023

2023 - 2027

2027 - 2030

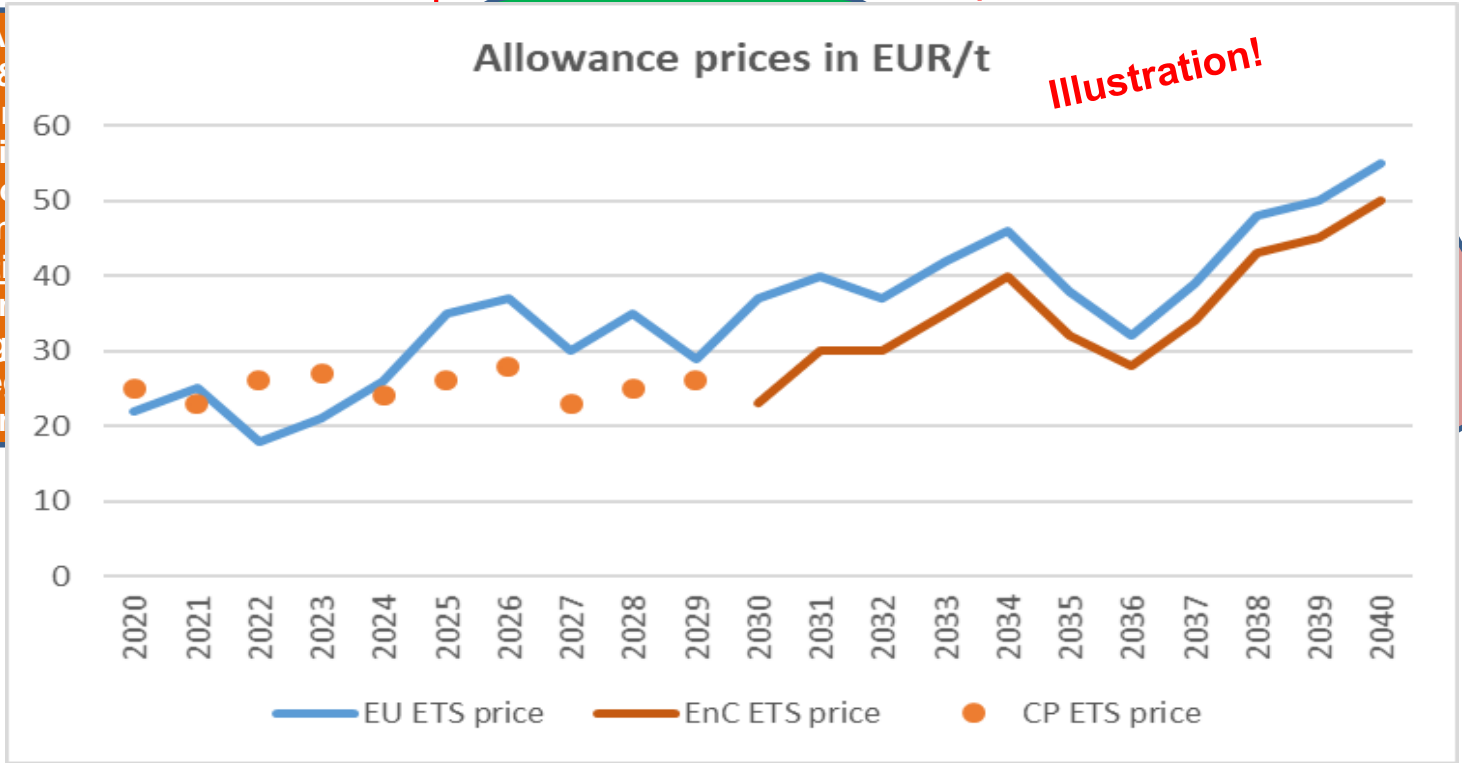
2030 -

# Emission trading in the Energy Community

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- Pricing
- EnC re allowa



2020 - 2023

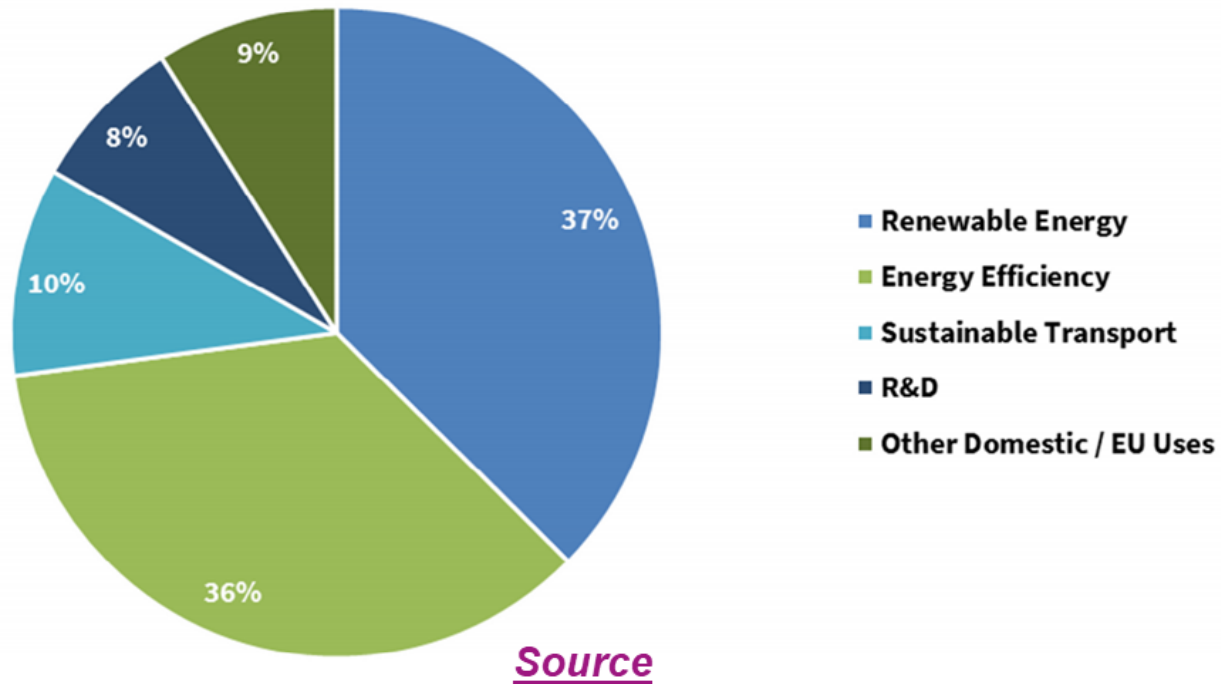
2023 - 2027

2027 - 2030

2030 -

## Emission trading in the Energy Community – possible use of revenues

Figure 6: EU member states' domestic use of auctioning revenue 2013-2017



- **Legal acts proposed for adaptation and adoption:**

- ✓ ETS Directive – Directive 2003/87/EC\*;
- ✓ MMR Regulation - Regulation (EU) No 525/2013;
- ✓ MRV Regulation – Commission Implementing Regulation (EU) 2018/2066;
- ✓ Verification and accreditation of verifiers – Commission Implementing Regulation (EU) 2018/2067.

## **Proposals for adaptation – ETS Directive (1/2):**

- **Scope** – same as Dir. 2003/87/EC **except**. aviation to be included only in reporting and verification;
- **Gases** – all what is in Dir. 2003/87/EC;
- **Allowances**: application, surrender, free allocation, auctioning, transfer and cancellation;
- **Auctions**: for allowances, which are not allocated freely, use of auction revenues for decarbonization activities, auction rules based on the adoption of EU rules (Auction Regulation) at a later stage;
- **Delegated Acts** – to be implemented via a procedure in Art. 79 of the EnC Treaty;
- **Power plants are entitled for free allowances;**

## **Proposals for adaptation – ETS Directive (2/2):**

- **Reporting and publication** obligations generally the same as in Dir. 2003/87/EC;
- **Penalties** defined on national level for non-compliance;
- Set-up of national **Competent Authorities** and a **Central Administrator**;
- Establishment of an **Energy Community Registry of Allowances**;
- Review of the Directive linked to the developments in the follow-up of the **Paris Agreement** BUT: no provisions linked to international agreements on climate change.



## Proposals for adaptation – ETS Directive – **excluded provisions:**

- All provisions in **aviation** except for reporting and monitoring;
- All provisions on the **adjustment** of allowances;
- All provisions in auctioning related to **solidarity**;
- All provisions related to **CCS, carbon leakage** and the exclusion of **small installations**;
- All provisions related to **modernization, the Modernization Fund and Innovation Fund**;
- Certain provisions related to **benchmarking** in free allocations;
- All provisions related **CERs, EURs, project activities** and support for **capacity building** in developing countries.
- All provisions related to **committee procedure, delegation**;
- Certain provisions on **unilateral inclusion** of additional activities and gases;
- All provisions related to **harmonized rules for projects** that reduce emissions, **links with other GHG ETSs**;
- All provisions related to the amendment of **Dir. 96/61/EC** (precursor of the ETS Directive);
- All provisions on the adjustments applicable for an **international agreement** on climate change;
- Report on the better functioning of the carbon market;
- All provisions on measures for **excessive price fluctuations**.



# THANK YOU FOR YOUR ATTENTION

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