

The background of the slide is a dark blue globe with glowing blue energy lines and arcs overlaid on it, suggesting a global energy network.

Energy Community Technical Working Group meeting on carbon pricing

3 April 2023, Vienna

Policy context and objectives

Adam Cwetsch, Head of European Green Deal Unit,
Energy Community Secretariat

Carbon pricing – a central element of several areas

Energy Community Decarbonisation Roadmap

Aims:

Support a path towards 2030 energy and climate targets and mid-century climate neutrality for the EnC;

Making progress on agreeing to a carbon pricing system for CPs;

Sofia & Berlin Declarations

Continue alignment with the EU Emissions Trading Scheme, as well as work towards introducing other carbon pricing instruments to promote decarbonisation in the region;

We ask the EnC [...] to conceptualize and propose regionally coordinated approaches to [...] carbon pricing schemes with the ultimate objective to join the European ETS and to avoid the application of the planned CBAM;

CBAM

Aim: The implementation of an emissions trading system for electricity, with a price equivalent to the EU ETS, shall be finalised by 1 January 2030

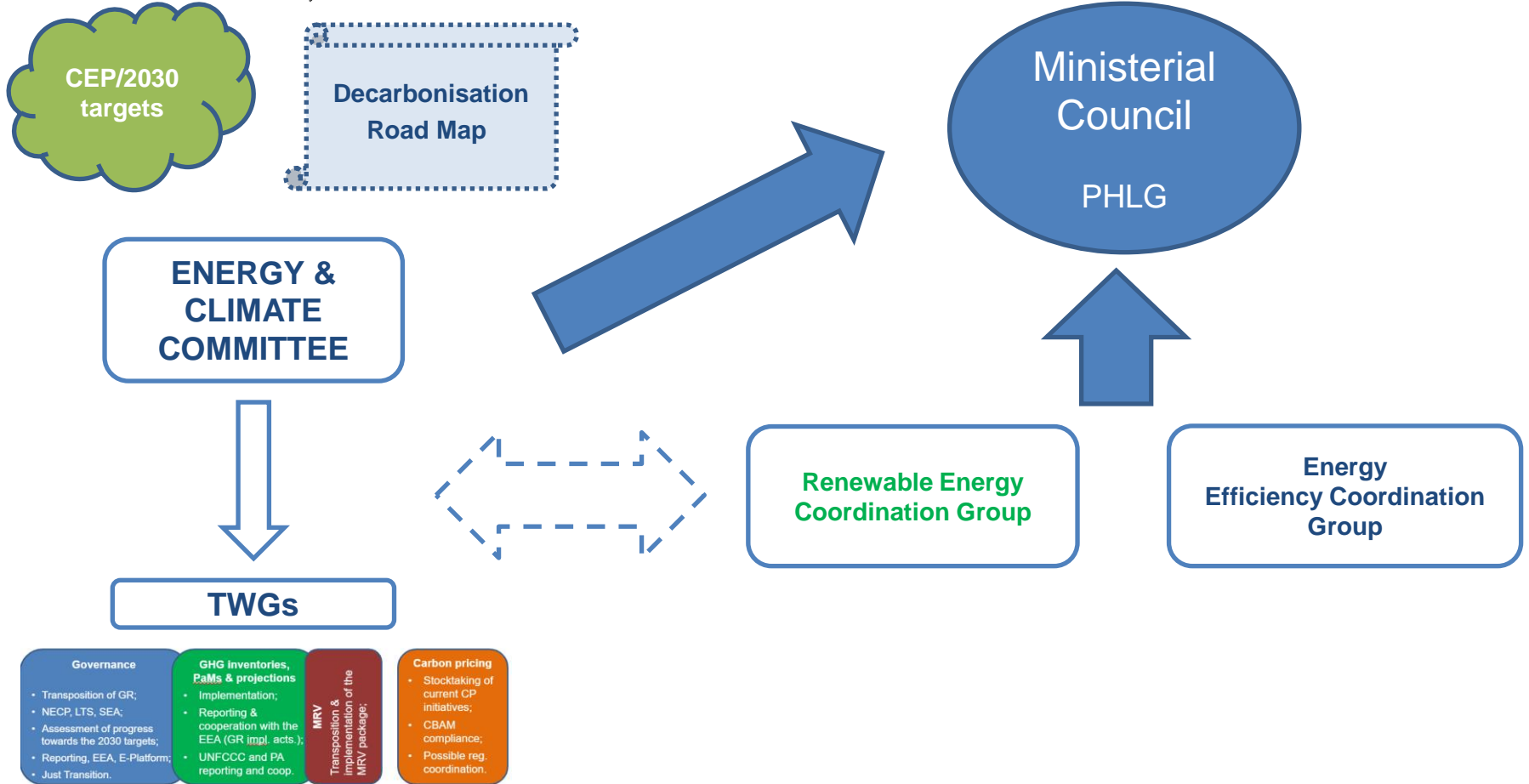
EU integration

Aim: to align domestic legislation with the EU acquis in all areas including energy and climate

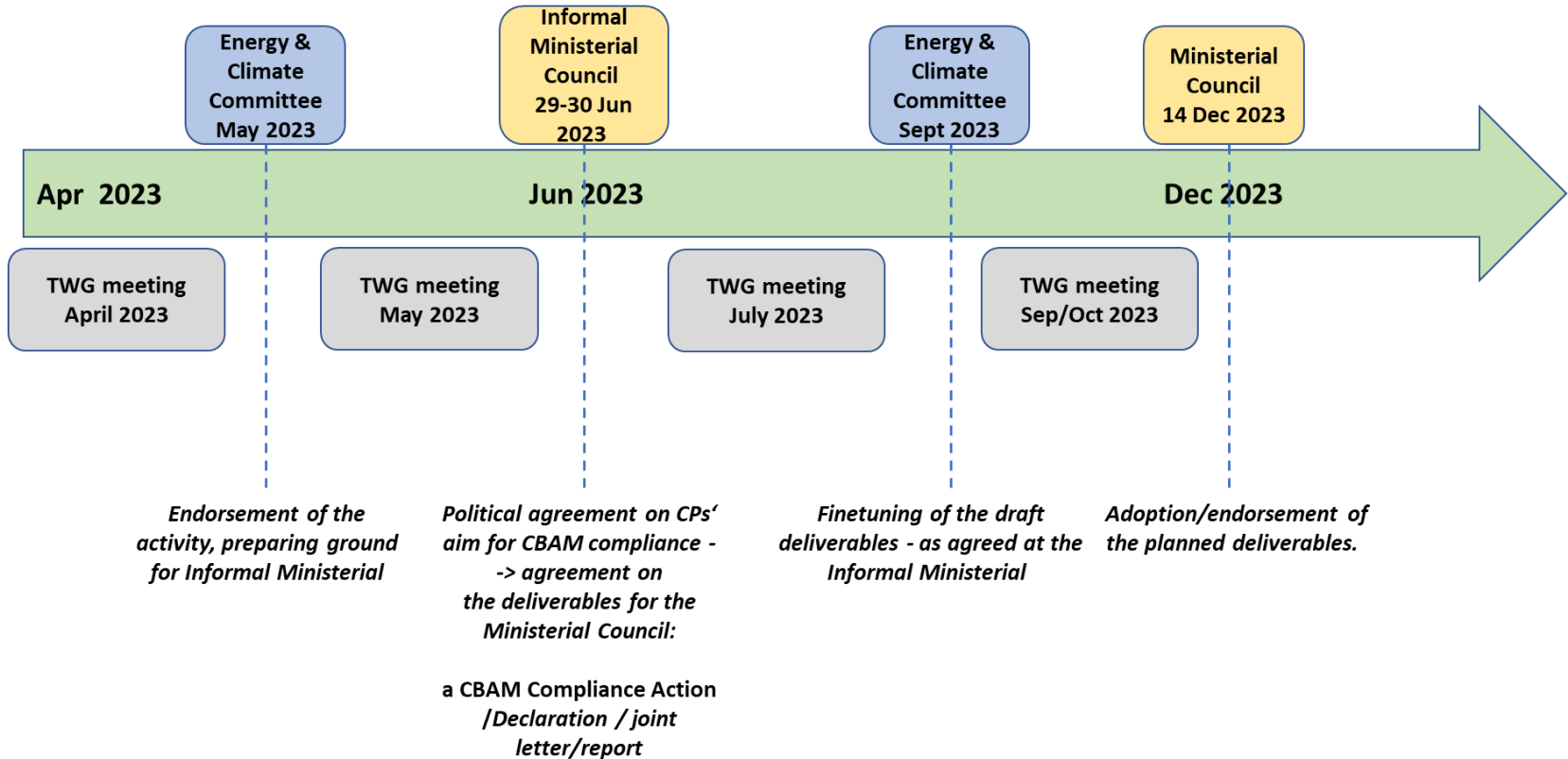
Tasks and guidance from the Ministerial Council

23. In this spirit and to further implement the Decarbonisation Roadmap, the Ministerial Council invites its Energy and Climate Committee to establish a dedicated working group on the conceptualization of a carbon pricing system, and to develop proposals for discussion at the next Ministerial Council meeting. Besides provisional and conditional suspension of the European Union's carbon border adjustment (CBAM) in case of electricity market coupling, as foreseen in the draft CBAM Regulation, an effective carbon pricing system may allow, under strict conditions, to deduct such a carbon price from the carbon border adjustment, as provisionally agreed by the EU co-legislators.

Organisation of work



Proposed process and outcome

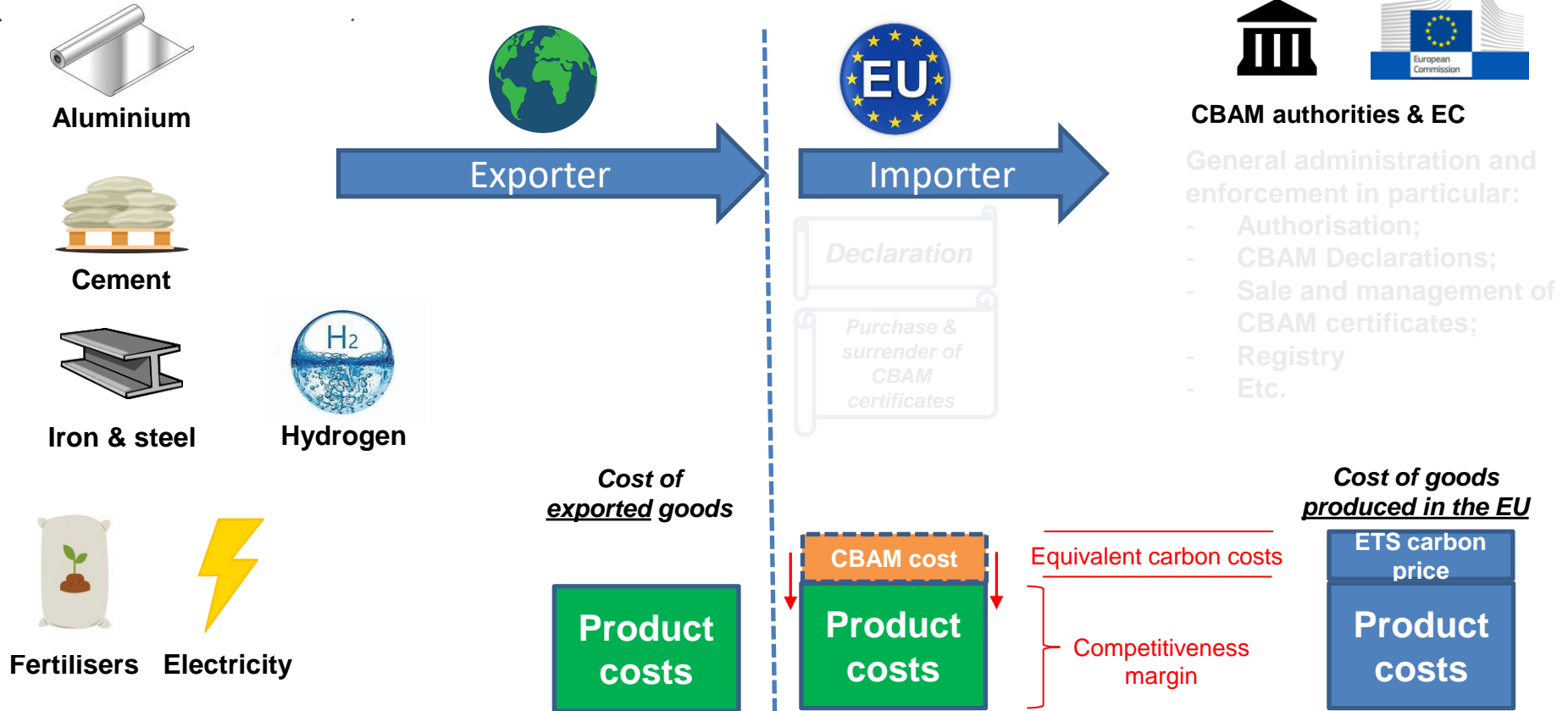


CBAM Regulation as a driver for carbon pricing in Energy Community – how to ensure compliance?

Peter Pozsgai, Governance Expert,
Energy Community Secretariat

- 1. Information based on the political agreement reached in Dec 2022 – adoption by the European Parliament and Council still in progress;**
- 2. CBAM is a tool to ensure equal treatment for EU-based and non-EU-based producers of certain goods;**
- 3. CBAM Regulation applicable from October 2023:**
 - first reporting obligation by EU importers in Jan 2024;**
 - first payment obligation from Jan 2026;**

CBAM functioning



Likely scenarios for non-EU exporters

Reporting and administrative obligations

Payment – purchase and surrender of CBAM certificates

No carbon price and no compliance with Art. 2.

Complete reporting and administrative obligations

Complete payment obligation

Carbon price exists, but no compliance with Art. 2.

Complete reporting and administrative obligations

Payment obligation for the embedded emissions share not covered by carbon price in the third country

→ **Part of carbon price revenues stay with the third country**

Full compliance with Art. 2 (ETS + additional requirements)

No reporting or administrative obligations

No payment obligation

→ **Total carbon price revenue stays with the third country**

Conditions for CBAM exemption related to carbon pricing

Pre-conditions:

1. Electricity **market coupling** with the EU;
2. No technical solution for the application of CBAM on electricity imports into the EU;

Conditions (from early 2025 – 2030):

1. Submit a roadmap to the EC with a timetable for measures;
2. Demonstrate the fulfillment of the deadlines in the roadmap;
3. Substantial progress towards **carbon pricing for electricity** at an **equivalent level** as in the EU
(*European Commission assessment*)

Additional condition from 2030:

Implementation of an **ETS for electricity** with a **price equivalent to the EU ETS** – Jan 2030



Electricity

3rd country report on fulfilling the exemption conditions

2025

2026

3rd country report on fulfilling the exemption conditions

2027

2030

Transitional phase – monitoring and reporting obligation

*Full implementation with **full EU ETS price to be paid for EU electricity imports from third countries** (no free allowances in the EU ETS for electricity → no phase-out period)*

Conditions for CBAM derogation

Specific condition for derogation (regardless of carbon price):

1. Goods not exceeding the value of EUR 150;
2. Goods in the personal luggage of travellers coming from a third country that do not exceed EUR 150;
3. goods to be moved or used in the context of military activities

Transitional phase – monitoring and reporting obligation

Full implementation with gradual increase of the payment obligation reaching full price until 2034 (deadline for the phase-out of free allowances in the EU ETS)



Industrial products

2026

1. EU ETS applies to the 3rd country pursuant to Dir. 2003/87/EC or EU & ntl. ETS linking agreement;
2. Carbon price effectively charged on the embedded emissions of the products.

Theoretical pathway for a CBAM exemption in ele.

2023 Clarification of the exemption process & conditions + CPs plans on CBAM

2023-2024 Submission of an exemption request by CPs

2024-2025 EC assessment of the fulfilment of exemption conditions

2025 – EC decision on exemption

- CPs in order to be released from the reporting and payment obligation;
- done via an EC Delegated Act amending the CBAM Reg. Annex → entails internal EC procedure after the technical assessment by EC services;
- July 2025 3rd country progress report before or after the EC decision?

3rd country report on fulfilling the exemption conditions

3rd country report on fulfilling the exemption conditions

2023

2024

2025

2026

2027

2030

Transitional phase – monitoring and reporting obligation

Full implementation with full EU ETS price to be paid for EU electricity imports from third countries (no free allowances in the EU ETS for electricity → no phase-out period)



Electricity

What is likely to happen

From January 2024:

- **EU imports for both electricity and industrial goods from CPs will need to be reported** → within 1 month after each quarter, a “CBAM report” to be submitted to the EC;

From December 2024 (*tbc*):

- EU importers of CPs electricity and industrial goods **must register as a CBAM declarant** (or if the CP producers import to the EU directly, use of an indirect customs representative) → *n.b. different registration rules for explicit cap. all. and for market coupling*);

Possible follow-up actions

Contracting Parties

- Clear political expression whether they plan to seek a CBAM exemption;
- [If yes] examine the possibility for a coordinated/joint exemption request:
 - function of the EnC Decarbonisation Roadmap,
 - planned EnC work on ETS/carbon pricing,
 - compliance with the other conditions (e.g. LTS, 2050 climate neutrality);
- Continue pursuing electricity market coupling (*pre-condition for exemption*);
- Prepare relevant CP exporters for the reporting (and possibly the registration) obligation for CBAM – EnCS support;

European Commission

- Guidance on the exemption process and the fulfilment of the exemption conditions (e.g. definition of finalizing the implementation of an ETS, the “equivalent” level of carbon price to the EU ETS);
- Possibility / need to update the EnC Decarbonisation Roadmap;
- Clarification on the function and details of the 3rd country reports in 2025 and 2027;

A glowing blue globe with a network of bright blue lines connecting various points across the continents, symbolizing a global energy network.

Coffee break



THANK YOU
FOR YOUR ATTENTION

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