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Carbon pricing to support coal transition on the Western Balkan

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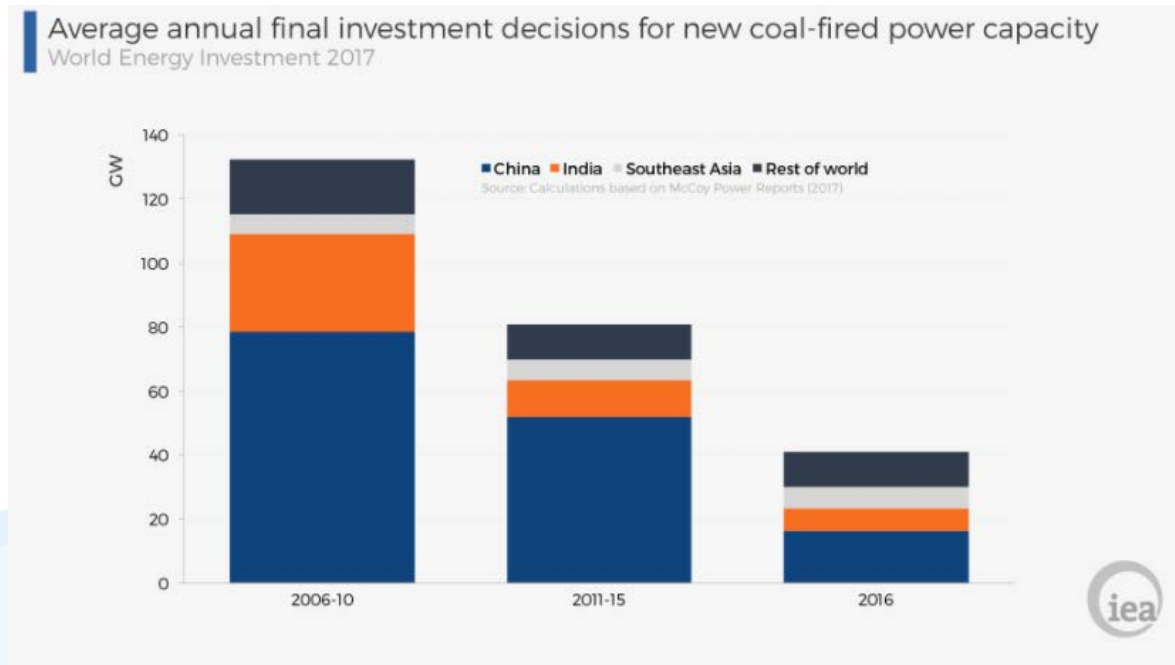


Key messages

- Continuous coal plant operation and investments are high risk to the Western Balkan
- Mitigation of risks by embarking on a lower-carbon future is needed but not easy
- Carbon pricing can be used to smoothen this transition
- The region yet has a low level of carbon pricing readiness
- Suggestions for a path to implementation

New era for power investments

- OECD/IEA reports sharp fall in coal-fired investments and predicts steeper reduction in coming years
- Environmental/social concerns >> Investment risk
- Decreasing costs of renewables >> Fossils loose margin
- Public and private investors rapidly pulling out



Increasing risks on Western Balkan

- High energy intensity >> costs of energy unnecessary high; lack of incentive to invest in energy saving and EE
- High health costs from air pollution
- High carbon risks
- High non-compliance risk with agreements under Energy Community Treaty & international climate agreements
- High risk of stranded assets
- Risks in security of supply
- Late coal transition has higher costs for society

This is a classical case of market failure

>> government intervention may be needed

How carbon pricing can help

- Help show societal costs of fossil-based energy and direct public finances in favour of cleaner alternatives
- Help market actors to base their decisions on longer-term optimal choices >> help society save costs in the longer term
- Step-wise introduction can lead to a more gradual shift in energy sector investments
- Recycling of carbon price revenues can support just transition, provide compensation for exposed sectors and vulnerable consumers, help shift investments and incentivise energy saving

Larger businesses (WBCSD) view carbon pricing as steering the economy towards the lowest-cost pathway for reducing emissions

- **“Action on climate in some form or other is an inconvenient but unavoidable inevitability”**
- **“Carbon pricing is the preferred instrument of choice”**

Current 'level of readiness' is low

	Albania	BIH	FYROM	Kosovo ¹	Montenegro	Serbia
Ratification Paris Agreement	⊕	⊕	⊕	■	⊕	⊕
GHG intensity	⊕	■	◇	■	◇	■
GHG emissions power sector	⊕	■	◇	■	◇	■
Outlook future GHG emissions power sector	⊕	■	◇	■	■	■
Identification ETS installations	■	■	⊕	■	◇	⊕
ETS MRV system	■	■	■	■	■	⊕
ETS readiness	■	■	■	■	■	◇
Carbon tax readiness	■	■	■	■	■	■



Compliant with regulation/relatively low emission level/high level of carbon pricing readiness



medium emission level/medium level of carbon pricing readiness



relatively high emission level/low level of carbon pricing readiness

A path to implementation (1)

1. Quantify the non-market based costs supporting fossil investments and abolish support
2. Quantify societal costs of coal use and communicate to stakeholders
3. Review planned power sector investments against new and upcoming regulations. Quantify the costs of potential stranded assets
4. Remove non-market based measures that hamper EE uptake and that would limit effectiveness of carbon pricing
5. Promote and incentivize EE & E-saving. Use savings from avoided subsidies and health costs to co-fund and to mitigate price increases
6. Announce future implementation of an ETS and start a step-wise implementation. Engage all stakeholders from the start
7. Introduce an incremental carbon tax system as intermediary policy. Set up a solid MRV system and ensure proper enforcement

A path to implementation (2)

6. Use tax revenues to:
 - compensate vulnerable consumers
 - set up revolving funds to pre-finance energy savings
 - and to help address the social & economic impacts of coal transition
7. Analyse further options for 'greening the tax system'

Decide on what ETS approach to follow

- Unilateral approach or multilateral approach? F.ex. leveraging on the Energy Community
- What timing?

Further key considerations

- Start with an ETS pilot phase:
 - focus on permitting and MRV
 - supported by the formulation of legislation and identification of targeted installations
 - allocation of allowances (largely) free of charge
 - no penalties yet
- Take account of future linking of ETS system
 - to enhance market liquidity
 - attractive given lower costs of mitigation on the WB
 - existing markets would want linking not to distort their market
 - conditions on mutual acceptance to be agreed upon
 - Decide on what form of linking (eg EFTA countries, Switzerland)

Thank you for your attention

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