ENERGY COMMUNITY WEBINAR SERIES
United in decarbonization? – an Emissions Trading Scheme for the Energy Community
4 June 2020
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In focus for this webinar

- Main features of an ETS and the EU practice;
- Examples for linking ETSs;
- A proposal for the Energy Community.
State of play in the Energy Community

[2016] Ministerial Council Recommendation on the adoption of the MMR Regulation
R/2016/02/MC-EnC on preparing for the implementation of Regulation (EU) No 525/2013 on a mechanism for monitoring and reporting greenhouse gas emissions

R/2018/1/MC-EnC on preparing for the development of integrated national energy and climate plans by the Contracting Parties of the Energy Community


2019 General Policy Guidelines on the 2030 Targets and Climate Neutrality for the Energy Community and its Contracting Parties
Carbon pricing instruments

- **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.
A snapshot of the EU ETS

Phases I. – III.


Phase IV. (2021 – 2030)

- Updated legal framework (ETS Directive, MRV and MMR Regulations);
- Annual reduction of allowances by 2.2%*;
- MSR will include a higher share of allowances; 1st 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;
- 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:
# EUA Futures

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![Graph showing EUA Futures price movements from July 2018 to April 2020](image)

LAST UPDATE TIME: 06-03-2020 8:28 AM GMT
Emission trading in the Energy Community – possible use of revenues

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

- Renewable Energy: 37%
- Energy Efficiency: 36%
- Sustainable Transport: 10%
- R&D: 8%
- Other Domestic / EU Uses: 9%

Source
In order to join the EU’s ETS, the emissions trading system must be mandatory, set absolute limits on emissions, have robust registry systems, and have strict monitoring and compliance measures in place.

- National Norwegian ETS regime between 2005 – 2007 covering cca. 10% of the emissions (industry);
- One-way linkage in Phase I. of the EU ETS (NO entities could buy EU allowances but not vice-verse);
- Bilateral link with the EU ETS from 2008 in Phase II. through the incorporation of the EU ETS Directive into the European Economic Area agreement – Decision No 146/2007 of the EEA Joint Committee;
- Scope and obligations almost fully the same as the EU ETS (covering cca. 50% of total emissions, additional gases included, ambition to move towards full auctioning);
- Similar challenges in Norway as in EU ETS – oversupply of allowances, collapse of price;
- Large share of free allocations at the initial stage;
- Even though auctioning is in place in NO since 2013 – auctions on EEX launched only from 2019.
Linking the Swiss and EU ETSs

- 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 =/= fin. ins. | pos. limit + OTC only

EU ETS
- 11,000 installations
~ 2 bnt CO₂eq
- 500 aircraft ops. 65 mnt CO₂

CH ETS
- 50 installations
~ 5.5 mnt CO₂eq
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$_2$ Act and CO$_2$ 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.
Emission trading in the Energy Community

- **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 considered**:
  - Taking into account CPs current situation – energy mix, emission profile, socio-economic differences;
  - Building on existing initiatives (Montenegro and Ukraine);
  - Gradual approach – 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.
Potential indicative timeline for an ETS in the EnC

- 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.

2020 - 2023

2023 - 2027

2027 - 2030

2030 -
Legal acts proposed for adaptation and adoption:

- 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 could be entitled for free allowances for a limited initial period.**
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.
THANK YOU FOR YOUR ATTENTION

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