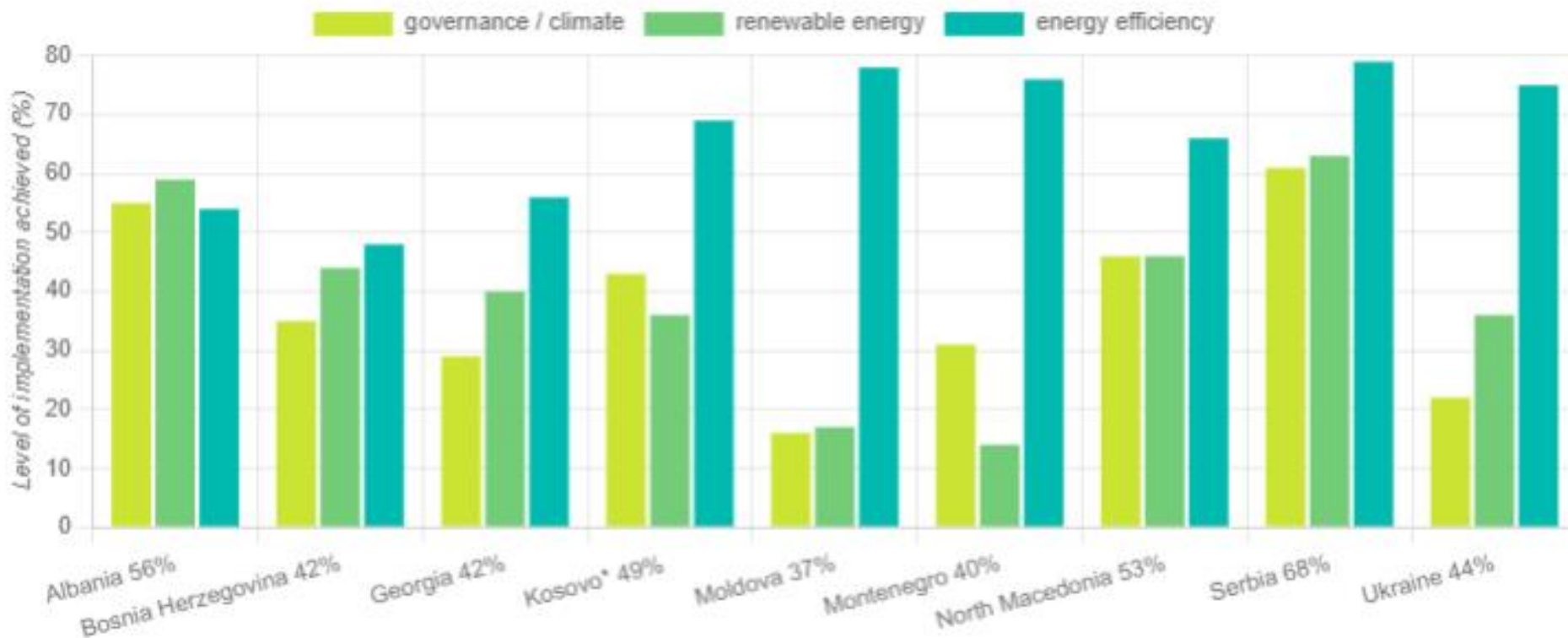


Unpacking the EU's decarbonization toolbox for the Energy Community

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DECARBONISING THE ENERGY SECTOR

Average Energy Community implementation score: 48% (governance / climate 37%, renewable energy 39%, energy efficiency 67%)



- what is driving the energy transition in the EnC?
 - the investment gap, end of coal and lignite
 - reinvigorated EU accession process and donor covenants
 - renewable investments
 - EU taxonomy
 - not necessarily: price signals
 - not: carbon price, the key feature of the EU's transition toolbox
- risk of non-action:
 - physical collapse and excessive costs
 - widening the modernization gap
 - price shocks and deindustrialization

- introducing iterative and joint decision making in the EnC
 - lessons learned in the EU
 - lessons learned in the EnC
 - NERPs
 - ownership
- key features
 - process
 - targets/ambition
 - policies and measures
 - business as usual?
 - eg coal phase out vs modernizing
 - eg carbon price
- implementation and funding
- conclusion: planning will not be enough

- a wake up call at last – for GHG emissions
- buying ETS allowances for exports
- paying Brussels?
- a loophole for electricity exports
 - protecting market integration
 - the exemption criteria
 - a small window of opportunities
 - 2024/25
 - 2026-29
 - 2028 (MRV as from 2026)
 - 2030+
 - what is price equivalence?
 - room for carbon taxes? even floating to achieve ETS equivalent price?

- the discrepancy grows: carbon endgame in the EU
- no take-it-or-leave it – shaping for post-accession
- design features
 - scope: all CBAM sectors vs electricity only (indirect benefits)
 - registry and auction platform (primary market): EU, regional or national
 - cap setting: grandfathering vs creating scarcity 2030-2050 (linear reduction factor)
 - free allowances and a phase-out pathway (2034, electricity earlier)
 - usage of revenue – earmarked or not?
- common or nationally?
 - CBAM – accept or avoid? pyrrhic victories
 - the New Growth Plan: relies on the EnCT
 - risk to market coupling and re-fragmenting markets
 - avoiding distorted competition/race to the bottom requires not only price equivalence but design equivalence

CONCLUSIONS

- transition driven largely from outside, but awareness growing domestically
- CBAM: the EU's assertive geopolitics
- flexibility and graduality to avoid a bad ending
- integrated markets require integrated carbon pricing solutions
- regional, common or linked with the EU?
- who moves first? The impact assessment