



What could be Western Balkan Countries' way to reach the EU ETS?

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Geopolitical imperative of Western Balkan EU accession

New urgency of EU accession → staged accession

Large Combustion Plant Directive problem

Fast deteriorating stability and security of the electricity sector

CBAM is not an answer

Towards a Plan for Western Balkan coal-phase out and new generation investment

Western Balkan needs investment – not investment *stimulus* !

Options for new investment

- Blending of EU and other multilateral money – very political – has not happened in 17 years → because of meltdown?
- Regional ETS – concept unclear – Will it lead to coal phase-out? How high could carbon price go politically? CBAM most likely remains
- EU ETS – concept exists – difficult, requires good faith, political courage; Energy Community will play major role
- ‘Corrosive money’ from major global powers

2. Towards a plan for coal phase out and new generation investment

Article 10c/Modernisation Fund

Bulgaria, Hungary and Romania have decided to provide free allocation under Article 10c of the ETS Directive in phase 4 (2021-2030).

Czechia, Croatia, Lithuania, Romania and Slovakia decided to use the possibility to transfer all or parts of their Article 10c volumes to the so-called **Modernisation Fund** to increase volumes of spending.

Estonia, Latvia and Poland chose not to use the Article 10c derogation, opting instead to have their allowances auctioned the normal way (generating general budget revenues).

Modernisation Fund

- Supports 10 lower-income EU Member States in their transition to climate neutrality by helping to modernise their energy systems and improve energy efficiency
- Financed from the auctioning of 2% of the total allowances for 2021-30

3. How does it work?

Article 10c: Member States submit national plan with proposed projects

- **Hungary:** operators/installations were required to transfer the financial value of allowances to a national Fund. Fund will be used to pay for modernisation.
- **Romania:** allowances will be issued *ex-ante* before investment has been undertaken.
- **Poland (early on):** transfer of allowances upon evidence of activity – unused EU allowances (by a given date) were auctioned by government.

European Commission assesses and accepts or rejects application:

- Eligibility of Member State
- Eligibility of power plants including the correct allocation of allowances
- Eligibility of undertaken investment that has been identified in national plan
- Monitoring and enforcement *provisions*

Modernisation Fund: Member States select and submit projects

- European Investments Bank (EIB) assesses projects and European Commission decides
- EIB disburses
- EIB auctions allowances

How could Art.10c/Modernisation Fund for Western Balkan coal-phase out and new generation investment work ?

- EU ETS is made part of the acquis of the Energy Community (by Ministerial Meeting) – it allows for temporary free allocation only for ‘coal phase out’.
- Western Balkan countries receive free allocation for ‘their’ emissions, which they can use as collateral for new investment in case of closing of lignite plants, i.e. in case of coal phase-out (only) – other investment sources will be needed;
- Western Balkan countries can identify the plants that will phase out coal and substituted by renewable solutions.
- Precondition for free allocation is implementation of the ETS MRV provisions.

2 options:

- a) Installation can apply under Art 10(c) – different models exist
- b) Countries can bring the free allowances into a “Western Balkan Coal-phase Fund” with nationally earmarked amounts, managed by the European Commission and/or the EIB. Strict conditionalities to be identified.

With roughly 60 mio tons of CO₂ emissions, at a price of 80 EUR pro ton, total amount for a 8 year period (until phase out, i.e. 2034) is roughly EUR 19 billion. Half of that will be required to cover emissions in the initial phase when lignite plants will be still be running.

How could Art.10c/Modernisation Fund for Western Balkan coal-phase out and new generation investment work ?

- With the start of the EU ETS (2026), for each ton of emitted CO₂, EU Allowances will be required to cover the emissions. Initially, these EU Allowances will be given for free.
 - By 2034 free allocation stops.
 - EU allowances to the equivalent of the 'avoided emissions' (minus the EU allowances that have been used to cover emissions from lignite plants) can be used as collateral and will be disbursed once the project is implemented.
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