

Bringing carbon pricing to new sectors – Introduction of National Fuel ETS in Germany (‘nETS’)

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Agenda

1. National fuel ETS: sales process from 2021
2. Need and perspectives for a secondary market?
3. A fuel ETS on European level? Which way forward?
4. Q&A

1. National fuel ETS: sales process from 2021

Background

- National ETS for fuels ('nETS') entered into force in Germany in January 2021
- Scope: CO2-causing fuels, esp. petrol, diesel, heating oil, liquid/natural gas, coal
- Obligated parties: fuel distributors (upstream)
- Allocation mechanism: Certificates are **initially sold at fixed prices** (2021-2025), with incremental price steps for each year, transitioning into floating price period, with allocation via auctions, from 2026 at the latest
- Fixed-price phase (2021-2025)

<ul style="list-style-type: none"> ○ 2021: 25€ ○ 2022: 30€ ○ 2023: 35€ ○ 2024: 45€ ○ 2025: 55€ 	<p>Auction phase (as of 2026)</p> <p>2026: Pre-determined price corridor of 55-65€</p> <p>2027: Fully free-floating price determination</p>
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- Certificates will be **allocated to the actual calendar year** ('vintages'), only valid for covering fuel emissions in that calendar year and the previous one (no 'banking allowed')
- Surrendering deadline for certificates: 30 September for previous year's emissions

1. National fuel ETS: sales process from 2021

EEX acting as sales platform

- EEX has been appointed as sales platform for fixed price period following public procurement
- Timeline
 - Spring 2021: Opening of registry accounts possible with national registry (operated by German Emissions Trading Authority – DEHSt)
 - **September 2021**: Start of registration process at EEX
 - **October 2021**: Start of sales process at EEX
- General format
 - Sales events **twice every week** throughout the year, with a **6 hours time window** each – exact dates will be published in sales calendar
 - **Delivery versus payment**: Participants can enter order via web-based platform → purchase is executed upon receipt of payment amount
 - De facto **unlimited amount of certificates available** during fixed price period
 - Only variable fees of 0.0049 EUR per certificate apply, in addition to certificate value

1. National fuel ETS: sales process from 2021

Access requirements for sales platform

- **Access requirements currently being coordinated with public authorities**
- EEX will inform about access requirements and process ASAP, once approved by authorities
- General principles:
 - Access regime will strike reasonable balance between openness, whilst ensuring the integrity of the sales process
 - Access possible under existing types of EEX/ECC memberships
 - New special type of EEX/ECC membership will be introduced for easy access
 - Sales process can also be accessed indirectly via intermediaries
 - Hence, potential buyers which are not yet EEX/ECC member will have multiple options:
 - Become a regular member at EEX/ECC
 - Become a special nETS participant at EEX/ECC
 - Purchase via intermediaries

2. Need and perspectives for a secondary market?

- Liable entities are allowed to purchase a certificate vintage until 30 September of the subsequent year, but only up to 10% of the respective vintage they hold on their compliance account end of the calendar year) ('Nachkaufregel)
- This legal provision constitutes a **particular challenge for compliance entities in 2021**, since sales process for this calendar year will only start in October
- In general, this rule may also justify the **establishment of a secondary market**
- EEX will consult market participants about their needs, and we are also keen to hear from you:

Would you consider a secondary market (spot and futures) as beneficial...

- *Option 1: As early as possible*
- *Option 2: Not from the beginning, but some time prior to start of 'auction period'*
- *Option 3: Only needed once nETS enters 'floating price period'*

3. A fuel ETS on European level?

Sectoral expansion for efficient carbon pricing



Binding cap on emissions volumes ensures a cost-efficient decarbonisation



Internalising the cost of carbon to guide economic activity and financial investments



Member states are already going ahead and moving at different speeds



Common approach brings maximum effectiveness and harmonisation of efforts



Largest possible scope in one system offers a most efficient market, increased liquidity and diversity in participation



A parallel system to the current EU ETS as interim solution to act faster and preserve current quality

3. A fuel ETS on European level?

How an interim parallel system / “middle ground” could look

EU carbon budget

Current EU ETS



- Volume-based, LRF, free price formation
- Maintain downstream system

Fuel EU ETS



- Volume-based, LRF, free price formation
- Allow for potentially diverging effective price signal
- Potential upstream system

- Preconditions for uniting the two systems: policy compatibility, ambition for integration
- Flexibilities between the parallel systems to smoothen transition to one system over time e.g. gradually increasing fungibility as the market matures (quantitative limits, one/two sided, analogy international credits)

3. A fuel ETS on European level?

What is your preference?

What is your stance to the current discussion on whether or not fuel sectors should be made subject to carbon pricing on European level?

- *Option 1: No fuel ETS on European level*
- *Option 2: Yes, but should be separate scheme in parallel to EU ETS without any linkages*
- *Option 3: Yes, as a separate scheme to EU ETS initially, gradually phasing into EU ETS*
- *Option 4: Full integration of fuel sectors into EU ETS from the start*

4. Q&A

Any questions?



Thank you very much for your attention.

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