

Romania: Toward Low Carbon and Climate Resilient Economy

Better Use of Revenues from Auctioning EU ETS Carbon Allowances for Climate Finance Programs in Romania's Non-ETS Sectors

Romania in the EU ETS

Around 200 Romanian installations and operators currently participate in the EU ETS, out of a total of some 10,000, and they emitted around 40% of Romanian greenhouse gases¹ in 2013.

Romanian industrial and power installations entered the European Union Emissions Trading Scheme² (EU ETS) in 2007 when Romania joined the European Union. Emissions from aircraft operators were included in 2012. EU ETS-covered emissions in Romania amounted to 42 MtCO₂e in 2014, 39% below 2007 levels. This sharp decrease is due to the economic downturn and emissions reductions induced by climate, energy efficiency and renewable energy policies.

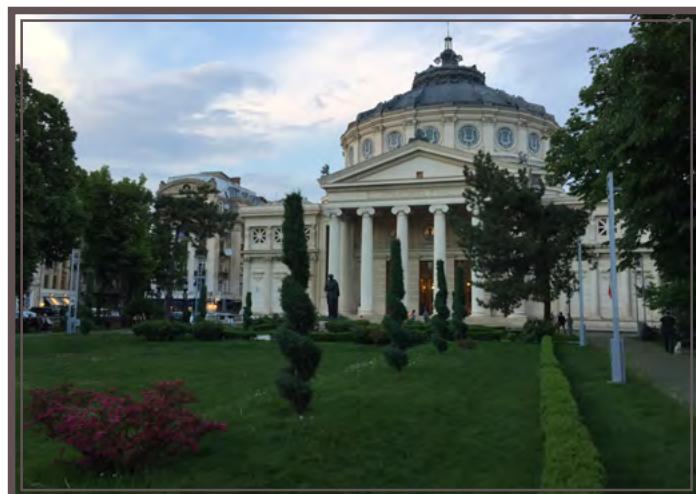
Since 2013, more than half of carbon allowances are distributed through auctions. While free allocation of allowances was considerably reduced, by 46%, since 2007, the surplus held by Romanian EU ETS operators reached 113 million allowances in 2013.

The use of EU ETS auctioning revenues until now in Romania

By the end of 2014, Romania collected about 260 million Euros (M€) from the EU ETS auctioning revenues, of which 71% (or 184 M€) was dedicated to climate finance projects.

Romania is entitled to auction 324 million carbon allowances over the 2013-20 period, once 71 million allowances are deducted, which it is entitled to allocate freely on a transitional basis to 39 power plants.

The auctioning regulatory framework leaves only little room for maneuver for Member States in the management of the allowances they are entitled to auction, to provide predictability to EU ETS operators and market players. In particular, the EU ETS Directive stipulates that at least 50% of the revenues generated from allowances auctioning — 100% for allowances auctioned for intra-European redistribution purposes



— should be used for funding mitigation and adaptation actions through fiscal or financial support policies in the EU or in developing countries.

Auctioning revenues can be a decisive instrument for financing climate-friendly actions in Europe, in coherence with EU long-term objectives and Member States national strategy and priorities.



¹Total emissions, including emissions from the land use sector.

²The EU ETS imposes a cap on GHG emissions in line with EU's mitigation targets. The cap translates into carbon allowances that have to be surrendered each year by incumbents to cover their emissions.

In 2013, off the 2,712 M€ of auctioning revenues declared to be used to finance climate and energy related policies in Europe, more than 80% was dedicated to domestic policies.

Proceeds received in 2013 and 2014 years from auctioning revenues in Romania have been approved for specific climate finance projects, by directly amending the provisions of the Governmental Emergency Ordinance (GEO) 115/2011, issued in 2011. By mid-2015, 139 M€ were allocated to various projects: investments in the Bucharest subway (76 M€), purchase of buses and micro-buses for public transportation (48 M€), reconversion of public transport buses from diesel to liquefied gas (5 M€), implementation of bicycle infrastructure in Bucharest (10 M€). 2015 auctioning revenues in Romania are expected to reach 160 M€, of which 46 M€ would be transferred to the state budget and 114 M€ would remain for climate finance projects.

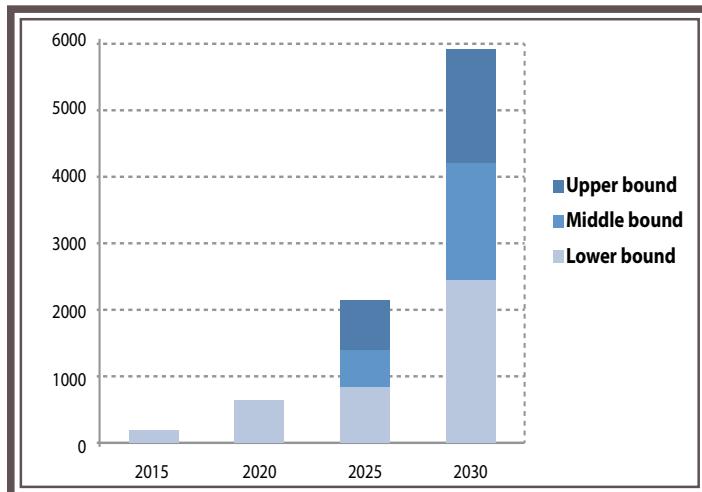
Expected EU ETS auctioning revenues by 2020 and 2030

Potential EU ETS auctioning revenues for Romania could amount to around 4 bn€ per year by 2030.

Auctioning revenues estimates for Phase 3 (2013-2020) and Phase 4 (2021-2030) of EU ETS depend on the future market price. Because large uncertainties remain related to the legislative framework as well as the evolution of the supply and demand equilibrium on the market, estimates on the long term should be taken with caution.

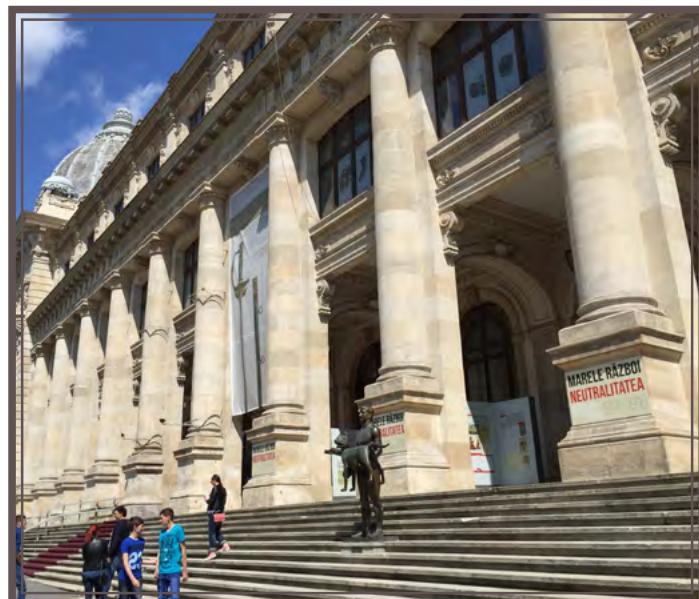
The introduction of a Market Stability Reserve (MSR) in 2018 is expected to increase significantly the carbon price. On average, the value of 50 to 60€ per allowance by 2030 can be retained — for 2020, estimates remain below 10€.

Romania's potential auctioning revenues (M€ per year)



Prioritizing climate finance programs in non-ETS sectors supported by EU ETS auctioning revenues

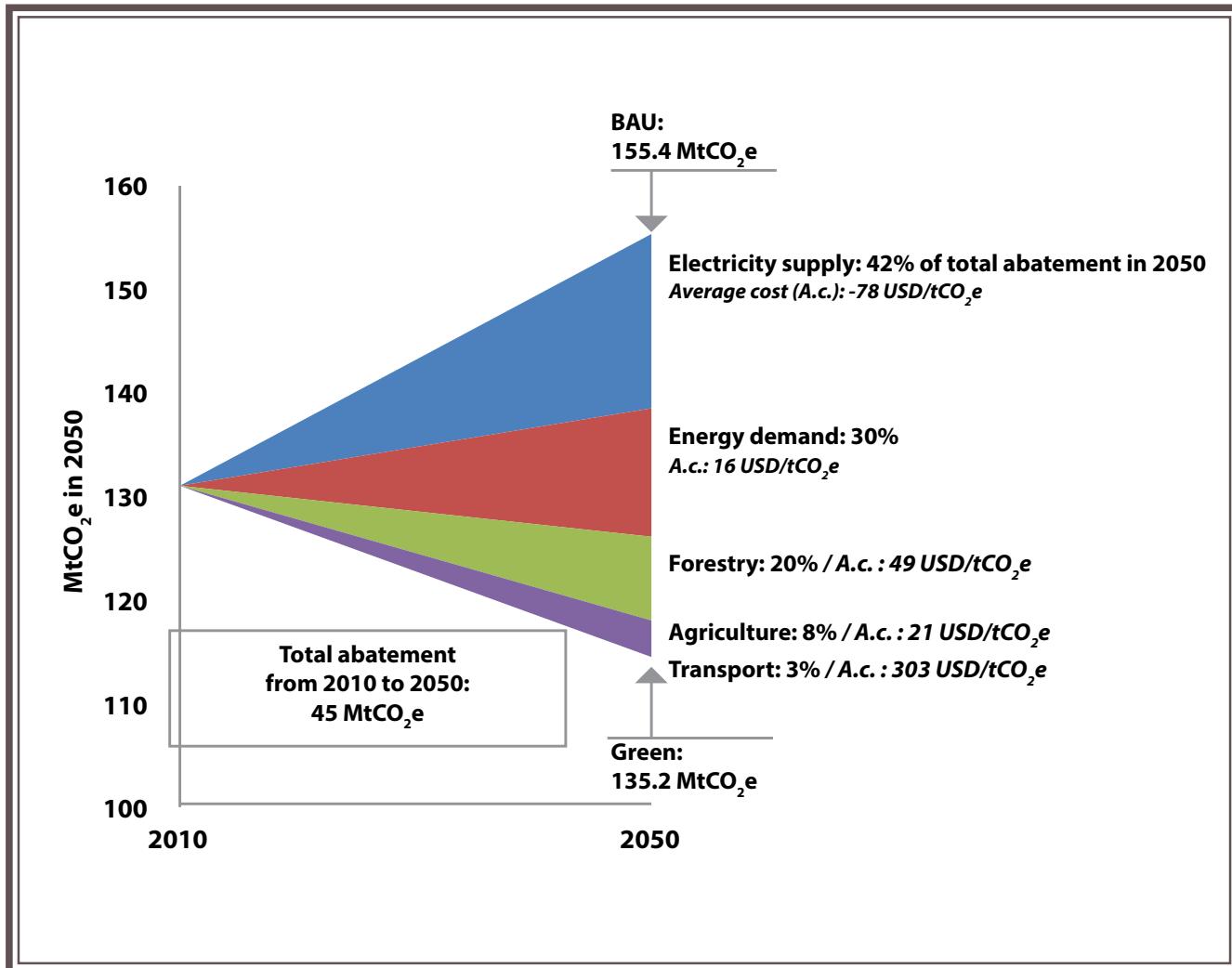
As the government strives for a climate resilient, low-carbon economy by 2030, the efficient use of revenues from the auctioning of EU ETS allowances could be an effective tool for reaching this goal in the sectors not covered by existing climate finance mechanisms and policy regulations.



There are currently no selection and prioritization criteria for the use of EU ETS auctioning revenues in Romania.

To maximize the environmental, social, and economic impacts of EU ETS revenues spending, the following criteria for selecting non-ETS sectoral climate finance programs are proposed:

- Cost effectiveness of emissions reduction;
- Lack of other financing mechanisms;
- Impact on creating jobs;
- Leverage of public money to private finance;
- Possibility for rapid development and scaling up.



Based on these criteria and on international and Romanian experience of implementing similar programs, the following climate finance programs are recommended for the years 2016-2020:

- Replacement of household least-efficient light bulbs, air conditioning units, individual heating systems, refrigerators, and washing machines. Possible budget: up to 88 M€;
- Individual houses insulation (multi-levels apartment buildings being already covered by the Regional Operational Program). Possible budget: up to 750 M€;
- Local, small- and household-scale renewable energy production. Possible budget: up to 330 M€;
- Forestry and biomass production, and land use improvements, such as ecological reconstruction of damaged forest in regions with low forest cover, fast growing woody crops for energy and non-energy purpose, and establishment of forest belts and green corridors in areas under natural risks. Possible budget: up to 110 M€.

Additionally, EU ETS revenues could support a number of cross-sectoral measures:

- Research and technical assistance, in particular to reinforce capacity of local and central authorities and assess the technical and economic potential of planned programs. Possible budget: up to 14.5 M€;
- Education and public awareness on climate issues. Possible budget: up to 14.5 M€;
- Management of the ETS scheme in Romania. Possible budget: up to 73 M€;
- Administration of the climate finance programs. Possible budget: up to 73 M€.

Recommendations regarding the institutional framework for managing auctioning revenues

In order to constitute a viable and longer-term climate finance programs supported by EU ETS auctioning revenue, it is necessary to amend the current legislation and approve an updated financial and organizational scheme for the use of EU ETS revenues.

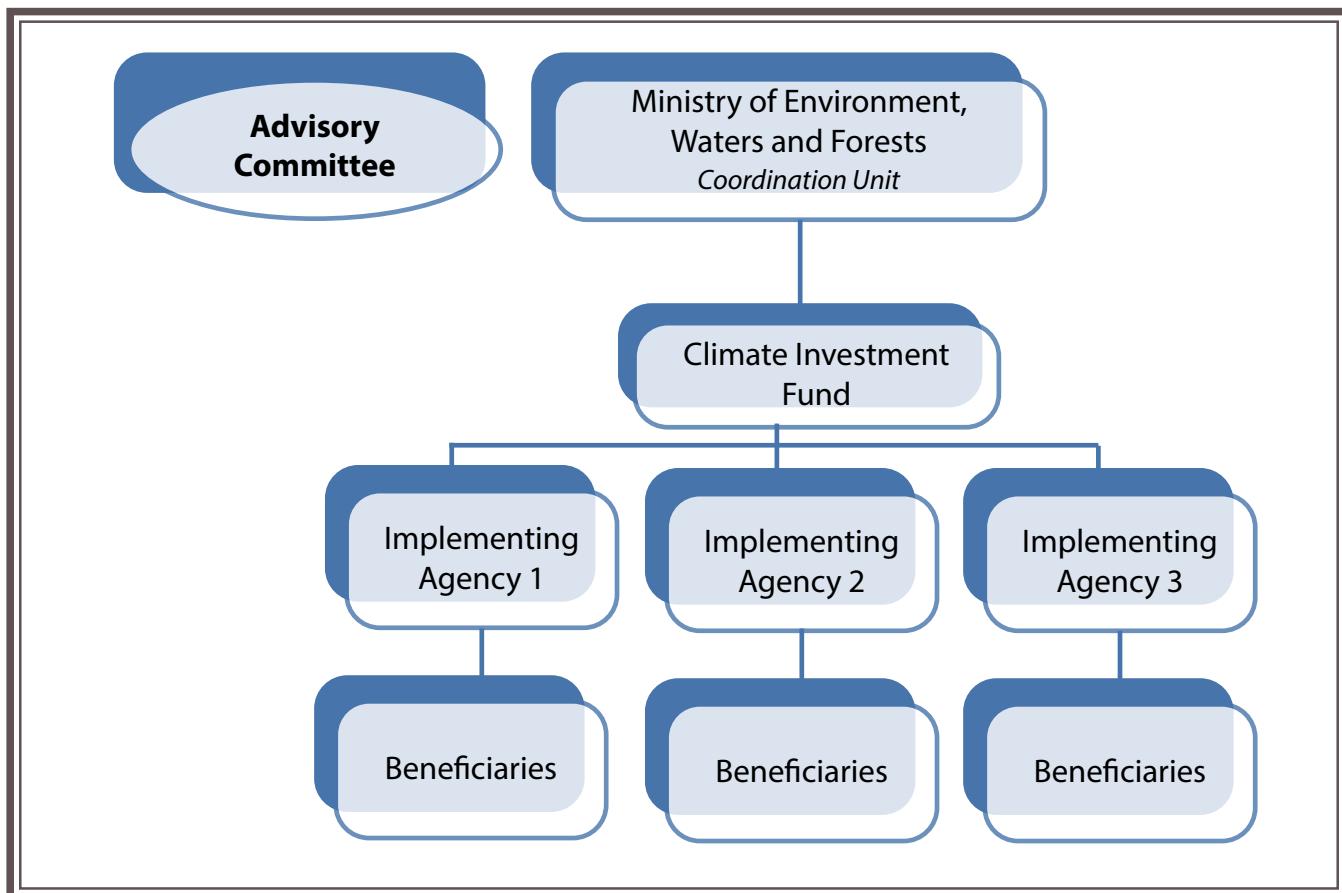
There is currently no clear, effective procedure in place for the administration of EU ETS revenues in Romania.

In addition, selected climate finance projects are not well coordinated with sectoral Operational Programs or other mitigation instruments; and there are few institutional links between the Ministry of Environment, Waters and Forests and the beneficiary ministries.

To overcome these deficiencies it is recommended to create a dedicated Climate Investment Fund with the following legal and institutional arrangements:



Proposed institutional arrangements on the use of EU ETS revenues in Romania



- The Ministry of Public Finance continues to collect the revenues from auctioning and after directing 29% of the revenues to the State budget, it transfers the remaining 71% to the Ministry of Environment, Waters and Forests' special "climate" account;
- Ministry of Environment, Waters and Forests:
 - Sets up a Coordination Unit of the Climate Investment Fund (CIF) inside the Ministry to establish and monitor activities of the CIF;
 - Sets up an Advisory Committee (AC) to provide input and guidance concerning strategic objectives for implementation of the climate programs that will be financed by CIF. The AC would include representatives of the Ministry of Public Finance; Ministry of Economy, Trade and Tourism; Ministry of Energy, Small and Medium-Sized Enterprises, and the Business Environment; other interested Ministries; representatives from businesses, scientific and non-governmental organizations;
- Climate Investment Fund has overall responsibility for the implementation of climate finance programs and the selection of Implementing Agencies;
- Implementing Agencies have responsibility for implementing specific climate finance programs and working directly with beneficiaries of the programs.
The Climate Investment Fund can be set up for 5 years, from 2016 to 2020, and could be extended taking into consideration the available auctioning revenues and the results of the ex-post evaluation of its operation.

These recommendations should be used by the Ministry of Environment, Waters and Forests, as a responsible body for climate policy, for internal discussions with other Romanian ministries and agencies to reach consensus on improvements for managing revenues from auctioning EU ETS allowances.



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Instrumente Structurale
2007-2013

Project co-financed by the European Regional Development Fund through OPTA 2007-2013

Romania:

Climate Change and Low Carbon Green Growth Program OPERA-CLIMA



*For more information and the publications of the
OPERA-CLIMA Program, please visit its webpage at:*

<http://opera-clima.ro/en/>



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