

Plans to introduce a carbon tax on thermal generators based in the western Balkans could prove bullish for Hungarian power prices in future as it imports from the region. However, the extent of the bullishness will depend on the speed and severity of the tax reinforcement.

The Energy Community is currently researching the possibility of proposing a carbon tax on thermal generators based within its contracting parties in a bid to avoid market distortion. "Electricity generators from the Energy Community contracting parties participate in the single European electricity market on an equal basis as EU stakeholders, yet they get a free pass when it comes to paying for their CO<sub>2</sub> emissions.

"This imbalance heavily distorts the market," Energy Community director Janez Kopac said. Contracting parties include Serbia, Montenegro, Albania, Bosnia and Herzegovina, Kosovo, the Republic of North Macedonia, Georgia, Moldova and Ukraine.

To avoid any future administrative measures that could result in sharp cuts in energy trade, the Energy Community Secretariat envisages a gradual introduction of a carbon tax with the ultimate goal of achieving the same level of emission prices as on the EU market in the forthcoming period.

A study exploring the possible introduction of such a tax is expected to be finalised by spring 2020.

Serbia, Bosnia and Herzegovina, Kosovo, Montenegro and the Republic of North Macedonia have around 8.5GW of coal-fired capacity combined.

## **UNILATERAL POLICIES**

Montenegro and Ukraine have already introduced their own form of carbon taxation.

Since the beginning of this year Montenegro has imposed an excise tax on the burning of coal at €0.15/GJ.

This roughly translates into €1.60/tCo<sub>2e</sub>, taking as a reference the formula specified in the Montenegrin law, according to an ICIS analyst.

The tax should be doubled from 1 January 2020.

Ukraine has also introduced a separate carbon tax in 2019 amounting to UAH 10/tCo<sub>2e</sub> (around €0.35/tCo<sub>2e</sub>).

## **MARKET IMPACT**

In theory, raising the cost of coal-fired generation would mean higher selling prices by

Balkan utilities, which could have a bullish effect on Hungary

However, one regional trader said that some producers were already selling at Hungarian levels, meaning the price impact may be limited.

It also depends how fast and under what conditions the Energy Community will be able to enforce the charge.

It is yet unclear whether there will be an uniform tax applied in all contracting parties.

EU emissions prices are forecast to rise just above €40/tCo<sub>2</sub>e by 2024, according to ICIS analyst models.

Source: [icis.com](https://www.icis.com)