DIGITAL DIALOGUES

Accelerating investments in breakthrough Green Deal technologies - Can Carbon Contracts make a Difference?

5 May 2021

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Our Speakers

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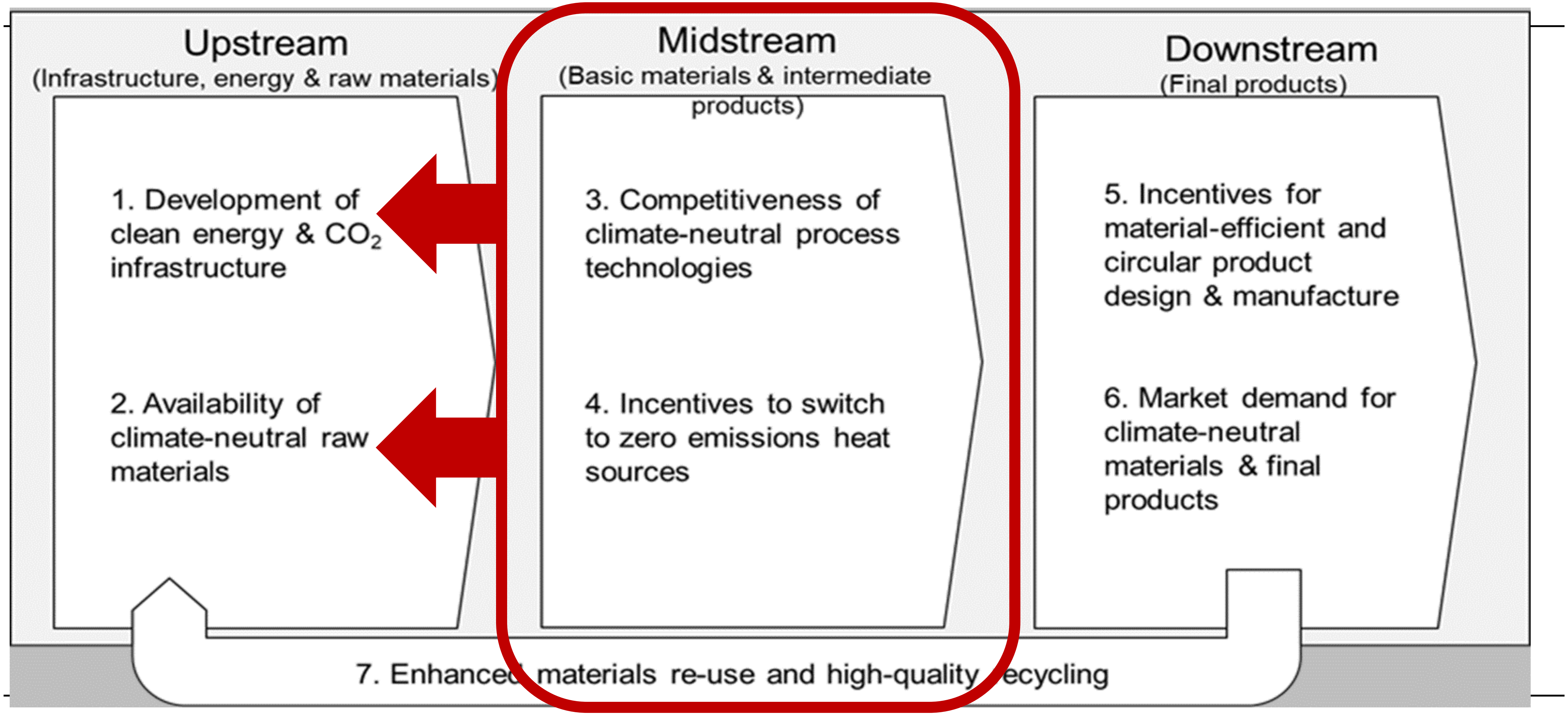
EU heads of state have identified the need for a clean industry package to kickstart the transition

→ The December 2020 European Council called for the Commission to…

“***propose measures*** *that enable energy-intensive industries to* ***develop and deploy*** *new climate neutral technologies while* ***maintaining their industrial competitiveness***.”

Industry transition means addressing several barriers along the full value chain, so we need a *coherent policy package*



EU ETS Carbon prices are rising

But they are still far from sufficient to enable + *de risk* first wave of investments into key climate neutral technologies

Many key low carbon or climate neutral technologies have high marginal abatement costs (EUR/tCO2e)

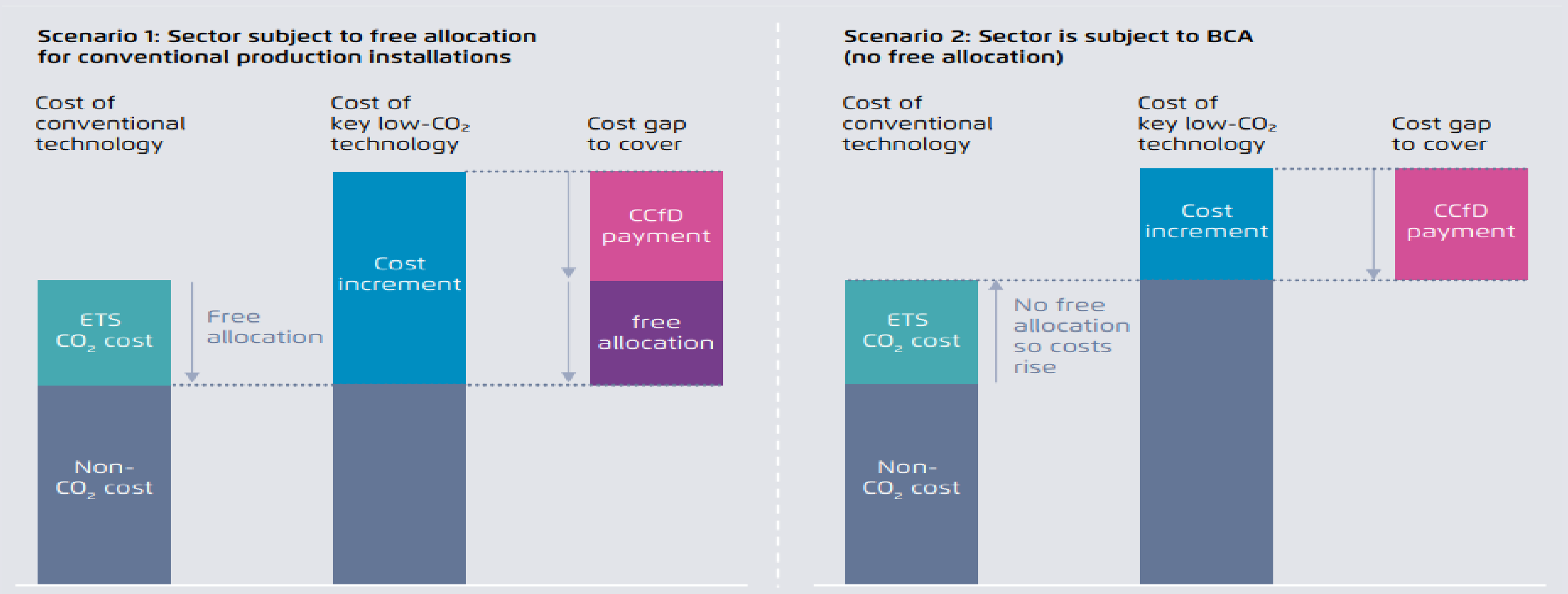
NB. De-risking of CO2 price =>

These are typically capex-intensive investments. There is high financial (and technology) risk. Thus *even if* CO2 prices are "high enough" for some technos, there is a need to de-risk CO2 price uncertainty.

Marginal CO2 abatement cost

New project-based support instruments, like CCfDs, essential to drive first wave of commercial scale investments in key climate neutral technologies…

The Carbon Contract for Difference mechanism with two alternative anti-leakage policies (free allocation vs BCAs)

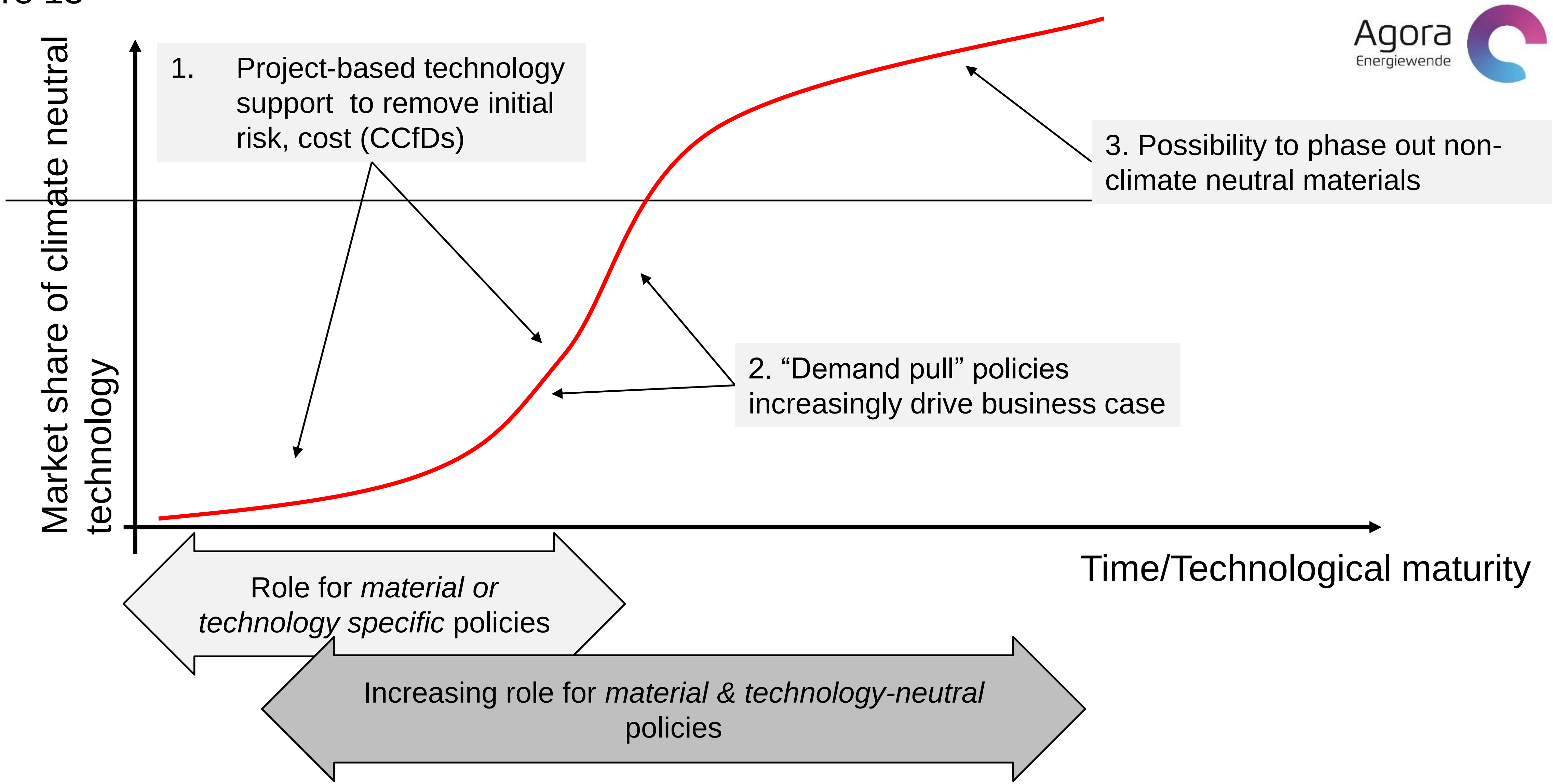


Agora Energiewende, 2020

Cost of CCfDs would be manageable even for large member states, and concrete options exist to fund them; NB. we need a combination of EU *and* MS level instruments

- At just conservative est. of average 50 Euros/tCO_2 (2025-2040) we estimate annual cost of CCfDs funding 10% of entire EU27 market for steel+cement+certain basic chemicals at approx 2-3 bn/yr.
- Smaller MS would face much lower costs. Markets smaller than RES markets..
- EU Level :
  - Set aside 5% of ETS auction revenues to enlarge ETS Innovation Fund => approx. 1-2.5 bn/yr depending on assumptions.
  - Dedicated CCfD vehicle for 15yr contracts for up to 80-90% of incremental costs.
  - Downside: would take time + funds would be limited (Poss. for solidarity mechanism with CEE)
- MS Level :
  - Materials charge on certain materials-rich *final* goods (e.g. buildings, vehicles, packaging)
  - Use share of auction revenues from industry created by FA phase down under CBAM.

Figure 13


Market share of climate neutral technology
1. Project-based technology support to remove initial risk, cost (CCfDs)
3. Possibility to phase out non-climate neutral materials
2. “Demand pull” policies increasingly drive business case
Time/Technological maturity
Role for *material or technology specific* policies
Increasing role for *material & technology-neutral* policies

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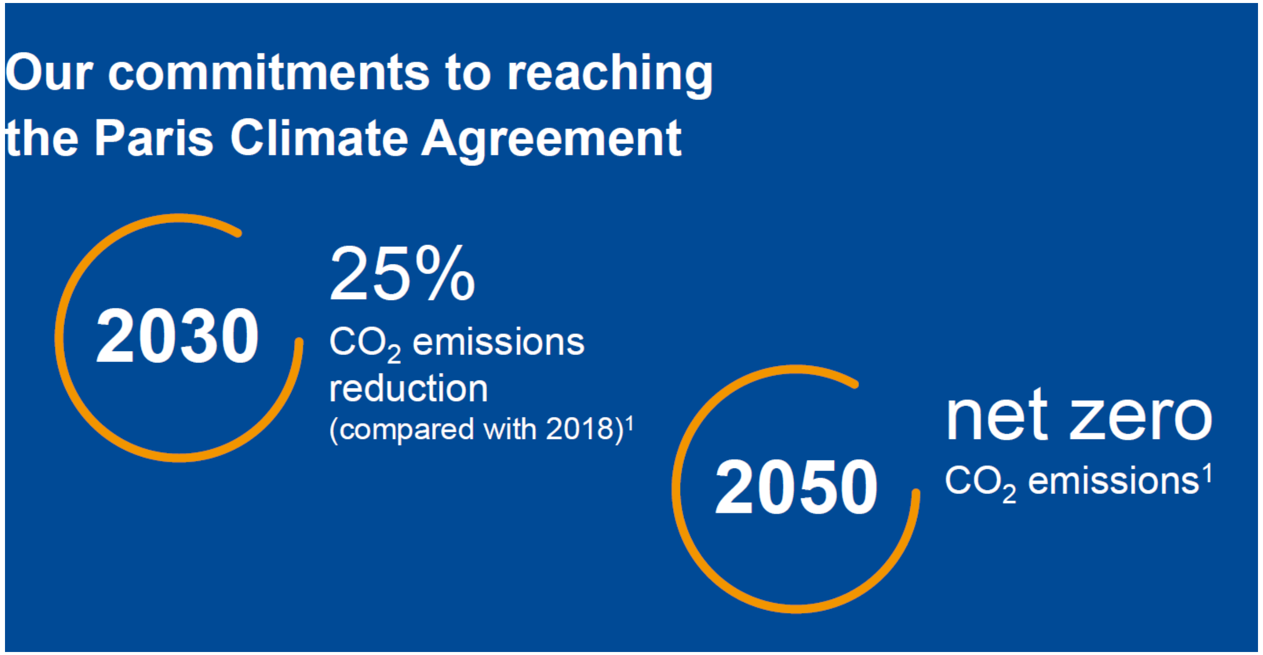
The journey to net zero requires a supportive legislative and regulatory framework

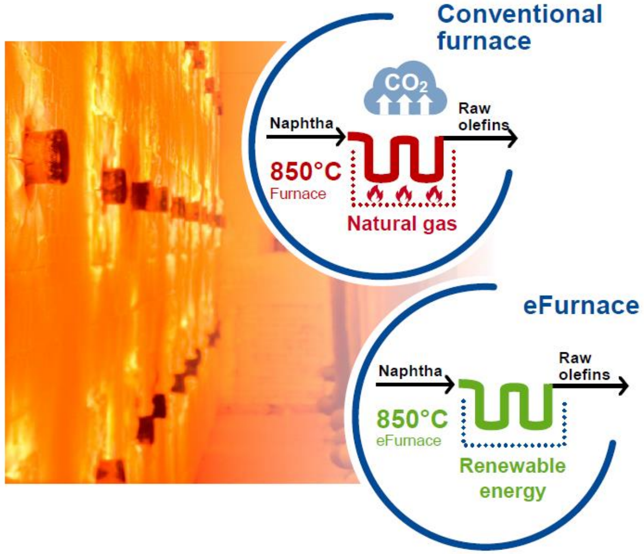


- **The ETS, with its carbon leakage (CL protection instruments - free allocation and indirect cost compensation - must be maintained until new technologies gradually replace existing plants.**

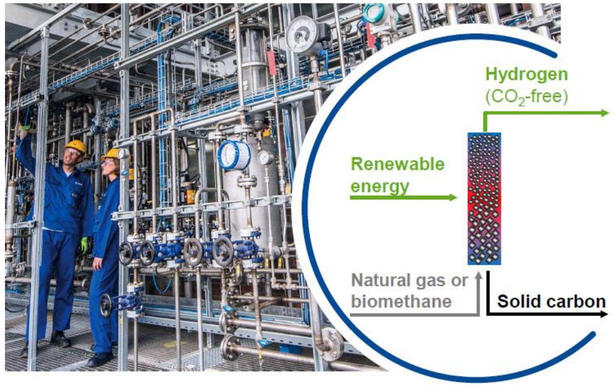
- **Additional supporting elements are needed:**
  - **Competitive electricity prices**
  - **Electricity and hydrogen infrastructure**
  - **Contracts for Difference**

The transformation requires new technologies which are not yet competitive

Example: E-Cracker



Example: Methane Pyrolysis



- CfDs have the potential to make climate-friendly industrial production market-ready.
- In order to provide effective and stable support, CfDs must be designed with sufficient funding and a long-term horizon
- Sector-specific approaches are needed
- A technology open framework is required, which allows to develop markets for low carbon products

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Director Climate Change Transformation

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Thank you for your attention

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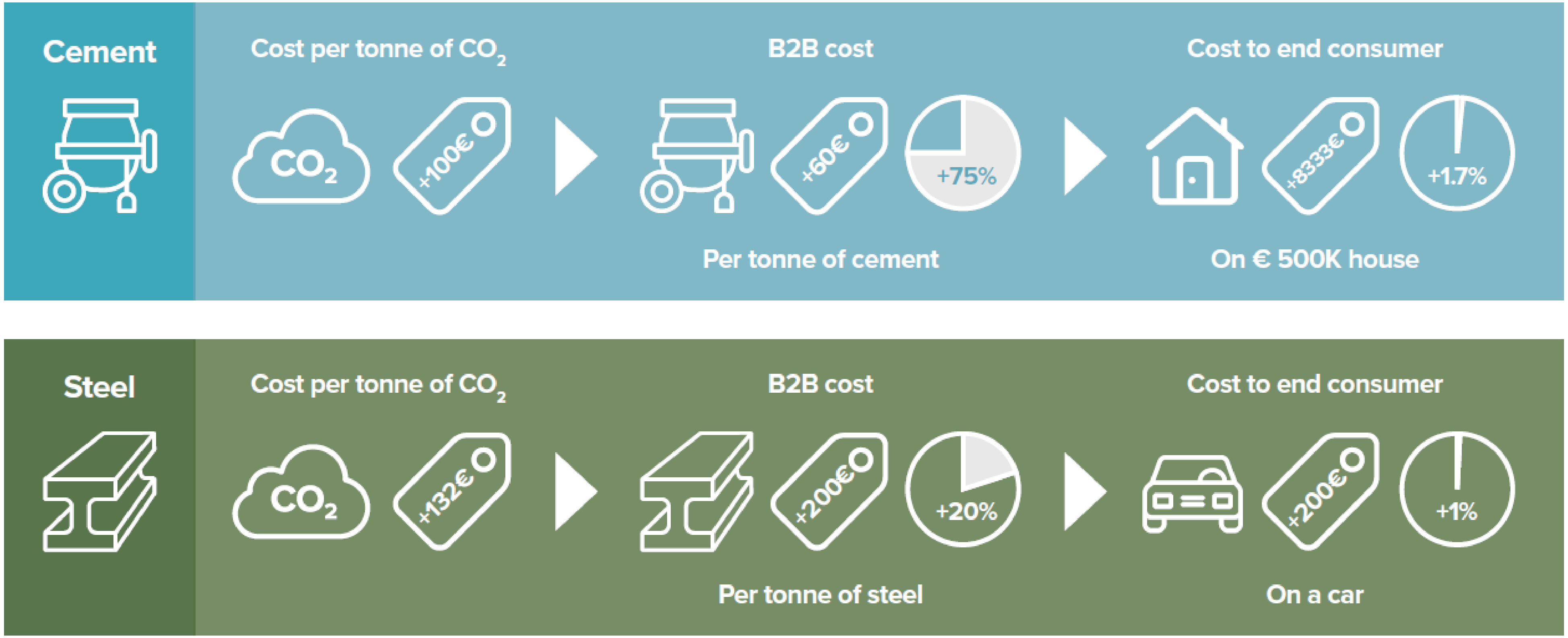
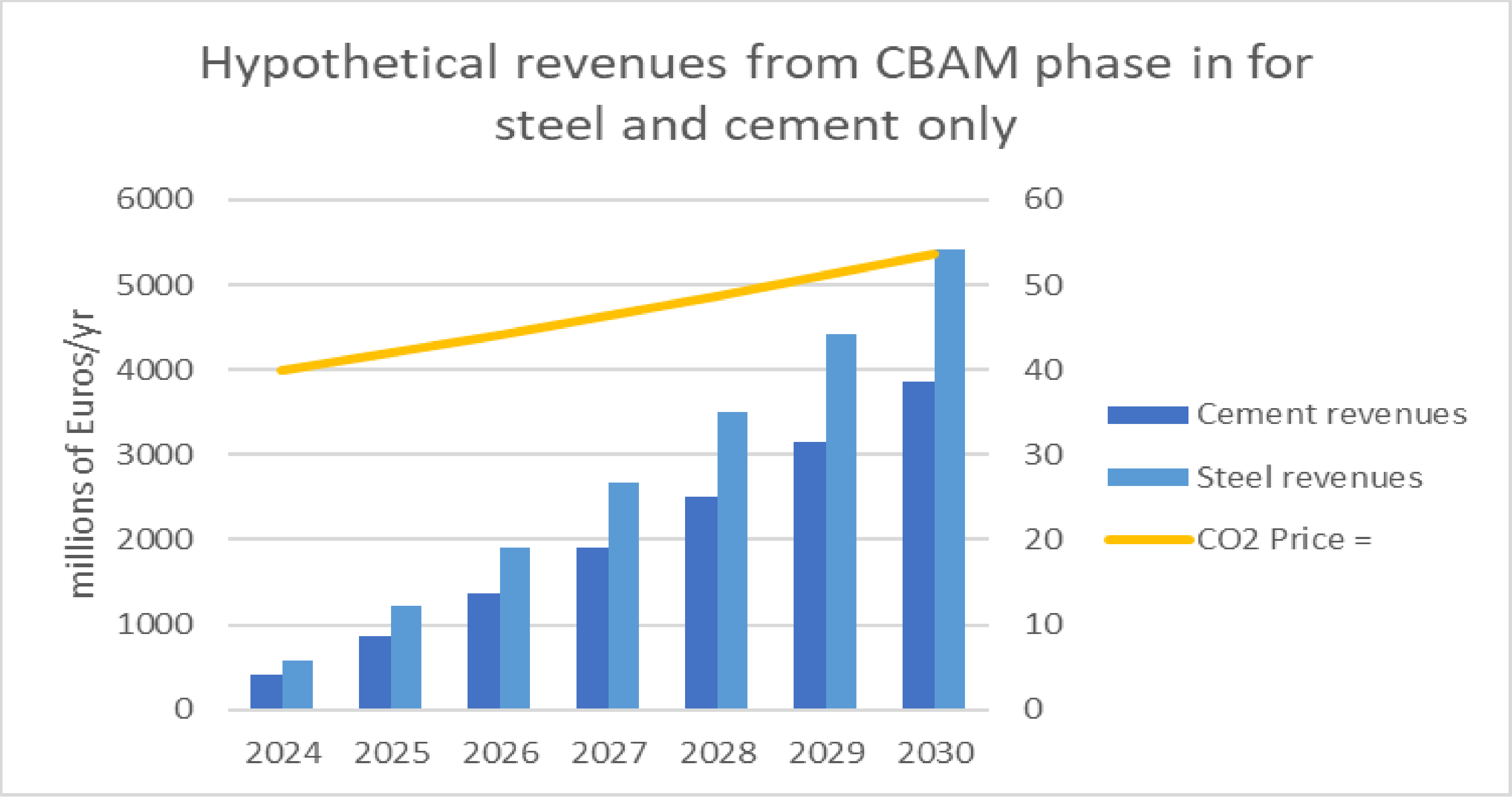
Materials consumption charges would have next to no impact on consumer, but raise significant funds for upstream innovation…

Figure 3: How the higher costs of climate-neutral basic materials would affect final product prices for consumers



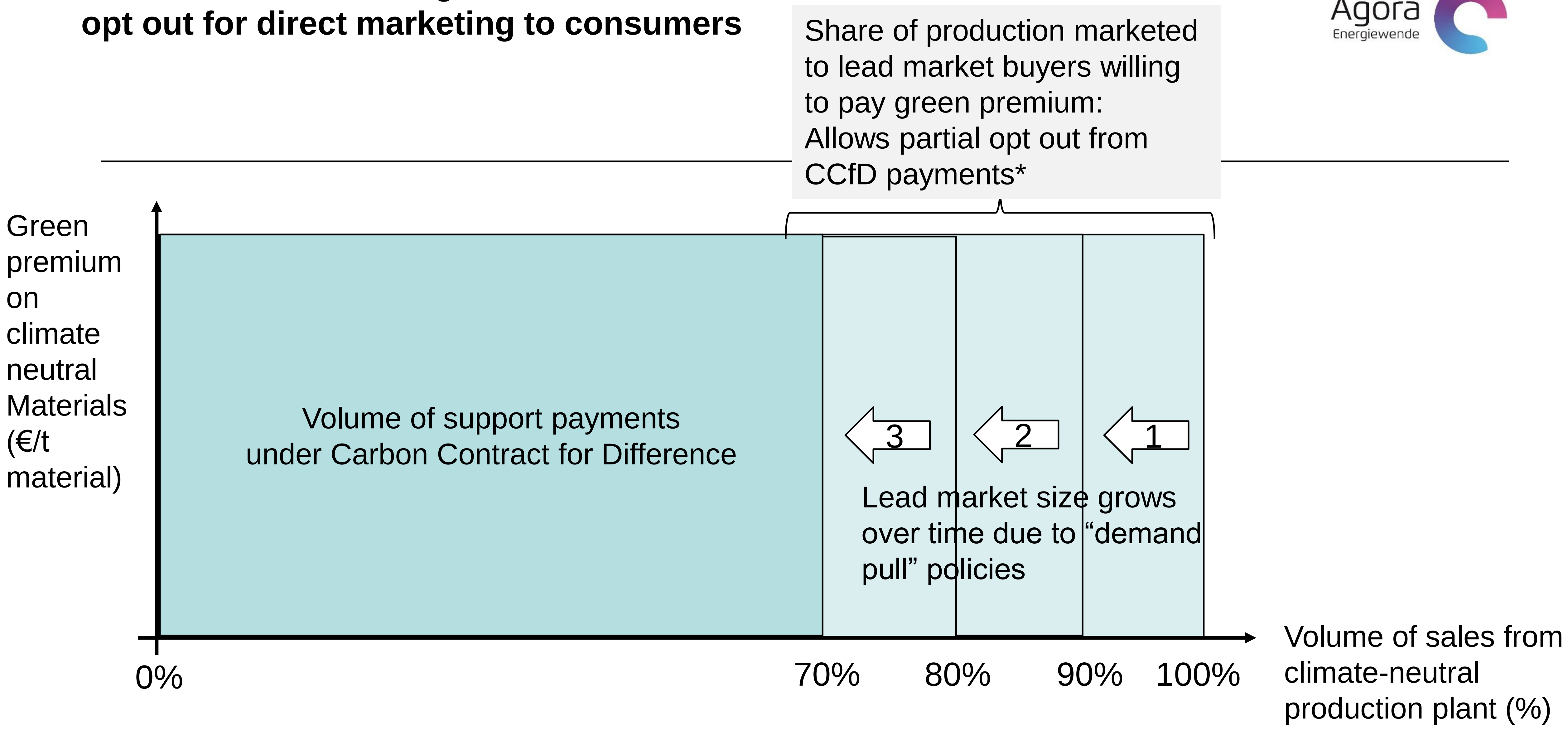
Phase out of FA as CBAM is introduced for steel+cement could theoretically also create significant funds, but riskier if CBAM is delayed…



Other key details

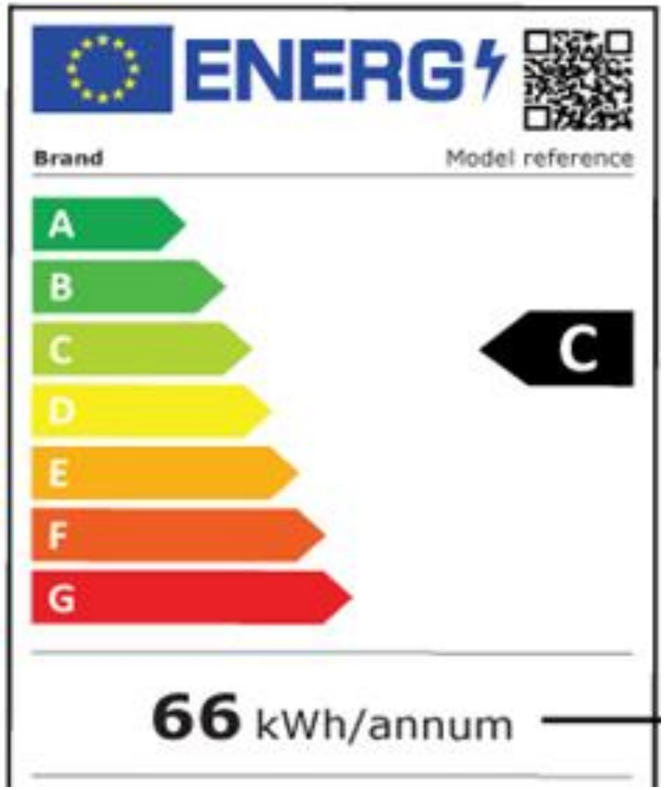
- Equal treatment of innovative tech vs, existing tech under anti-leakage system
- Managing competition at public tenders at national and EU level
- De-risking upstream infrastructure and coordinating aid across the consortia
- Clarifying who is and is not eligible for CCfDs (benchmarks)

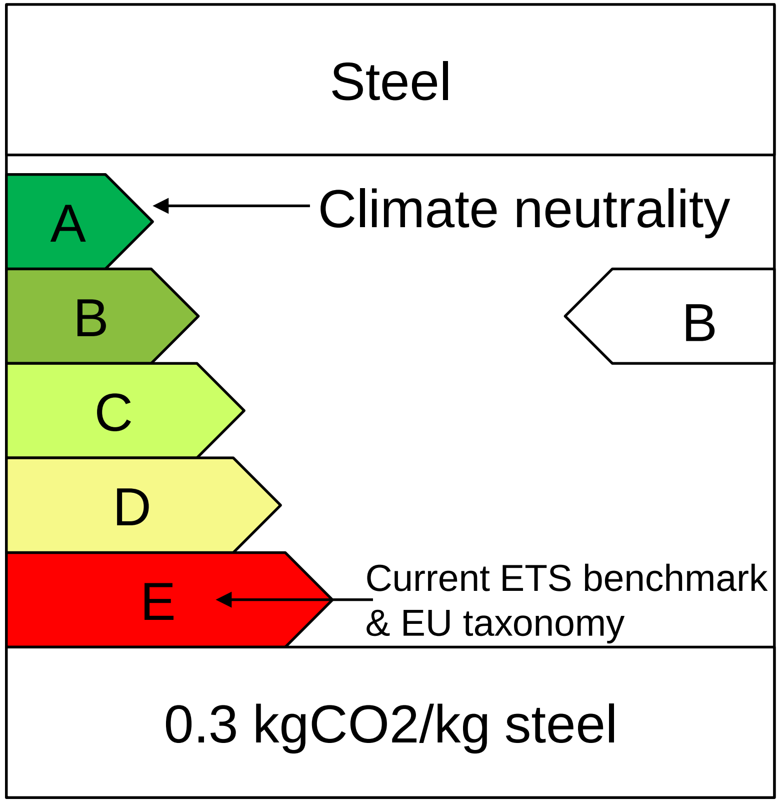
CCfDs need to be designed to allow for opt out for direct marketing to consumers



*Opt out incentive comes from ability of purchaser to apply “climate neutral”/”low carbon” label to their product only if they pay green premium

Figure 11


ENERG
Brand
Model reference
A
B
C
D
E
F
G
C
66 kWh/annum


Steel
A
Climate neutrality
B
B
C
D
E
Current ETS benchmark & EU taxonomy
0.3 kgCO2/kg steel