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

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DIGITAL DIALOGUES

Speakers

- Dr. Antoine Colombani, Member of Cabinet of Executive Vice-President Frans Timmermans, European Commission
- Dr. Oliver Sartor, Senior Advisor Industry, Agora Energiewende
- Dr. Brigitta Huckestein, Senior Manager Energy & Climate Policy, BASF
- Florie Gonsolin, Director Climate Change Transformation, Cefic

The discussion was moderated by Noor Yafai, Cefic's Executive Director for Public Affairs and Sustainability and was followed by 248 participants.

Summary

The European Union has set up ambitious climate-neutrality goals in terms of greenhouse gas (GHG) emissions. Decarbonization of industry is essential for reaching these goals and provides an opportunity to improve the long-term competitiveness of the sector in the global market. Carbon Contracts for Difference (CCfDs) offer governments the opportunity to guarantee producers a fixed price that rewards CO_2 emission reductions above the market price levels in the EU ETS, and therefore have the potential to drive evolution of low-carbon technologies. This session examined the urgent need for industry to transform andthe potential of CCfDs in supporting Europe's 2050 climate neutrality objectives, along with how they could complement current carbon pricing and innovation funding instruments, and how they could co-exist with instruments like Carbon border Adjustment Mechanisms.

Dr Sartor presented his research on the role of CCfDs and analysis of its potential use:

- The European Council proposed measures that would enable energy-intensive industries to develop and deploy new climate neutral technologies while maintaining their competitiveness. It is crucial to create a **coherent policy framework** that would **address the whole complexity** and barriers along the whole industrial value chain – upstream, midstream and downstream.
- The rising carbon prices are useful, because they increase the **urgency for the transition** and deployment of policy framework that could enable the industry to decarbonise.
- There are two scenarios for CCfD mechanism based on two alternative anti carbon-leakage policies – one based on **free allocations** and the other based on **border carbon adjustments**.
- The analysis of the CCfD costs has shown that the costs would be manageable as even at just conservative estimate of average 50 €/t CO_2, the estimated annual cost of CCfD funding for 10% of entire EU27 market for steel, cement and certain basic chemicals would be approx. 2-3 bn/year, which is a **fraction** compared to what is being spent on renewables.
- There should be a **combination of funding instruments** on both EU and Member State level, which would essentially allow Member States that are willing and ready to go ahead with decarbonisation projects. The EU mechanisms could in turn narrow the discrepancies in the speed of transition between different Member States.

Dr Colombani provided the view of the European Commission by first setting the stage for CCfDs in the wider perspective of the EU's ambition to be climate neutral by 2050:

- To put the EU's ambition into practice, the Commission will present the **Fit for 55 package** of proposals in July, which will include the EU ETS Revision and its possible extension to other sectors, as well as update of legislative instruments that will set the context for investments in coming years.
- Particularly in the cases of energy-intensive industries, the high carbon price itself will not suffice and a **mix of instruments** will be necessary to incentivise the transition. It is crucial to get investments for the **climate-neutral and low-carbon technologies** started and give the industry necessary support.
- There are several instruments aiming to mobilise the funding, such as Recovery and Resilience Plans, NextGenerationEU, InvestEU as well as for the chemicals industry relevant **Innovation Fund** focused on **climate-neutral breakthrough technologies**. However, to make the transition happen while preserving the level playing field, **new instruments** – such as CCfDs – are needed.

Dr Huckenstein provided a company perspective, outlining the key hurdles from BASF's perspective to deploy some key breakthrough technologies, and CCfDs as a key mechanism to accelerate this process

- The key hurdle in the process is the **financing of the transition**, therefore the EU ETS, the free allocations and indirect cost compensation must remain at the core of EU climate policy until the new technologies allow to gradually replace existing plants.
- To incentivise the transition, additional instruments such as **competitive electricity and hydrogen prices** as well as **Carbon Contracts for Difference** should be introduced.
- Carbon Border Adjustment Mechanisms cannot substitute the free allocations system, as it does not provide the same level of protection for the producers.
- CCfDs have the potential to make climate-friendly industrial production market-ready, however, they must be designed with **sufficient funding** and a long-term horizon.

In the Q&As session, audience showed a very high level of engagement, exchanging on the positive experiences of CfD case studies, the importance of designing CCfDs in a way which avoid markets distortion, the role of State Aid Guidelines, as well as Europe's strong leadership on climate neutrality in the international context.

Finally, Cefic's Director for Climate Change Transformation Florie Gonsolin stressed the urgency of making the industry's transition a reality by 2050, it is crucial to ensure that the new technologies will be introduced already by 2030. To respond to the strong sense of urgency, an immediate acceleration of innovation in the industry is required. The transition cannot happen in isolation from the rest of the society and calls for public support.