



EU ETS Revenues: Incentivising Industrial Electrification

ERCST webinar on the Revision of the EU ETS under the European Green Deal

Thursday, 21st January 2021



Electrification for decarbonisation

In the Transition you will need two revolutions:



1. Power to Decarbonise

2. Industry to Electrify

93-97%

Decarbonisation potential for the power generation sector by 2050 (Commission Roadmap)

The shift to carbon free electricity will depend on:

1.

Availability

2.

Affordability

3.

Adequate compensation of indirect costs of EU ETS

Example of decarbonisation: Electrification of the mining sector in Finland and Sweden

Looking ahead, as industries further electrify, a massive increase in demand for electricity is expected. An example of this is the mining sector:

Mining [+ Add to myFT](#)

Sweden's LKAB plans \$47bn push into carbon-free iron ore

State-owned miner's project will require electricity equivalent to a third of country's current supply

LKAB's project to use "direct reduced iron" (DRI) using emissions-free hydrogen would consume:
~45TWh = 1/3 of Sweden's overall demand

Another similar example is Boliden, which is deploying electric trolley installations in stages until 2022 in Aitik and Kevitsa open pits, while Boliden is investing SK300 million during 2020-21.

Electricity is already 70% of Boliden mining and smelters' energy consumption.



Direct vs Indirect Carbon Cost: Different treatment

Direct costs: free allowances

- Full: Up to 100% for sectors exposed to carbon leakage (benchmark and CSCF conditional)
- Predictable over whole trading period: Uniformly granted in all Member States

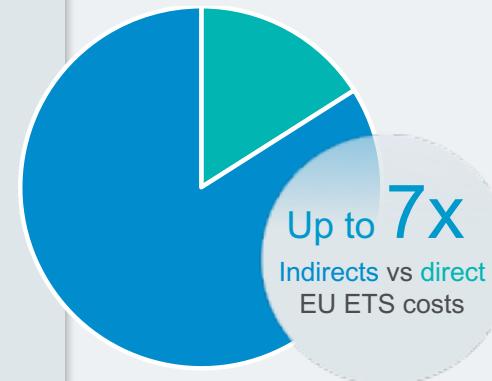
Indirect costs: state aid

- 75% of eligible costs & hardship provision.
- Voluntary, partial & dependent on annual national budgets



Unpredictable

Non-Ferrous metals one of the most exposed industries to indirect carbon costs



Finland confirms plans to end indirect EU ETS compensation next year

Published 18:53 on September 17, 2020 / Last updated at 21:49 on September 17, 2020 / EMEA, EU ETS / No Comments

Source: CarbonPulse, 2020

If we want to encourage electrification, we need to provide a stable and adequate compensation for indirect costs



The importance of Auction revenues for indirects compensation

To date, the Commission has approved 14 indirect carbon cost SA schemes in 13 Member States. The graph below does not include Poland, Romania & Cz Republic who have already put in place schemes. Italy is to begin a scheme soon, too

Table 6: Indirect carbon cost compensation paid out in 2019

Country	Duration of the scheme	Compensation disbursed in 2019 for indirect costs incurred in 2018 (in EUR million)	Number of beneficiaries (installations)	Auction revenue 2018 (in EUR million) ⁵⁸	Percentage of auction revenues spent on indirect cost compensation
UK ⁵⁹	2013 - 2020	22	60	1607	3.7%
DE	2013 - 2020	219	898	2565	8.5%
BE (FL)	2013 - 2020	35.9	107	379	11.4%
BE (WL)	2017 - 2020	7.5	29		
NL	2013 - 2020	40.3	92	501	8.0%
EL	2013 - 2020	16.8	50	519	3.2%
LT	2014 - 2020	0.3	1	80	0.3%
SK	2014 - 2020	6	8	229	2.6%
FR	2015 - 2020	102.1	286	818	12.4%
FI	2016 - 2020	29.1	61	250	11.6%
ES	2013 - 2015	172.2	183	1291	13.3%
LU	2018-2020	4.2	4	18	23.2%

While it depends on the Member State, auction revenues are by far the largest source of indirect compensation.

Use of auction revenues:

- ✓ In no Member State was the 25% auction revenues threshold reached.
- ✓ On average 7.9% of auction revenues were spent on indirects compensation

Will there be less auction revenues for indirects compensation in the future?



The Commission 2018 Clean Planet for all strategy focuses a lot on the importance of **electrification** as a key route for decarbonisation



The current focus on filling the EU budget (Post Brexit gap) risks undermining the potential of industrial electrification

The EU recovery plan says:

An Emissions Trading System-based own resource as discussed at the European Council in February 2020 would allow Member States to keep the same amount of revenue that they received from auctioning over a recent period. Any revenue generated by the European Emissions Trading System exceeding this maximum would go to the EU budget. Such own resource could generate revenues for the EU budget of about EUR 10 billion, depending on the evolution of the carbon price and the extension of the system to other sectors.

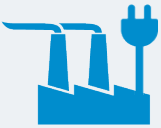
i.e. if ETS prices go up, then the additional money goes to the EU budget.

- ✓ Concern: With rising indirect costs, we'll need more national ETS revenues to compensate.
- ✓ But, if these revenues instead go to the EU budget = less resources available for Member States to provide compensation.
- ✓ Other sources can also be used, but the ETS revenues are the main one in most Member States.

Conclusion: Encouraging electrification for decarbonisation

Indirects compensation and the EU's 2050 agenda go hand in hand

THE POTENTIAL FOR ELECTRIFICATION OF INDUSTRY



The **electrification of industry** is key to reach our 2050 objectives



Having electrified our processes, non-ferrous metals are the **frontrunner**



Other sectors (i.e. steel & chemicals) may follow and electrify

NEED TO SHOW THAT THOSE ALREADY ELECTRIFIED CAN SURVIVE



But...

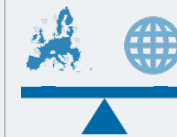


They will not follow if revenues are not used to compensate for indirect carbon costs



Therefore we need not to undermine but to improve the indirect compensation schemes

POSITIVE COMPETITIVENESS & CLIMATE IMPACTS



With adequate indirect costs compensation, **the most electro-intensive EU production can survive** and



Encourage other industry sectors to electrify their processes

The necessary auction allowances should be available for compensation of indirect costs of the EU ETS

THANK YOU

Cillian O'Donoghue

Director, Energy and Climate Change
odonoghue@eurometaux.be

 @Eurometaux

www.eurometaux.eu

Avenue de Tervueren 168, Box 13 | B-1150 Brussels | Tel: +32 (0) 2 775 63 11 | eurometaux@eurometaux.be

