



WiseEuropa

Emerging policy tools and instruments to accompany the EU ETS Focus on CCfD and Climate Contribution

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WiseEuropa

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About WiseEuropa

WiseEuropa Institute is an independent think-tank based in Warsaw that focuses on socio-economic and foreign policy both at the national and European level.

WiseEuropa research areas include:



**Social policies and
labour market**



**Macroeconomic,
industrial and
institutional policies**



**Digital economy
and innovation**



**European and
global political and
economic affairs**



**Energy, climate
and environment**

About Climate Friendly Materials Platform

The Climate Friendly Materials (CFM) Platform analysis the transformation of basic material production and use to achieve carbon neutrality by 2050. Over last few years, we have analysed broad range of policies to support decarbonisation of the materials sector.



In partnership with:



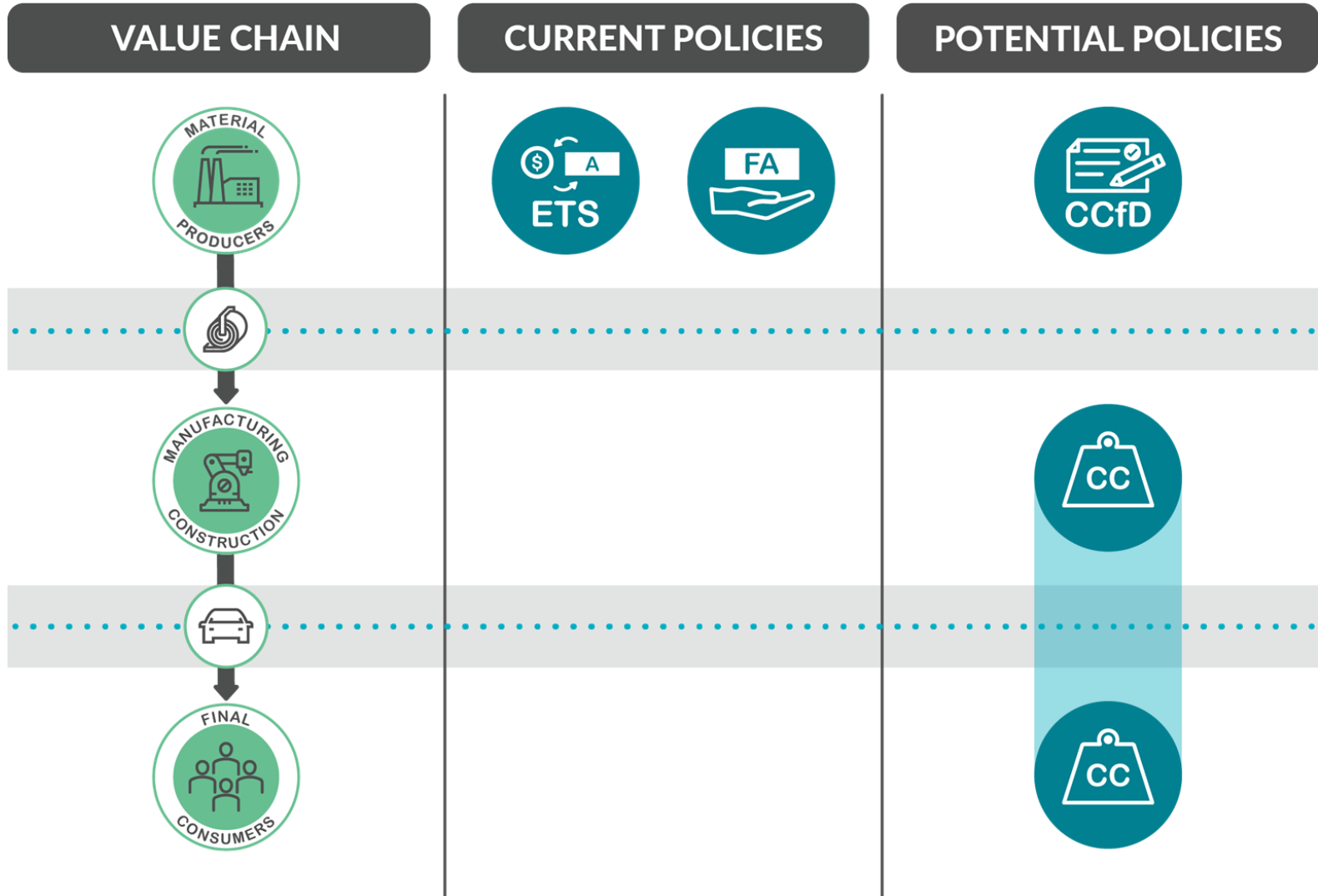
In 2020, Climate Strategies, DIW Berlin and WiseEuropa have worked on the in-depth assessment of two policies in German and Polish context: Climate Contribution and Carbon Contracts for Difference, within the project CFM-TRACTION which was supported by EIT Climate-KIC.





Extending the Policy Toolkit to the whole value chain

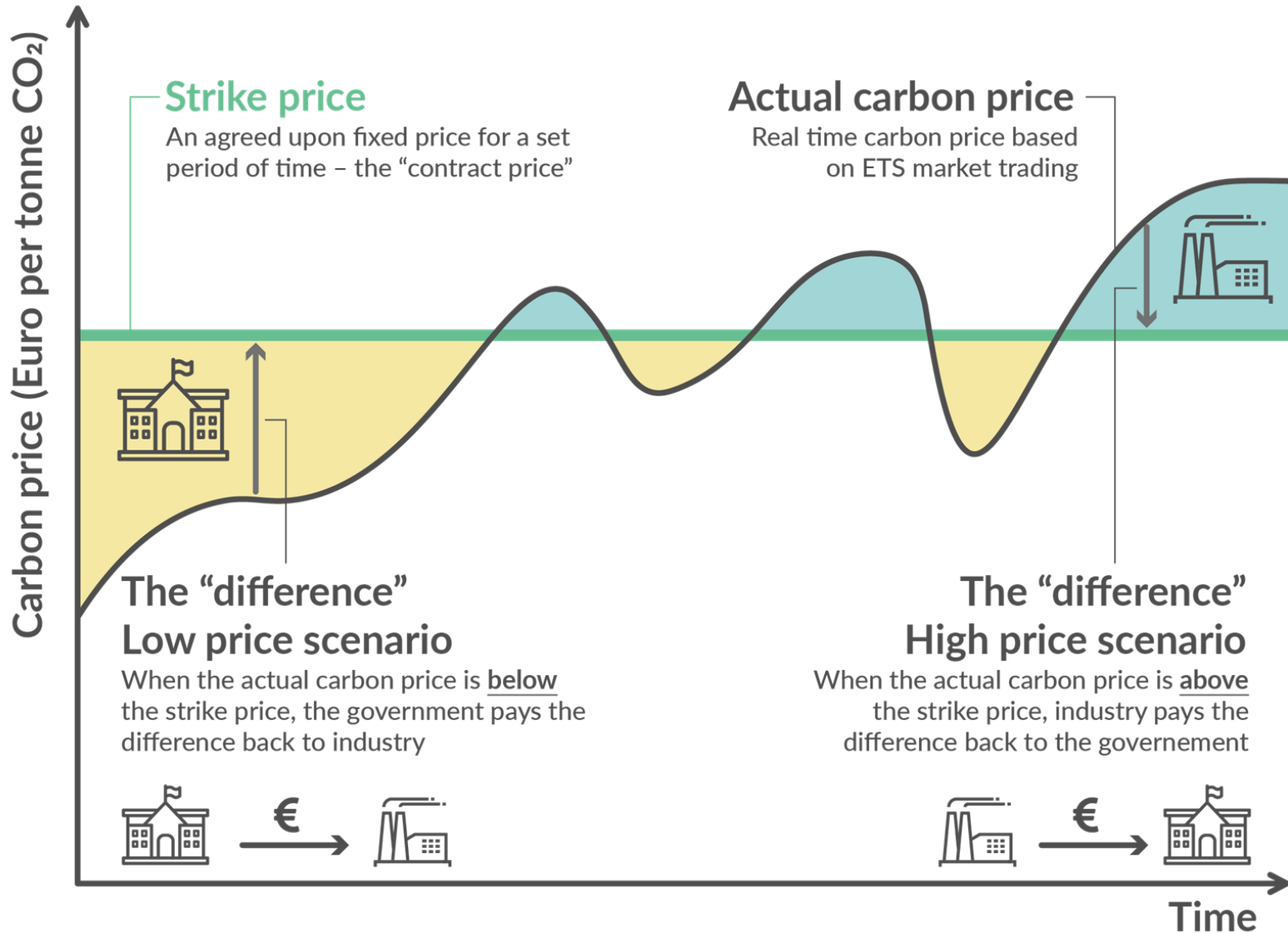
The proposed policies complement the gaps in the current policy mix across the supply chain: Climate Contribution ensures that product manufacturers and consumers face full carbon price, while CCfD provides robust framework for material producers to invest in low-carbon processes





How Carbon Contracts for Difference work

A mechanism to ensure a stable carbon price and certainty for industry to invest in innovative technologies for the production of low-carbon basic materials





Revisiting free allocation

Perceived problems:

- ◆ inability to deliver deep decarbonisation of material industries (but: opportunity costs increase with ETS price)
- ◆ not compatible with the cap (but: FA can be based on the secondary market or monetary transfers)
- ◆ windfall profits for the industry (but: addressed by increasingly dynamic allocation)

Structural problems:

- ◆ **Cost inefficiency** – muted carbon price signal on the demand side
- ◆ **Funding needs** in the long run to cover the costs of free allocation

Inclusion of **climate contribution** in the EU ETS **solves both problems:**

- ◆ **Reinstating carbon price signal** on the demand side,
- ◆ **Generating additional revenue** which can be used to support the transition and avoids structural deficit in funding industrial decarbonisation policy in the long run



How the Climate Contribution is calculated

A cost per unit of weight of each type of basic material is generated using an emissions benchmark for each specific material and the cost of a CO₂ allowance based on the EU Emissions Trading System price at the time

Climate
Contribution



=
calculated
by multiplying

Product
weight



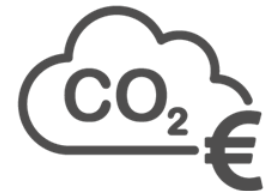
×
times

Product-
specific
benchmark



×
times

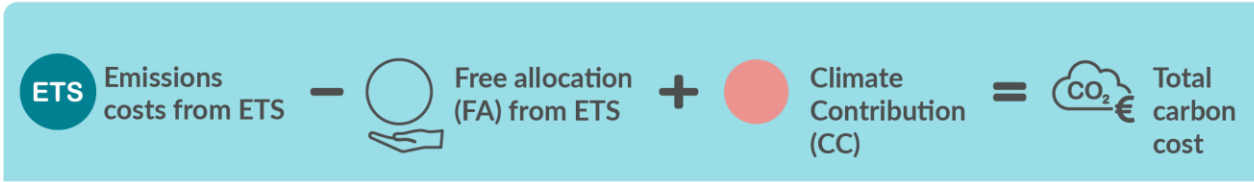
Price of
EU ETS
allowances





Climate contribution – Impact on the carbon cost

Matrix with the comparison of EU vs Rest of the World production and consumption. The combination of free allocation to domestic material producers and climate contribution covering materials used by manufacturers provides comprehensive incentives to decarbonise both production and use of materials within the EU.

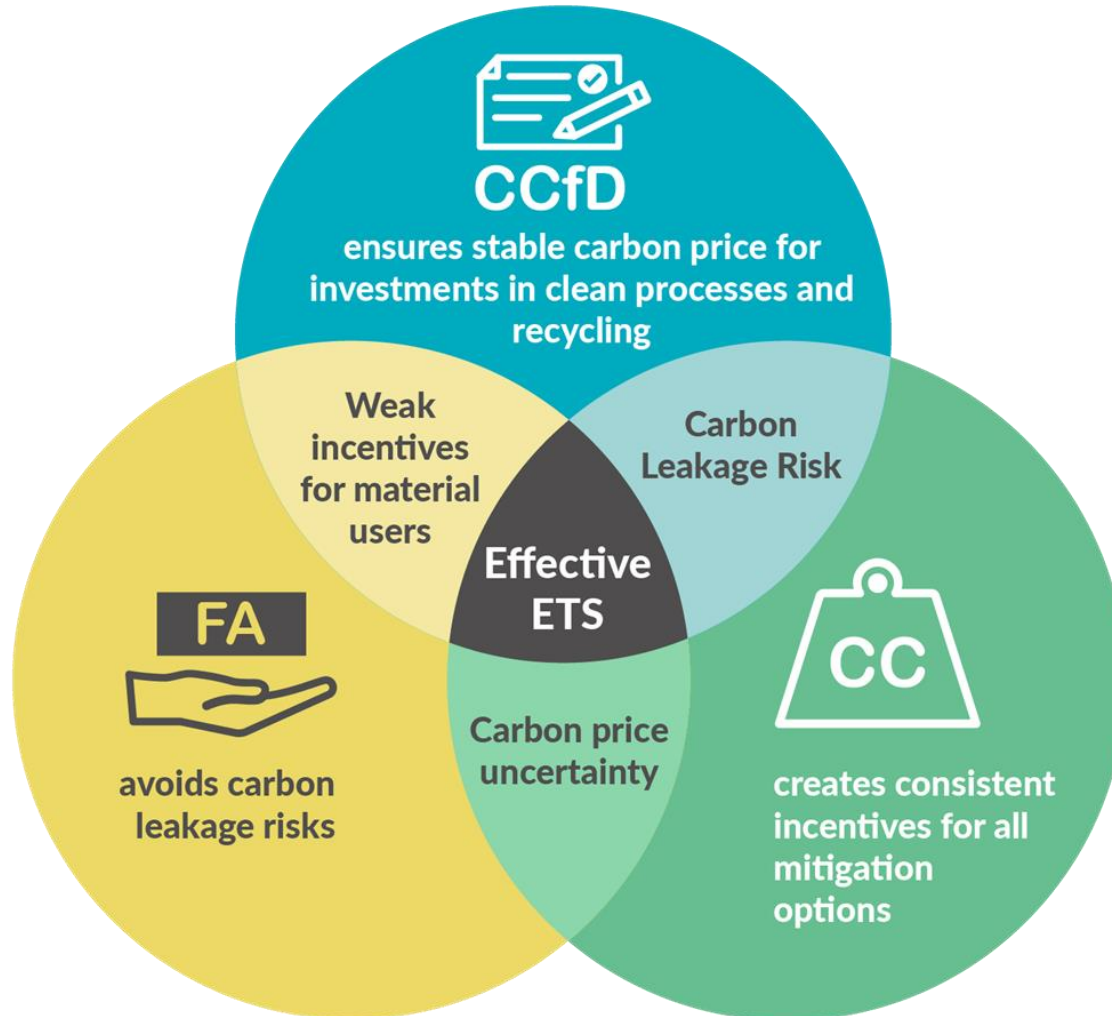


Carbon cost matrix		Production			
		EUROPEAN UNION MATERIAL PRODUCERS		REST OF WORLD MATERIAL PRODUCERS	
Consumption	EUROPEAN UNION MANUFACTURING & CONSTRUCTION	<p>ETS FA CC Total carbon cost</p> <p>EU Production & EU Consumption</p> <p>The Climate Contribution re-establishes the full carbon cost back to the value chain</p>	<p>ETS FA CC Total carbon cost</p> <p>RoW Production & EU Consumption</p> <p>Climate Contribution is added on all imported materials and products to maintain competitiveness</p>		
	REST OF WORLD MANUFACTURING & CONSTRUCTION	<p>ETS FA CC Total carbon cost</p> <p>EU Production & RoW Consumption</p> <p>Climate Contribution is removed on all exported materials and products to maintain competitiveness</p>	<p>ETS FA CC Total carbon cost</p> <p>RoW Production & RoW Consumption</p> <p>There is no similar policy adding carbon emission costs</p>		



Achieving the Sweet Spot for Industrial Transition

A three-pronged strategy of elements to ensure EU ETS creates a consistent carbon price that effectively supports climate neutral production processes, effective material use, low-carbon material choice and recycling





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Thank you for your attention

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