UNFCCC Side Event, Policy Design for a Climate Friendly Materials Sector

Project based carbon contracts for industrial deep decarbonisation

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Why project based carbon contracts for industrial deep decarbonisation?

**Why**

- Innovation funds are often limited in size when leaving the pilot phase and entering the demonstration phase
- Financing of increasing scale pilot projects, and commercial climate friendly projects is challenging

**Criteria**

- Lower capital costs and public funding requirements
- Incentivize success ($\text{CO}_2 \downarrow$)

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**Carbon contract for differences (CCfD)**

[Diagram showing carbon contract price and CO2 market price with the difference paid by the government]
Design of project based carbon contracts for industrial deep decarbonisation

- Linked to a investment project with deep emission reductions compatible with long-term climate objectives.
  - new production process, practice or substitute material
- Applies to the emission reductions achieved with the climate friendly investment
- Pays difference between the yearly average emissions allowance auction prices and the strike price
- Counter parties are national governments
Benefit of project based carbon contracts for industrial deep decarbonisation

- Allows government commitments to carbon price levels
- Creates carbon price certainty to reduce financing costs

- Reduces total and up-front public support requirement
- Clear incentives for performance
Vielen Dank für Ihre Aufmerksamkeit.