Press Release

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For immediate release

EU doesn't need to choose between ambitious climate action and keeping its industry competitive

There are many policy options currently on the table as the EU strives to realise the climate ambition of the Green Deal and Industry Strategy. In response, a group of European research institutions have developed new proposals to unite the individual policy options into a powerful policy package.

By analysing the synergies between policies, researchers from the Climate-Friendly Materials Platform (CFMP) have developed designs for a policy package that creates clear and stable incentives for EU industry to tackle climate change, whilst keeping competitiveness in global markets.

A central pillar is strengthening the carbon price from the European Emission Trading System. This can be achieved by combining 1) free allowance allocation for carbon leakage protection 2) a Climate Contribution to ensure effective carbon price incentives along the value chain, and 3) a Carbon Contracts for Difference (CCfD) scheme to insure investors against regulatory uncertainty.

No element is sufficient on its own: for example, if free allowance allocation is continued but a climate contribution not implemented, then the carbon price will fail to support European industry investments in climate-neutral production processes, material efficiency and circularity. But when blended together they allow both climate and economic goals to be reached at the same time (see visual explainer).

The Climate Contribution is a charge per ton of emission-intensive materials. It is calculated based on the price of EU ETS allowances and a product specific benchmark. This avoids the need for tracing actual emission and thus minimises administration costs (see visual explainer).

While Free Allowances are granted to avoid carbon leakage, they do result in weakened incentives for investment in clean production processes of basic materials. A recent report by WiseEuropa, Poland, outlines how the Climate Contribution re-establishes the carbon price at the stage when the materials are used by the manufacturing and construction industry, creating incentives for material efficiency and enhanced recycling (see visual explainer).

The EU's net-zero targets will require large-scale investment, yet the EU ETS carbon price is too uncertain and not yet high enough for private firms and financial institutions to fund these investments. A recent report by the Comillas Pontificial University (Spain) outlined how Carbon Contracts for Difference (CCfD) could incentivise low-carbon investment by energy-intensive industries. By guaranteeing a stable carbon price, CCfD provides industry with the certainty it needs to invest in innovative breakthrough technologies (see visual explainer).

In combination with a suite of elements, including sustainable finance, green public procurement and product carbon requirements, the package provides industry with both the imperative to act, and the means to do so. In a report published today, the German Institute for Economic Research, shows how this can allow the European Green Deal to unlock investments towards climate neutrality in industry.

Quotes:

Karsten Neuhoff, head of the Climate Policy Department at DIW Berlin said, "Economic stimulus packages to rebuild after the Corona crisis offer an opportunity to kick start the European Green Deal. However, promoting investment alone is not enough. Clear regulatory frameworks are needed for companies to actually invest in climate-neutral technologies."

Aleksander Śniegocki, Head of the Energy, Climate and Environment Programme at WiseEuropa, said, "The results of last week's narrow vote highlighted the political challenges of swiftly introducing full carbon price on European industrial producers in combination with border-focused measures. A policy mechanism that focuses on getting incentives right for material use while keeping free allocation in place may be a more pragmatic solution which achieves the key goals of CBAM."

Pedro Linares, Professor at IIT- Comillas University and director of Economics for Energy said, "CBAM will not be a silver bullet policy for the decarbonisation of the EU industry. Instead, we need a comprehensive package of complementary measures that acknowledges that effective incentives are required at each stage of the value chain."

Graphics:

You can learn more about the policy package to unlock low-carbon transition of the basic materials sector with a series of simple graphical explainers published today.

Links:

Green Deal for industry: a clear policy framework is more important than funding (2021)
http://www.diw.de/documents/publikationen/73/diw_01.c.813281.de/dwr-21-10-1.pdf

Climate Contribution and its role in European industrial decarbonisation (2020)
https://climatestrategies.org/publication/climate-contribution/

Carbon Contracts for Differences: their role in European industrial decarbonisation (2020)
https://climatestrategies.org/publication/carbon-contracts/

Climate Friendly Materials Platform (CFMP)

Convened by Climate Strategies, the Climate Friendly Materials Platform analyses the transformation of basic material production and use to achieve carbon neutrality by 2050. Our collective aim is to aid progress toward nationally-led industrial decarbonisation policy frameworks compatible with long-term EU strategy, and for the EU to capture the potential of a just and inclusive transformation of the basic materials sector to net climate neutrality by 2050. We achieve this through a process of shared learning and creative exchange with key stakeholders. We bring together leading think tanks and university research groups in Belgium, France, Germany, Hungary, the Netherlands, Poland, Spain and Sweden to enhance Europe's analytic understanding of how individual instruments can be brought together into a coherent policy package.

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