



# Innovation and carbon leakage in the ETS revision proposal

**Re-plumbing the EU ETS:  
low-carbon innovation and carbon leakage  
in a post-Paris world**

# Roadmap: 2050 low-carbon economy

- The transition to a low-carbon economy is feasible and affordable, but requires **innovation** and investment
  - **Investment in today's abatement technologies**
  - **Innovate to develop future abatement technologies**

# ETS revision proposal: innovation and carbon leakage

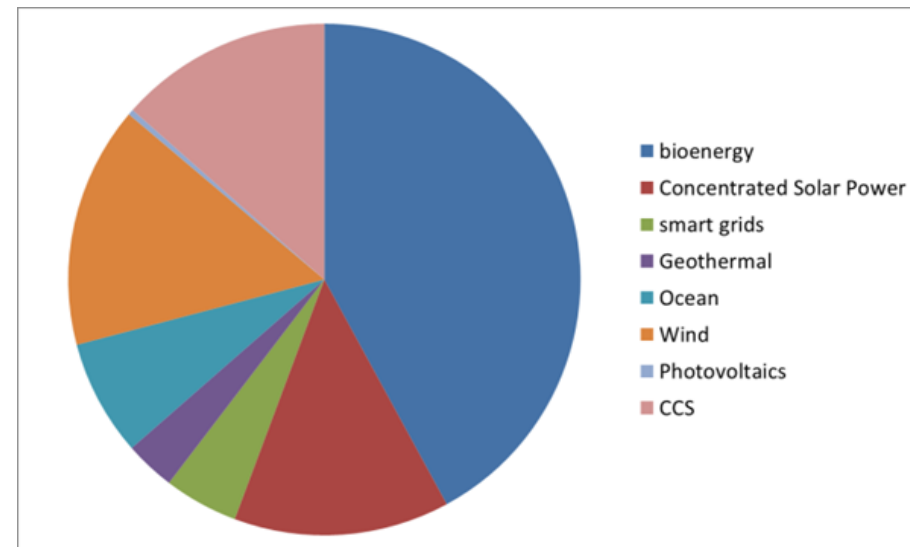
- ***Low-carbon funding mechanisms***
  - **Innovation fund**
    - 450 million allowances up to 2030
- ***Free allocation and carbon leakage***
  - free allocation to continue
    - 6.3 billion allowances from 2021 to 2030
  - benchmarks to be updated
  - two carbon leakage groups
  - more flexible production data
  - avoid / minimise need for correction factor

# Innovation fund

- **Scope:** innovative low-carbon technologies: RES, CCS **and** expansion to cover industry
- Companies across all Member States to compete for available funds
- **Better risk sharing:**
  - **Covering risk earlier in project life cycle:** 40% of funding can be given based on milestones achieved **before** project is operational
  - **Support rate:** up to 60%

## ... building on NER300 experience

- NER 300 funding: €2.1 billion (300 mio allowances)
- 38 projects in 19 EU Member States:
  - 37 RES and 1 CCS
- State-of-play (1<sup>st</sup> call)
  - 3 projects in operation
  - 5 reached positive FID



## ... building on NER300 experience ctd.

- **Delays:** many projects late reaching final investment decision and start of operations
- **Barriers:** investment challenge because of economic (e.g. market development) and regulatory factors (e.g. interaction RES subsidy changes)
- **CCS:** many proposals not confirmed by MS, existing funding insufficient for business case
- **Resources:** reflect carbon price at time of monetisation

## NER 300 lessons learned

- **Address risk:** it's not just about the level of funding, but how and when it is provided. Earlier funding may help to address project risk
- **Flexibility is important:** if money had been ring-fenced, €750m would be unused
- **Complementarity helps:** support for commercial demonstration should be well aligned with steps before (R&D) and after (deployment)
- **Monetisation:** frontloading created gap between impact on carbon market and use of funds

## MORE TARGETED FREE ALLOCATION



BENCHMARKS UPDATED TO  
REFLECT TECHNOLOGICAL  
PROGRESS



NEW ENTRANTS' RESERVE  
MORE FLEXIBLE FOR NEW  
& GROWING BUSINESSES

≈ **50**  
**sectors**  
on new carbon  
leakage list



CLOSER ALIGNMENT  
WITH PRODUCTION  
DATA



COMPENSATING INDIRECT  
COSTS TO ELECTRICITY  
INTENSIVE INDUSTRIES

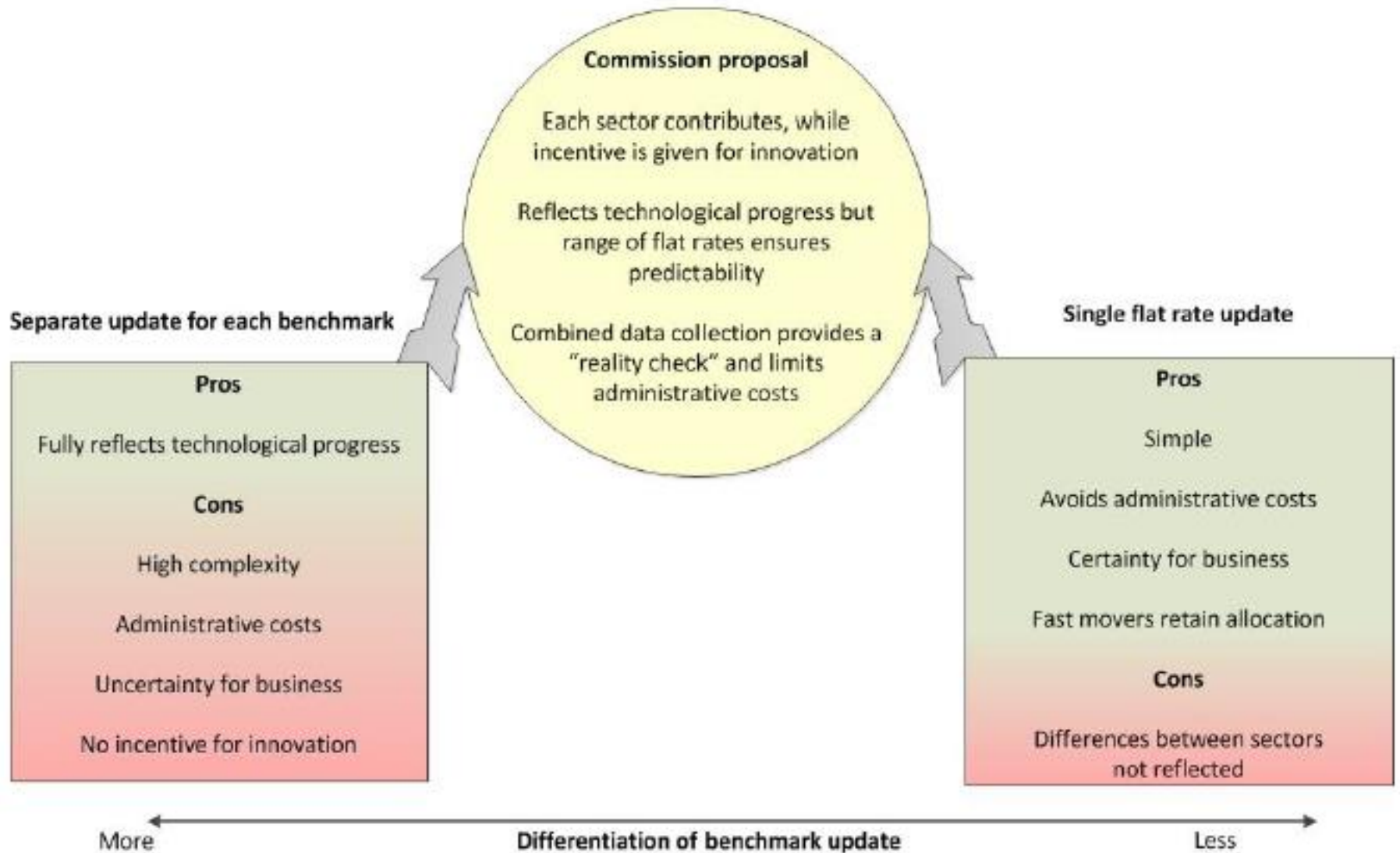




# Benchmark values

## Ambition drives innovation

- **2008 data, benchmarks 22 years old** in 2030!
- EU leaders: regular review of benchmarks **to reflect technological progress**
- Proposal for update based on **3 standard rates** and classification based on **verified data**
- **Advantages:**
  - Preserves overall benchmarking architecture
  - Rewards innovation
  - Simple and predictable
  - Major elements decided in Directive



# Conclusions

- Innovation is key for successful transition to low-carbon economy
- Support for **innovation and carbon leakage** rules are **complementary** ('two sides of a coin')
- Revision proposal aims to **facilitate, strengthen incentives for and reward innovation**