Parameters for effective innovation support

Second Stakeholder meeting on post-2020 carbon leakage provisions for the ETS

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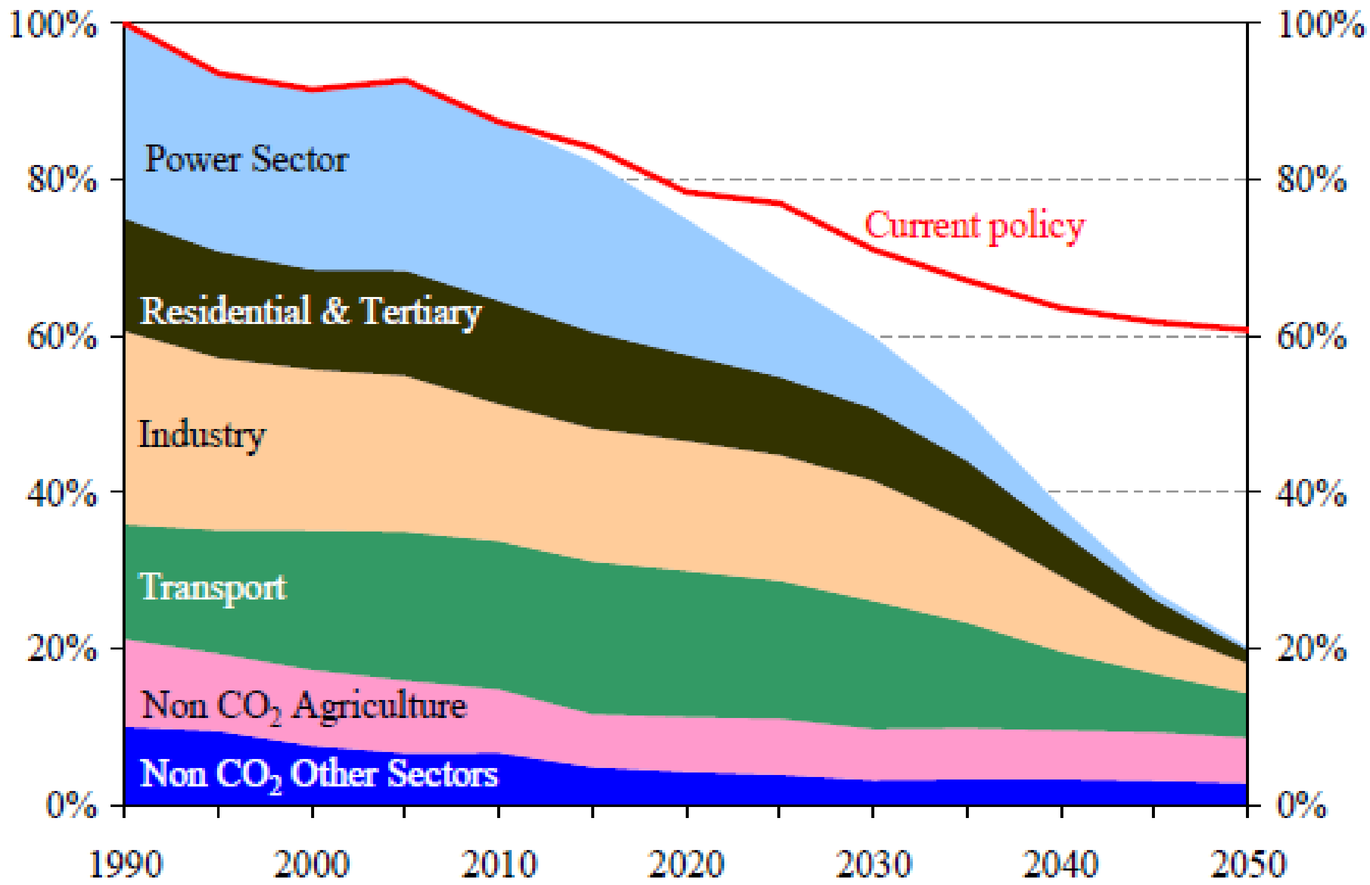
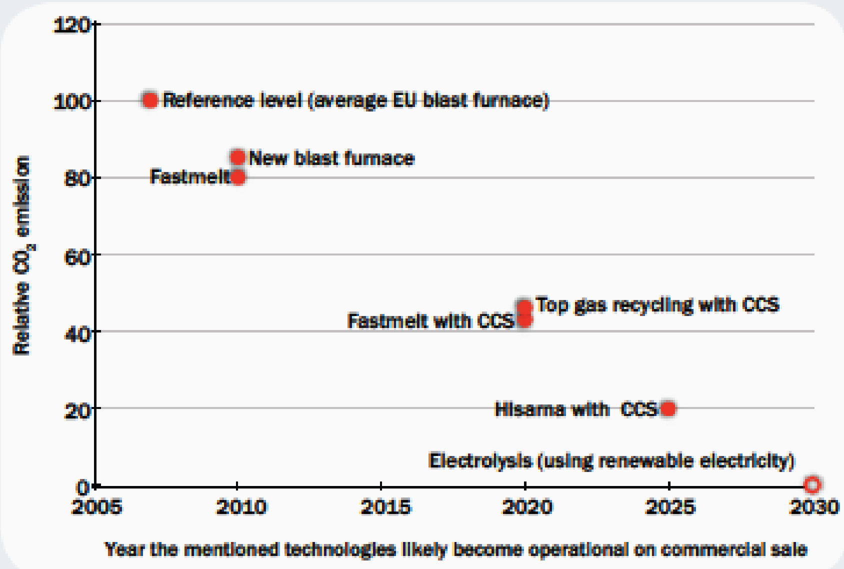
Brussels, 10 July 2014

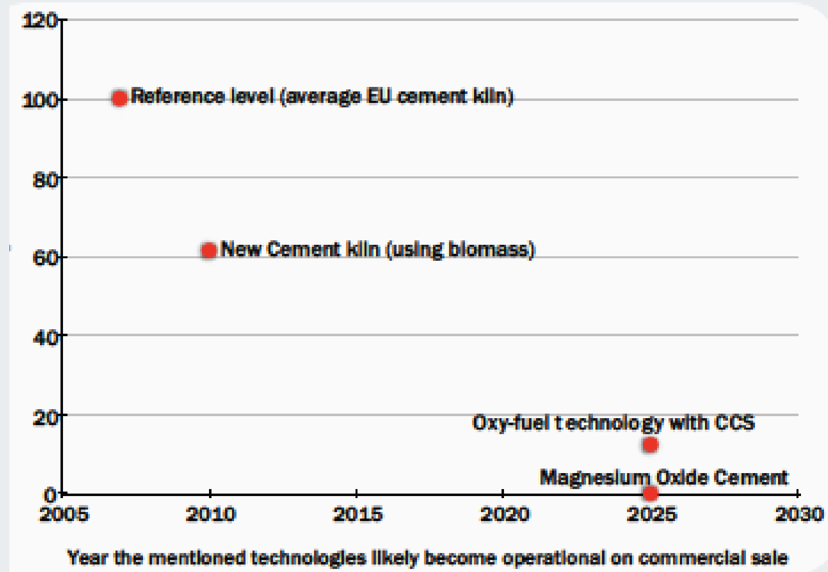
The challenge: decarbonisation by 2050



Industry emission reductions under the EU 2050 low-carbon roadmap:
34-40% reductions by 2030
83-87% reductions by 2050

Potential: steel & cement sector examples





OVERVIEW	STEEL	CEMENT
	Reductions of **80%** are possible	Reductions of **100%** are possible

Source: CE Delft, Technological Developments in Europe, July 2010.

Europe's industry is lagging behind

Olefin

"EU uses 20% more energy than Asian counterparts"

(UNIDO, IEA)

Cement

"India and China more efficient"

(Climate Strategies)

Refining

"Europe's less efficient, lower-complexity refineries cannot compete with the new Middle East facilities"

(Moody's)

Today's ETS: no investment push & pull

Low carbon price

97% free allocation

& cost pass through

No investment conditions attached to free allocation

The way forward

Stronger ETS

Industrial Innovation Fund

Non-participation measures in 2015 agreement

Effective & simple ETS

- Strict ETS linear reduction factor consistent with the 2050 decarbonisation objective (applicable to all)
- Retire 2 billion emission allowances
- Exclude the use of international credits (three quarters from Russia, Ukraine and China)
- MSR

Industrial Innovation Fund: combine finance & performance

- The fund should be replenished by a part of the ETS auctions (comparable to NER300 initiative)
- Firms potentially exposed to the risk of carbon leakage but committed to invest in clean and innovative industrial technologies in the European Union are eligible for support.
- Financial support linked to performance:
  - Public funds should complement private investments in innovative technologies
  - Eligible installations must comply with CO_2 performance standards (later for all installations)

Lessons from Article 10c ETS Directive

- Existing mechanism for "investments in energy modernisation" in the power sector
- About €10bn included in National Investment Plans
- Lock-in: funds mainly used for fossil fuel lifetime extensions and new fossil fuel capacity

Lessons learned:

- Strong EU-level institution required
- Measurable, verifiable and enforceable performance criteria linked to finance

International non-participation measures

- Growing group of countries is establishing carbon markets and other climate and energy policies
- EU unilateral carbon leakage measures increasingly suboptimal
- Abolish free allocation as carbon leakage provision
- Non-participation measures agreed by a pro-action coalition could address the risk of carbon leakage (see e.g. Montreal Protocol)

Thank you

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