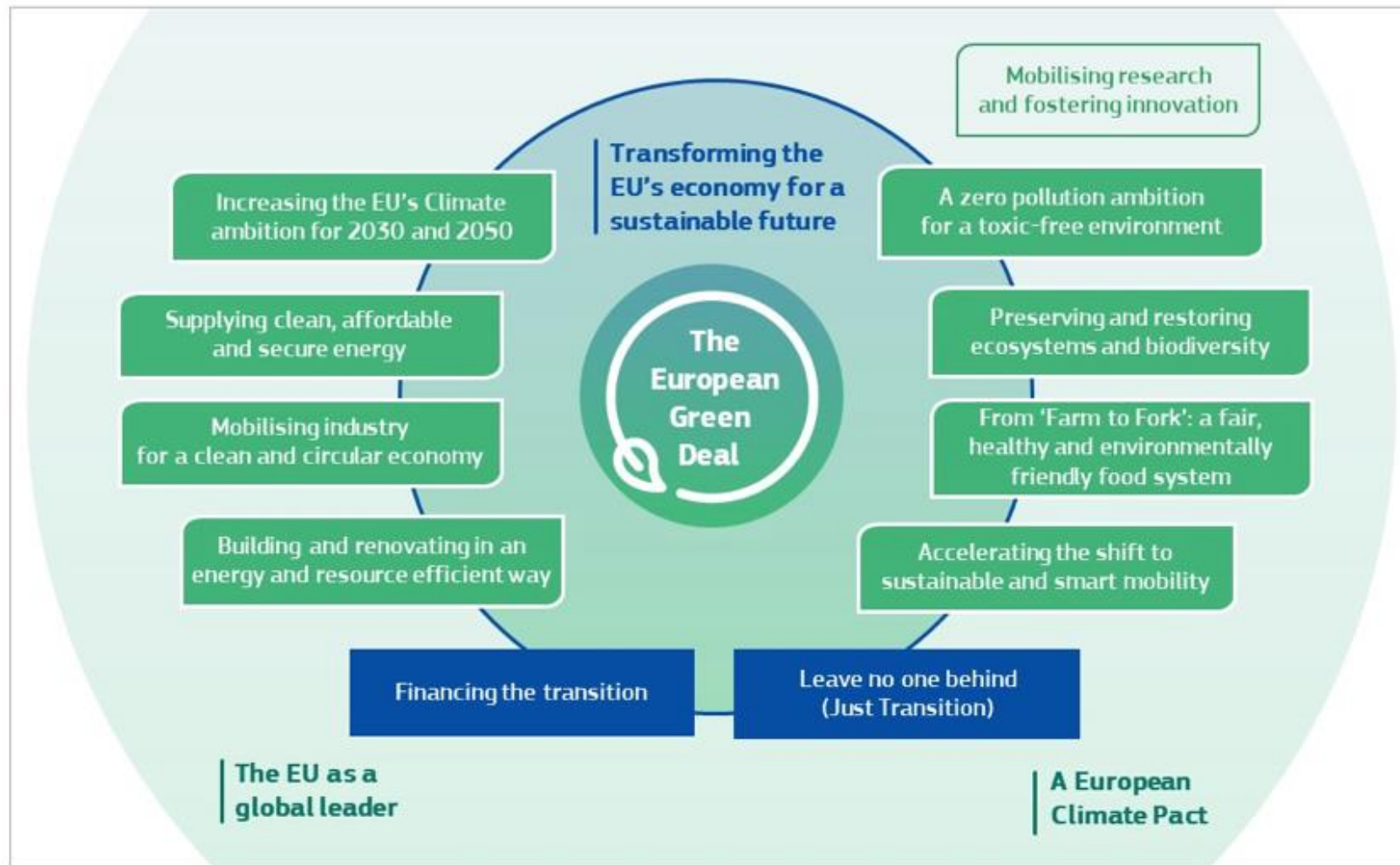


# Appraisal for the FF55 climate package but difficult issues around the corner

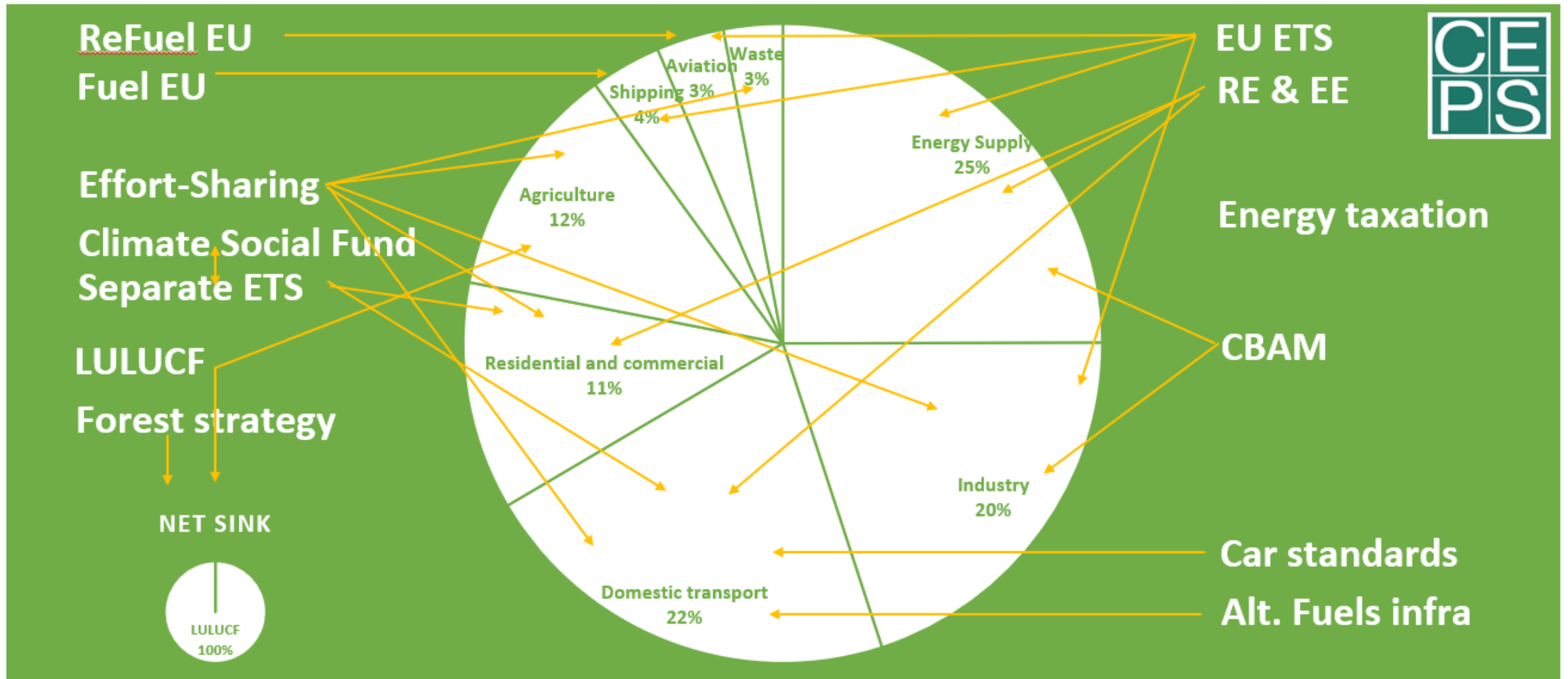
Milan Elkerbout (CEPS and RFF), Lars Zetterberg (IVL)

Mistra Carbon Exit conference 18<sup>th</sup> September 2023

# The Green Deal after 5 years...



# Fit-for-55: most legislation passed..



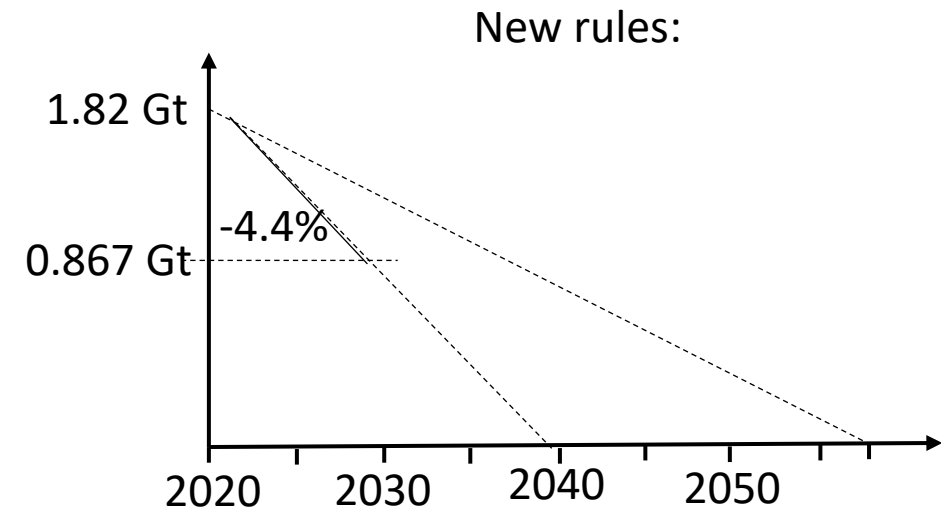
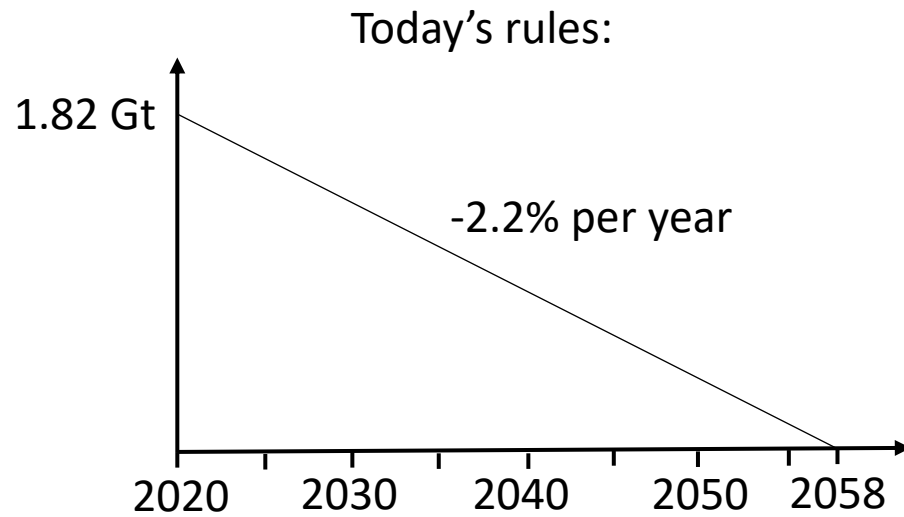
# Some updates on key files

- CBAM: implementation sucks!
  - Admin burdens are high. Revenues stay in Europe.
  - What do we assume about importers?
- ETS: free allocation – on its way out...
  - ... but still a few hundred billion EUR to give away
  - Zero-carbon benchmarks & investment incentives
  - Performance, not process?
- ETS 2: standalone for now; more emissions capped, but prices too
- ETS liquidity: allowances will soon be scarce no matter what

# Green Deal Industrial Plan:

- What does *industry* mean here?
- Is it an actual **response** to the **US IRA...?**
- Is it true **industrial policy**?
- **Competitiveness** has many origins
- A political strategy...
  - **Critical Raw Materials Regulation** (legislation)
  - **Net-Zero Industry Act** (legislation)
  - **State aid:** crisis & transition framework (soft law)
  - **STEP** financing (budgetary political ploy)
  - (electricity market design?)

# Endgame of the EU ETS



What happens when the cap goes to zero?

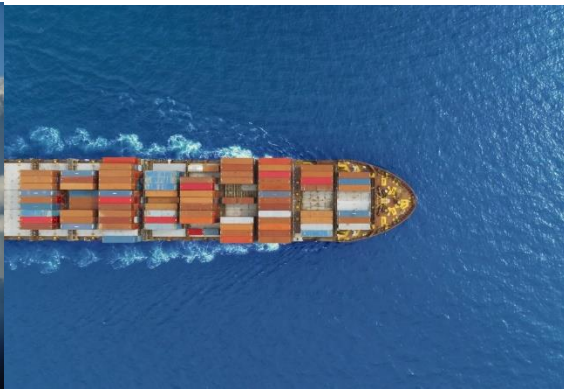
# Endgame of the EU ETS

Will emissions be zero?

No - There will most likely be residual emissions in:



Aviation



Shipping



Leakage from CCS



Waste incineration  
(fossil part)

# **Endgame of EU ETS – three scenarios:**



# Endgame of EU ETS – three scenarios:



1. Retire and replace

# Endgame of EU ETS – three scenarios:



1. Retire and replace



2. Eternal life  
with a small cap

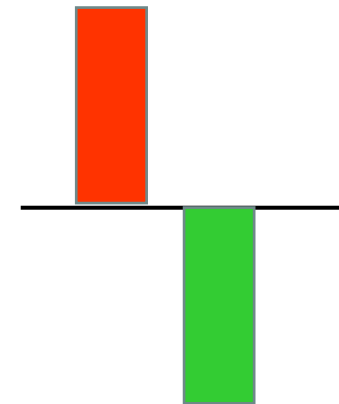
# Endgame of EU ETS – three scenarios:



1. Retire and replace



2. Eternal life  
with a small cap



3. Zero cap and  
credits

# Negative emissions

Not only the EU ETS, but the whole EU is in need for negative emissions: aviation, shipping, CCS-leakage, plastics and **agriculture**

EU need - more than 300 Mt/year in the year 2050

CDR-technologies:

- Bioenergy and CCS - BECCS
- Direct Air Carbon Capture and Storage - DACCS
- Carbon sequestration in forests and agricultural land
- Biochar

# Creating incentives for CDR

1. Allow participants of the EU ETS to use CDR credits.
  - Restricted use. Limit to BECCS and DACCS.
2. Establishment of an EU central system for CDR production
  - Targets and budgets for different types of CDR
  - Funded by MS budgets or allowance sales
3. Quota obligation
  - Firms that emit GHGs are obliged to purchase CDR credits corresponding to their emissions.
  - Reduces costs for MS
  - Sectors: road transportation to start with, followed by sectors with residual emissions
  - Only possible to reach net zero -> Exchange rate

# Questions?