

## **Factsheet: New innovative elements in the ETS to trigger investment in hydrogen and other clean technologies**

The EPP insists on a climate policy that helps industry to decarbonise and avoids carbon leakage. We want to keep jobs in Europe and help EU industries to lead the transition to carbon neutrality. We want de-carbonisation, not de-industrialisation. We also insist on technological neutrality so that the market can develop the best possible solutions. And we want to use market-based measures to achieve this target. ETS should be the corner stone of the Fit for 55 package and not mainly command and control measures. But how exactly can we achieve the target of decarbonising our industries?

On top of the huge success that EPP rapporteur Christian Ehler achieved in the Horizon Europe to support the decarbonisation of industry and many other elements, a targeted change of the ETS is important. The leaked proposal of the ETS foresees additional incentives for green hydrogen and other carbon-free technologies and it increases the technological neutrality of the whole climate policy. The leaked proposal foresees a lot of changes and clarifications to address this issue.

1. It is clarified that installations stay within the new ETS where they reduce the total capacity of their combustion unit to reduce greenhouse gas emissions, for example through electrification. Concrete example: a company decides to change a fossil-fuel heating system by a heat pump (sourced, for example, by renewable energy). In the existing ETS, this could lead to a situation where they fall under the 20 MW threshold and therefore, fall out of the ETS. If this company got free allowances according to the benchmark, they could no longer get these free allowances and sell them. This would be a perverse effect because these innovations are exactly the ones that we want to trigger. That is why it is very important that installations, even if they reduce their energy consumption, will stay within the ETS.
2. The definitions of activities will be made technology-neutral. References to fossil fuels or specific production processes will be abolished, so that climate-friendly technology will benefit.
3. There will be a reference to the production capacity instead of combustion capacity.
4. The benchmark definition is reviewed to ensure equal treatment of installations independently from the technology used. This means, for example, that hydrogen can be covered and companies that use hydrogen will have a benefit.
5. The Commission clearly spells out that Carbon Contracts for Difference (CCDs) are an important element to trigger emission reductions. This recital (33) indicates that state aid rules should accept when member states support Carbon Contracts for Difference and also European sources, for example the Innovation Fund, could make use of it. Carbon Contracts for Difference mean that a company that develops a breakthrough technology to produce carbon neutral products, for example, carbon neutral steel, will not only benefit from the measures inside the ETS but additional support is possible to cover the extremely high costs for the transition.

## Conclusion

The proposed changes in the leak are more than welcome. They are fully in line with the EPP policy. They will reduce the costs of decarbonisation in the industry, will incentivise breakthrough innovations like green hydrogen and produce resources independently from tax payers' money.

ANNEX: Passages from leaked text (pp. 18)

*Removal of barriers for innovative low-carbon technologies by modifying the EU ETS scope and benchmarks (Article 2, Article 10a and Annex I)*

The EU ETS free allocation rules are amended to better support decarbonisation of energy intensive industries by the deployment of break-through technologies.

Efficient technologies just below benchmark level receive more free allocation than they emit. This puts innovative technologies outside the EU ETS at a competitive disadvantage, so investments in those technologies may be discouraged. Innovative installations can fall out of the EU ETS because they change their production process or because their total rated thermal input of the combustion units of an installation decreases to less than 20 MW.

This disincentive is addressed by: (i) specifying that installations stay within the EU ETS if they reduce the total capacity of their combustions units to reduce greenhouse gas emissions (e.g. through electrification); (ii) making the definitions of activities technology neutral (removing references to fossil fuels or specific production processes); (iii) referring to production capacities instead of combustion capacities and (iv) reviewing the benchmark definitions to ensure equal treatment of installations independently of the technology used, including when using low- or zero-carbon technologies. Maintaining innovative installations in the EU ETS will also reduce benchmark values and thus encourage greater emissions reductions.

(8) The EU ETS should incentivise production from installations that partly or fully reduce greenhouse gas emissions. Therefore, the description of some categories of activities in Annex I to Directive 2003/87/EC should be amended to ensure an equal treatment of installations in the sectors concerned. In addition, free allocation for the production of a product should be independent of the nature of the production process. It is therefore necessary to modify the definition of the products and of the processes and emissions covered for some benchmarks to ensure a level playing field for new and existing technologies. It is also necessary to decouple the update of the benchmark values for refineries and for hydrogen to reflect the increasing importance of production of hydrogen outside the refineries sector.

(9) Council Directive 96/61/EC was repealed by Directive 2010/75/EU of the European Parliament and of the Council. The references to Directive 96/61/EC in Article 2 of Directive 2003/87/EC and in its Annex IV should be updated accordingly. Given the need for urgent economy-wide emission reductions, Member States should be able to act to reduce greenhouse gas emissions that are under the scope of the EU ETS through other policies than emission limits adopted pursuant to Directive 2010/75/EU.

(33) Carbon Contracts for Difference (CCDs) are an important element to trigger emission reductions in industry, offering the opportunity to guarantee investors in innovative climate-friendly technologies a price that rewards CO<sub>2</sub> emission reductions above those induced by the

current price levels in the EU ETS. The range of measures that the Innovation Fund can support should be extended to provide support to projects through price-competitive tendering, such as CCDs. The Commission should be empowered to adopt delegated acts on the precise rules for this type of support

Directive 2003/87/EC is amended as follows:

(1) In Article 2, paragraphs 1 and 2 are replaced by the following:

“1. This Directive shall apply to the activities listed in Annexes I and III, and to the greenhouse gases listed in Annex II. Where an installation that is included in the scope of the EU ETS due to the operation of combustion units with a total rated thermal input exceeding 20 MW changes its production processes to reduce its greenhouse gas emissions and no longer meets that threshold, it shall remain in the scope of the EU ETS until the end of the relevant five year period referred to in Article 11(1), second subparagraph, following the change to its production process.