Climate Policy for Industry

Advice 4: Climate Crisis Policy Team (KBT)

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Summary

The political will exists in Europe to halve all climate emissions by 2030, relative to 1990, including those of industry. To achieve that target in an effective manner requires, on the one hand, a carbon budgeting system for all companies that puts a cap on CO_2 emissions, enabling them to get a price. On the other hand, companies need to be supported in transitioning to lower-carbon production methods and as rapidly as possible to zero-carbon technologies.

ETS-companies

For the biggest emitters there is already a carbon budget in place, determined by the European Trading System (ETS). These ETS companies[1] operate in an international context and account for 75% of the CO_2-eq. emissions of the industrial sector as a whole. For these companies, it is advised not to set any additional, Dutch targets. It is recommended, though, to advocate for the following changes at the European level:

- Tightening of the emissions ceiling in line with the target of the EU Green Deal.
- Introduction of some form of border adjustment on outer European borders to maintain competitiveness (CBAM – Carbon Border Adjustment[2] or ECC – External Cost Charge).
- Abolition of free emission allowances: all rights should be auctioned, with a major portion of the resultant revenue being used for innovation subsidies.
- Introduction of a minimum carbon price to make the system more predictable and reliable.
- Inclusion of waste incinerators in the EU ETS.

A carbon budget for non-ETS companies

While non-ETS companies are together responsible for a quarter of industrial emissions, individually they are generally (far) smaller than ETS companies, making emissions registration at firm level inefficient. For non-ETS companies the KBT therefore recommends introducing a carbon budgeting system implemented via fuel suppliers (gas, petrol, diesel, etc.). It would then be up to energy suppliers to obtain enough emission allowances at auction. As the overall cap is reduced, emission targets are met, scarcity grows, and with it the carbon price, and more expensive measures become more attractive. This will affect the price and availability and/or composition of gas, in particular. Non-ETS companies will need to be able to participate in the ETS via opt-in provisions (because they are competing with ETS companies, for example).

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[1] In this advice we refer to companies operating installations coming under the European Trading System as 'ETS companies' and other companies as 'non-ETS companies'.

[2] In the European Green Deal the European Commission has proposed a CBAM for several core sectors. This proposal is currently being elaborated in more detail, see: link.https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-carbon-border-adjustment-mechanism

It would make sense to combine the carbon budget for non-ETS companies with that for the built environment and transport[3]. This would create a larger market where reductions are secured at lowest cost. The non-ETS budget can be initiated at the national level and gradually harmonised with neighbouring countries. With time, it is conceivable that this national system becomes integrated with that of other countries to create a European system for energy suppliers.

Additional government policy

The KBT advises the government to then help companies operate within these tighter emission caps by:

- Subsidies for innovation and scale-up of technologies having major reduction potential that need to be part and parcel of a climate-neutral economy, funded through sales of carbon emission allowances. This would mean the 'unprofitable component' no longer being subsidised, as it is currently via the SDE renewable energy incentive scheme.
- Timely roll-out of infrastructure for electrification and hydrogen.
- Modification of the Energy Tax and the ODE Renewable Energy Surcharge, introducing flatter rates per unit energy for large, medium and small companies and equal treatment of gas and electricity, thereby factoring in energy carriers' full lifecycle greenhouse emissions4. This will lead to a more even tax per unit energy for all companies, creating broader support for the green transition.

The KBT's advice for industry is summarised in **Fout! Verwijzingsbron niet gevonden.** and comprises:

1. A clear narrative explaining the necessity of climate policy and the value of going green for industry (necessity and effectiveness).
2. Vigorous policy shaped around a carbon budget for both ETS and non-ETS companies.
3. Flanking policy for achieving the goals and supporting emerging technologies, designed around:
   - subsidy policies geared to innovation and scale-up instead of subsidies for the 'unprofitable component'
   - steering, supportive and advisory government policy for securing the emissions reduction target
4. Fair sharing of burdens and benefits, so companies can afford to bear the cost of the transition without the cost of greening the industry being passed on to consumers.

The proposed policies are designed to remove the three main barriers for greening industry:

- fossil energy without carbon capture and storage (CCS) remains the cheapest option for virtually all processes;
- climate policy may not jeopardise industrial competitiveness;
- key renewable technologies are not yet ripe for large-scale industrial roll-out.

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[3] The EU 'Effort Sharing Regulation' lays down, for each Member State, a collective reduction target for these sectors. This obliges Member States to minimise these sectors' CO_2 emissions, but without this leading to price hikes for consumers.

[4] Electricity is currently taxed higher than gas, creating barriers to electrification for companies and households alike. Small steps have been taken to correct this. A level playing field is essential because the electricity and fuel infrastructure both need to become climate-neutral.

Figure 1 – Main thrust of KBT advice