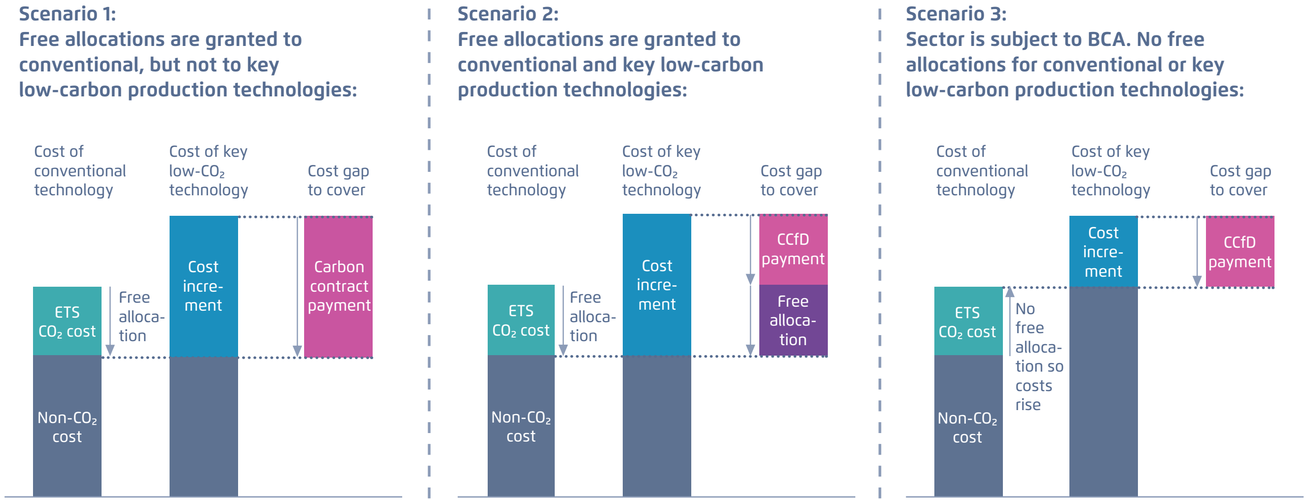
Carbon Contracts-for-Difference

Figure C.7



Note: Under the current EU ETS carbon leakage protection system, energy-intensive industries with high trade exposure receive free EUA allocations to maintain their production cost at the level of international competitors with equally GHG-intensive processes. This cost, which is largely independent from the carbon market price, is the reference for the calculation of the CO_2-abatment cost that results from producing with key low-carbon technologies. This incremental cost can be covered fully with a carbon contract (Scenario 1) or by a combination of free allocations also for key low-carbon technologies and the payment of a CCfD (Scenario 2). In case the system evolves towards a Border Carbon Adjustment (BCA) without free allocations to energy-intensive and trade-exposed industries, the production cost of GHG-intensive technologies increases and the payment of the CCfD reduces accordingly. This illustrates that the CCfD is compatible with a future BCA and increasing carbon prices but allows to mobilise urgent investments now.

Agora Energiewende, 2021