

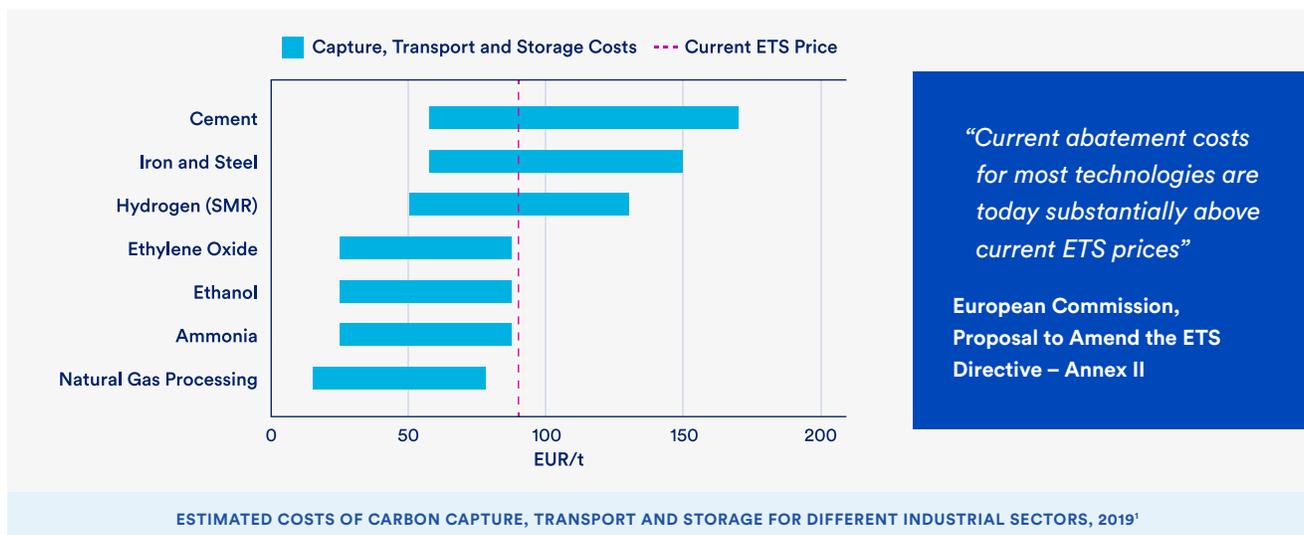
Decarbonising European industry: Enabling carbon capture and storage through the EU ETS

Overview

Carbon Capture and Storage is an essential technology to decarbonise Europe’s industrial and harder-to-abate sectors and [plays a key role in the Commission’s pathways to reaching climate neutrality in 2050](#). [Analysis from the International Energy Agency \(IEA\)](#) shows that carbon capture and storage can effectively decarbonise processes in the industrial sector, [which is responsible for 21% of total emissions in the EU](#).

The cost of capturing CO₂ can vary considerably for different industrial sources. Nevertheless, carbon capture and storage often represents the most cost-effective solution in some sectors, like steel, while in other sectors, like cement, carbon capture and storage is the only real solution. [Developing large CO₂ Networks will help achieve technological learning and economies of scale which can reduce costs and increase efficiency](#).

Currently, Europe faces a €10 billion funding gap for announced carbon management projects – and the ETS alone is unlikely to address that gap.

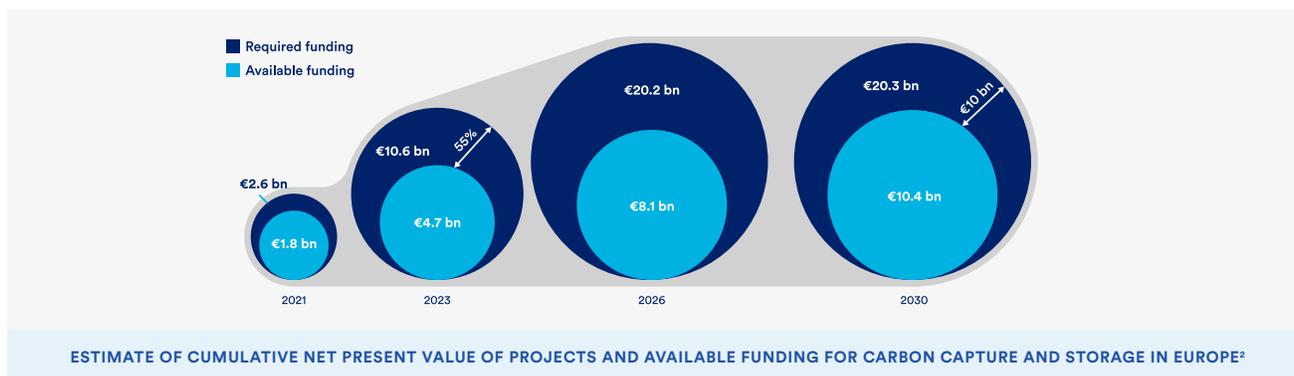


¹ Source: IEA, CCUS in Clean Energy Transitions, 2020

Bridging the Funding Gap: Carbon Contracts for Difference and the Innovation Fund

Even with current prices of ETS allowances, the financial incentive for carbon capture and storage is largely insufficient, although some sectors may only need low levels of additional support. Together with Carbon Limits, [Clean Air Task Force has identified a funding gap of €10 billion](#) between the cost of capturing, transporting and storing CO₂ and the funding currently available for announced projects, including savings associated with the ETS. Much of the reason for this gap is due to the lack of a business case since the ETS price is still too low, while relying on the ETS as the sole financial incentive to support carbon capture and storage projects creates an uncertain environment for investors [as the Commission has recognised](#).

While the carbon price provided by the EU ETS can help drive decarbonisation, many carbon capture and storage projects still represent a net loss to developers, which will simply delay decarbonisation until stronger carbon prices prevail.



Key Recommendations

Faster phase-out of free allowances for industrial sectors

- The proposed phase-out by 2036 is insufficient and does not reflect the speed with which Europe's industry must decarbonise, nor does the deployment of the CBAM which is supposed to address carbon leakage. All free allocations should be eliminated by the time CBAM enters into force or, at the very last, by 2029.

Expand the Innovation Fund and focus on hard-to-abate sectors

- The Innovation Fund is a critical tool to support the development of technologies like carbon capture and storage and should be expanded significantly.
- The First Call for applications was significantly oversubscribed, highlighting the demand for clean technology innovation funding and durable, strategic policy mechanisms aimed at large-scale deployment.
- Rather than inclusion in the ETS, innovative carbon removal technologies like Direct Air Capture should receive funding through ringfencing in the Innovation Fund.

Enabling the Commission to use Carbon Contracts for Difference

- Carbon Contracts for Difference (CCfDs) gives investors certainty by ensuring a public counterparty pays the difference between the agreed long-term cost of a technology and the fluctuating ETS price. The inclusion of CCfDs in the proposal is a critical, positive step to ensure greater incentives are provided for carbon capture and storage.

² Reference: CATF European carbon capture and storage project database, Carbon Limits analysis (see list of references above for individual funds included in the analysis)