Commissariat à l'énergie atomique et aux énergies alternatives
Atomic Energy and Alternative Energies Commission

Answer to the European consultation

EU Emission Trading Scheme

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Summary

CEA supports the exemption of chemically and permanently bound CO_2 (storage) from coverage by allowances, as foreseen in the revised directive.

In the context of carbon capture and use, the Commission must ensure that carbon emitted into the atmosphere is subject to the emissions trading scheme only once (no avoidance possibilities, nor need for multiple allowance coverage for a single emission).

The benefits of emission avoidance in the context of carbon capture and use (CCU) should be shared between the activity capturing its emissions and the activity buying carbon from capture.

CEA supports the idea of creating carbon remuneration supplements (Carbon Contracts for Difference) while calling on the Commission not to stop this measure after 2030. Indeed, industrial investments are calculated over a long period of time, often more than ten years.

CEA supports the Commission's proposal for a further decline in the number of allowances placed on the market, which is necessary for the Union to reach its climate objectives.

As long as the number of allowances put on the market exceeds demand, the market stability reserve retains a major role in stabilising the market and avoiding a collapse in the value of allowances. CEA therefore calls on the Commission to be very vigilant in creating its "buffer market stability reserve" to ensure that it does not undermine the progress made by the ETS since the market stability reserve (MSR) was introduced in 2018-19.

CEA welcomes the European Commission's reopening of the CO_2 Emission Trading Scheme Directive, but wishes to draw the Commission's attention to several points.

1. Carbon capture and use or storage

CEA supports the exemption of chemically and permanently bound CO_2 (storage) from coverage by allowances, as provided for in the revised directive. Indeed, subjecting this CO_2, which is not emitted into the atmosphere, to coverage by allowances would dissuade any effort in the field of carbon capture and storage.

Captured and reused CO_2 (CCU) should not be subject to coverage by allowances twice, as this would discourage improvements in carbon use efficiency. For example, CO_2 captured from cement plants and then reused to make synthetic methane that is burned in industry would be subject to allowances twice under the current system. This removes the incentive to use carbon more efficiently before it is emitted into the atmosphere. Carbon should therefore be subject to the allowance system only once.

The Commission must also ensure that the CO_2 emitted cannot avoid the allowance system either. For example, activating coverage by the allowance mechanism only at the moment of emission to the atmosphere would present a loophole: CO_2 captured at the exit of a cement plant would not be subject to the allowance system (because there is no atmospheric emission). Additionally, if this CO_2 is to be used to produce synthetic methane consumed in transport or heating (which is not yet subject to the CO_2 market, even though the Commission has issued a proposal to that effect), the CO_2 emitted when it is burned would not be subject to the EU ETS either... In this hypothetical case, the CO_2 emission would avoid the allowance system.

The following should therefore be subjected to the EU ETS:

- **CO_2 emitted into the atmosphere by an activity within the EU ETS scope,**
- **CO_2 generated (but not emitted to the atmosphere) by an activity subject to the EU ETS if the recovered carbon is destined for an activity outside the EU ETS scope.**

For CO_2 generated by an activity subject to the EU ETS, captured and reused in a second activity subject to the EU ETS, only the second activity should cover its emissions with allowances.

The mechanisms that will be put in place must be designed in such a way that the benefits of CO_2 avoidance can be shared between the producer of the captured CO_2 and the receiver/processor of that CO_2.

Capture for <u>use</u> of CO_2 should be reserved as a priority for processes that are difficult to decarbonise (cement plants, steel plants, certain chemical industries, bioenergy and agroindustries, etc.). Otherwise, either the captured CO_2 stream would be limited in time due to the necessary decarbonisation (and the investment in CCU would be sub-optimal compared to its application to long-term CO_2 emitters), or CCU would discourage the decarbonisation of these industries. CCU should not be a means of endorsing the continuation of industrial activities that could be decarbonised by other currently deployable strategies. This would contravene the carbon neutrality objective.

On the contrary, CO_2 capture and <u>storage</u> should be open to all CO_2 emitting processes, with priority given to projects with the lowest cost per tonne of CO_2 emission avoided.

Carbon Contracts for Difference (CCDs)

CEA supports the Commission's idea of setting up Carbon Contracts for Difference (CCDs). These mechanisms are a good way to reduce the risks of decarbonisation investments for the industry, given the structural and intrinsic flaw of the carbon market, which is its unpredictability. It would also allow the least costly CO_2 emission gains to be seized in priority, without harming the competitiveness of European industries.

CCDs should not be stopped after 2030. They must give industrial players visibility over the long term, corresponding to numerous industrial investments. It is over long time scales that the economic relevance of many investments is assessed.

Supply of the CO_2 allowances market (EU ETS)

CEA welcomes the ambition to increase the trajectory of reduction of the number of allowances put on the market, in order to allow the European Union to reach its climate objectives.

As long as the number of allowances put on the market each year is not limiting, CEA would like to draw the Commission's attention to the importance of having a <u>solid market stability reserve</u>.

Indeed, this reserve prevents the market from being over-supplied. Hence, it is the safeguard mechanism against the collapse of the price of allowances – as was the case between 2012 and 2018. CEA therefore calls on the Commission to ensure the expected effects of the envisaged buffer MSR, in order to avoid any risk of a further collapse of the price of CO_2 allowances.