

EFET response to the EU Commission consultation on industrial carbon management

The European Federation of Energy Traders (EFET¹) appreciates the opportunity to provide our remarks to the EU Commission public consultation on industrial carbon management – carbon capture, utilisation and storage deployment – under the European Green Deal.

The EU envisages its transition to a carbon-neutral economy by 2050² and a reduction of greenhouse gas (GHG) emissions to at least 55% below 1990 levels by 2030. **To that end, carbon capture utilisation and storage (CCUS) will be critical in decarbonising energy-intensive industries, with significant potential for achievement of carbon dioxide removals (CDRs).** We note that the use of carbon removals should be complementary to a primary focus on reducing GHG emissions. **CCUS will moreover foster the production of low-carbon hydrogen via steam methane reforming combined with it.** The penetration of low-carbon hydrogen into the existing gas grid will complement that of electrolytic hydrogen, targets for which have been set out in the EU Hydrogen Strategy³.

An EU strategy for CCS should ensure the establishment of a predictable and long-term framework to support the creation of an internal market for capture, use and storage of CO₂. We acknowledge that this will require a concerted regulatory effort on multiple fronts. It spans the revision of the non-binding Guidance documents forming part of Directive 2009/31/EC (CCS Directive) and the selection process around the sixth list of projects of common interest (PCIs) featuring storage as eligible under the revised Trans-European Networks for Energy (TEN-E)⁴. It moreover extends to national transpositions of the amended Emissions Trading System (ETS) Directive and the ongoing legislative and scrutiny process on a certification framework for carbon removals.

From a trading viewpoint, it is of particular importance that the regulatory framework ensures the uptake of the widest range of commercially viable technological solutions and addresses the standards that should be met to generate carbon credits with a tradable value across EU borders. Our general remarks addressing these aspects are outlined below.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 140 energy trading companies, active in over 27 European countries. For more information: www.efet.org

² A decision which will require the industry to reduce its emissions by around 90-95% compared to 1990 levels, as per the EU Commission long-term vision (section 9.4.2.7) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC0773->

³ EU Commission Communication “A hydrogen strategy for a climate-neutral Europe” <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0301&from=EN>

⁴ Both initiatives are expected to be delivered in the fourth quarter of 2023 – first quarter of 2024.

1. An EU CCS framework should incentivise all commercially ready technologies.

A technology-neutral approach, based on the amount of carbon captured, mitigated, or used, will strengthen the role of CCUS as a key enabler for a cost-efficient and just transition to net-zero. Coherent implementation of the CCS Directive for the creation of an internal market for capture, use and storage of CO₂, as also identified in the EU Commission Communication on sustainable carbon cycles⁵, should be open to the full breadth of both technology-based solutions⁶ and nature-based ones⁷.

Policies related to CCS should aim at facilitating investments along the value chain and at helping CCS become an option for decarbonisation, rather than restricting beforehand its use and room for deployment. It would be counterproductive to predefine the industries in which CCS can be applied, as this would hinder the development of low-cost infrastructure and therefore the creation of a functioning market for CO₂ transport and storage services in Europe.

The deployment of all technologies involving CCS should be incentivised as soon as each of them is considered to become commercially viable in the foreseeable future. **Therefore, the EU CCS Strategy should be designed in a way so that it does not delay the uptake of technologies which are close to their commercialisation. It should also not set artificial deadlines for still unviable technologies to be scaled up.**

2. Carbon credits should be tradable across EU borders and CCS technologies ultimately exposed to market forces.

To support the development of CCS at the needed scale, the regulatory framework should identify the standards which will have to be met to enable the generation of tradable carbon credits across EU borders. These standards will ensure that the valuation of carbon credits in one Member State is comparable with the carbon credits corresponding to a similar technology in another Member State. In this respect, EFET has previously welcomed the legislative proposal of the EU Commission on an EU-wide certification framework for carbon removals⁸. A centralised and robust certificate framework governed by the European Commission will increase regulatory clarity, confidence among investors and the public, and will have the best prospects of becoming a recognised and

⁵ EU Commission Communication “Sustainable Carbon Cycles” https://climate.ec.europa.eu/system/files/2021-12/com_2021_800_en_0.pdf

⁶ E.g., bioenergy with carbon capture and storage – BECCS, Direct Air Capture with Carbon Storage – DACCS, enhanced weathering.

⁷ E.g., soil carbon sequestration, biochar.

⁸ EFET response to the EU Commission consultation on the proposal for a regulatory framework for the certification of carbon removals https://efet.org/files/documents/20230323_EFET_CR_TFET_Carbon_removals.pdf

trusted instrument, thereby attracting more financing. There needs to be a strong and robust demand for these certificates, not only from the voluntary market, which is insufficient today, but also from the perspective of the EU climate policy framework.

At the same time, to encourage commercial investment in CCS, which will in turn allow earlier recognition of and trade in instruments between Member States, new regulations at EU level should consider the evolution of the market. For example, common standards for CO₂ transportation could be appropriate when interconnected networks are significantly developed. Moreover, the framework should be reasonably flexible, to provide room for Member States to account for their specific geographic, regulatory and social contexts.

Low-carbon technologies (e.g., including, but not limited to, hydrogen produced from steam methane reforming with CCS) should ultimately be exposed to market forces and commercial elements necessary to incentivise private investments. In the meantime, CCUS should, under the envisioned framework, be eligible for forms of support as has been provided to other technologies.

3. An EU offset certification scheme should be in due course integrated into the compulsory scope of the EU ETS.

The EU ETS is Europe's central instrument to reach climate goals. The voluntary market should seek to facilitate high quality credits that are used for residual emissions after emissions reductions have been achieved as much as possible, whilst the compliance market can support the scale up of investment decisions today in removals technologies. The respective price for EUAs has become a benchmark for carbon abatement across Europe. **For this reason, EFET sees a benefit to the integration of an EU offset certification scheme into the EU ETS, as far as practicable, through transparent and verifiable "CDR certificates" or "negative EUAs."**

In principle, EFET envisages the incorporation in due course of an EU offset certification scheme into the compulsory scope of the EU ETS. **However, the right time for this merger should follow careful observation of the methodologies being developed in the voluntary markets and ensuring credits accord with high integrity principles. These principles should cover good design, transparency, and verification mechanisms.** Carbon removals should be measured and accounted with the same high level of accuracy as the CO₂ emissions regulated by the EU ETS Directive. This should be a requirement for any potential integration of certificates into the EU ETS framework in the future. Industrial carbon removals achieved by technological solutions, especially at installations covered by the EU ETS Directive (e.g., BECCS) have the potential to meet those criteria.

4. Clarity is needed on interactions between the EU framework and the London Protocol for imports and exports of CO₂.

An EU CCS Strategy should also facilitate coordination⁹ between Member States and the EU Commission, Member States and EEA countries parties to the London Protocol on issues not covered by the CCS and ETS Directives, as well as the European industry and the CCS community.

Specifically, despite the release of the EU Commission analysis paper on the London Protocol in September 2022¹⁰, **further clarity is needed on how to overcome the legal boundary of the London Protocol, which considers CO₂ streams from CO₂ capture as wastes, in case of cross-border transport and storage of CO₂.** This is of importance given the likelihood of connections of large emission points to multiple high-quality storage sites, e.g., North Sea storage sites with large emission areas in North-West Europe, the Baltics and UK.

The EU Commission should thus provide clear guidelines on the regulation of imports and exports of CO₂, transport modals and installations in the context of the CCS and ETS Directives and binding arrangements under the London Protocol to foster the development of CCS and facilitate knowledge sharing among Member States.

⁹ Already underway via the Information Exchange Groups (IEG) on the Implementation of Directive 2009/31/EC on the geological storage of CO₂ (CCS Directive) and the CCUS Fora.

¹⁰ The EU legal framework for cross-border CO₂ transport and storage in the context of the requirements of the London Protocol https://climate.ec.europa.eu/document/dfbbc90c-071e-4088-ada2-7af467084b30_en