

# Commercialisation Contracts: European support for low-carbon technology deployment

Paper at: <https://www.bruegel.org/2021/07/commercialisation-contracts-european-support-for-low-carbon-technology-deployment/>

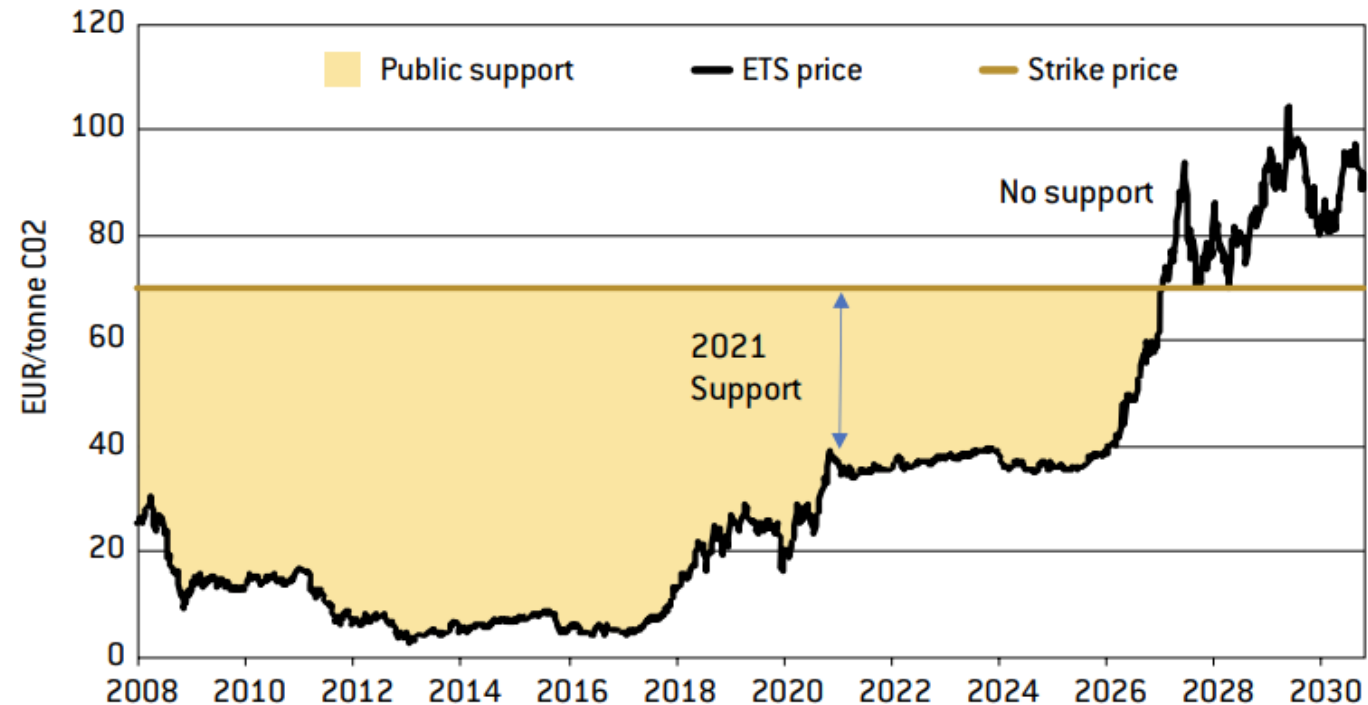
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# What are commercialisation contracts?

Similar in concept to carbon-contracts-for-difference

- Low-carbon technologies exist.
- ETS price is *too low, volatile, and uncertain* to justify significant private sector investment.
- One strategy is to guarantee fixed carbon prices on a project-by-project basis, to bridge the gap until technologies become **commercially competitive** without subsidy.

Figure 1: Illustrative commercialisation contract



$$40 \text{ mn } \text{€} = 0.5 \text{ mn } t_{\text{Steel}} \times (2 t_{\text{CO}_2}/t_{\text{Steel}} - 0 t_{\text{CO}_2}/t_{\text{Steel}}) \times (70 \text{ €}/t_{\text{CO}_2} - 30 \text{ €}/t_{\text{CO}_2})$$

support

output

benchmark

emissions

strike

ETS

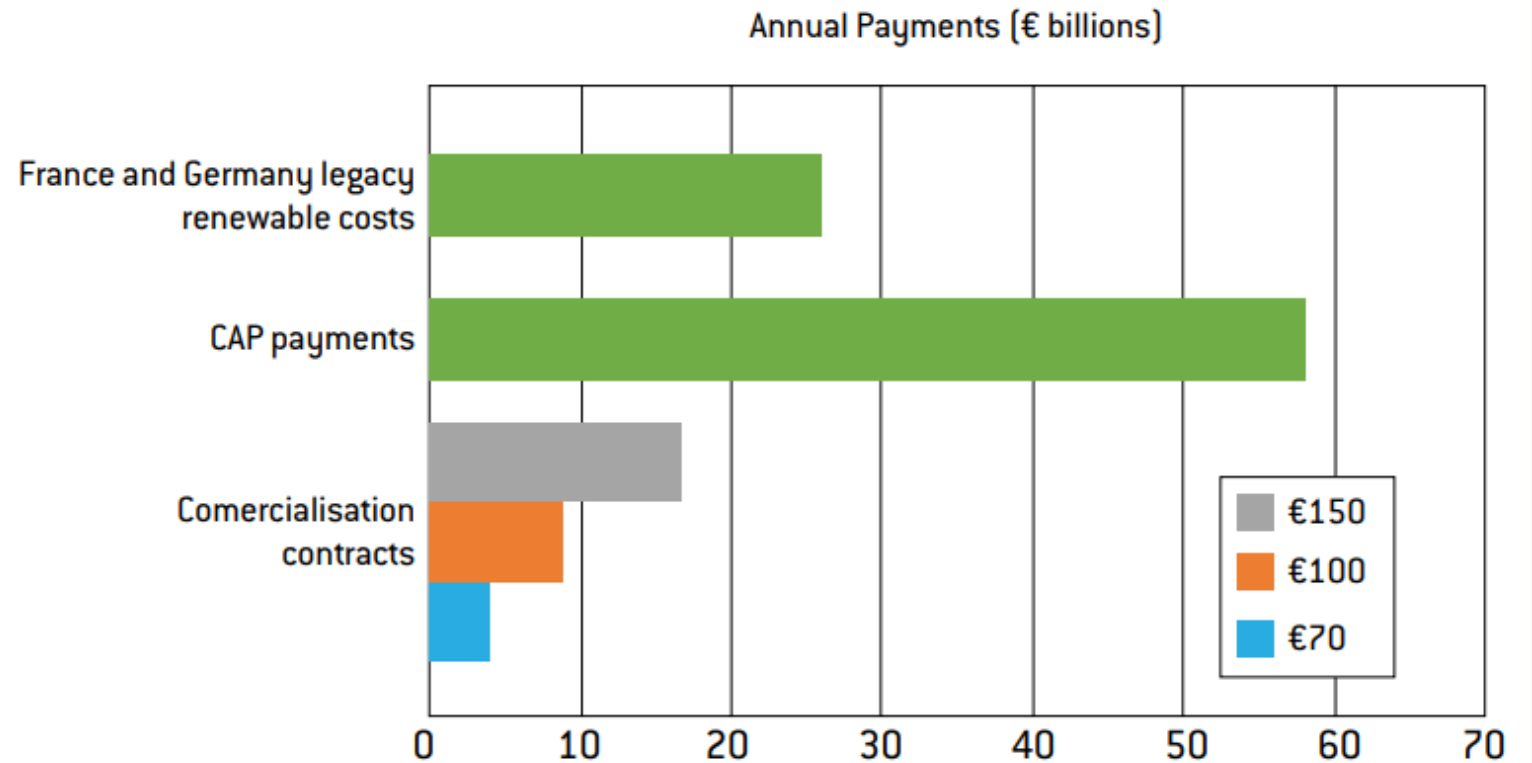
# Key benefits vs other policy support

- Dynamic, **adjust to carbon price**
  - Legacy costs issue of renewable support not repeated
- **Auctioning:** solves problem of information asymmetries (competitive bidding)
- Can be a **European tool** -> no distortion of internal market
- **'Commitment device'** – upward pressure on carbon price
- Leads **directly to abatement** of carbon emissions (so gains political support)

# Commercialisation contracts cost far less than RES support

- *Example of providing commercialisation contracts for 20% of all industrial emissions (an upper bound)*
- Assuming 45€/t ETS price

Figure 4: Comparison of annual payments



# Competitive EU auctions

Figure 3: Illustrative example of an EU commercialisation contract auction

