

## Swedenergy's position paper on the update of the EU Emissions Trading System (EU ETS) directive

*Swedenergy is a non-profit industry and special interest organisation for companies that supply, distribute, sell, and store energy. Mainly electricity, heating, and cooling. Swedenergy monitors and promotes the interests of its members and the Swedish energy sector in general. The organisation has a total of 400 members, which includes state-owned, municipal, and private companies as well as associations within the energy sector.*

### Summary

- Swedenergy is a strong supporter of the 2050 climate neutrality target, and an increased 2030 ambition of at least 55 per cent. Further expansion of climate-friendly electricity, heating and cooling is an indispensable path for the EU since reducing GHG emissions requires urgent and far-reaching action.
- The EU ETS should be the main driver to reach increased EU climate ambitions.
- Align the linear reduction factor (LRF) to the revised 2030-target as soon as possible. Once the new EU ambition on the 2030-target has been decided.
- Extend the EU ETS to cover more sectors, inter alia, by including the entire heating sector.
- The Market Stability Reserve's (MSR) intake rate should remain at 24 per cent, i.e., not return to 12 per cent after 2023 as currently stipulated by the ETS directive.
- It should be investigated how the EU climate policy framework, incl. the EU ETS, can be developed to also incentivize negative CO2 emissions by using, e.g., BECCS.
- The auction share should be increased, and free allocation decreased to secure cost-effectiveness.

### Detailed views

#### The ETS as the main driver to carbon neutrality

Swedenergy is a strong supporter of the 2050 climate neutrality target, and of an increased 2030 ambition of at least 55 per cent. Further expansion of climate-friendly electricity, heating and cooling is an indispensable path for the EU, since reducing GHG emissions requires urgent and far-reaching action. For the power sector, Swedenergy strongly believes in the EU ETS framework as the main driver to reach carbon neutrality. While Swedenergy strongly supported the revision of the EU ETS directive agreed in 2017, the current EU ETS needs to be further reformed to better reflect the Paris Agreement's goals and to achieve the necessary GHG mitigation.

### **The EU Emissions Trading System (ETS) should be further strengthened**

The new EU climate target should result in a tightening of the EU ETS, with an increase of the current linear reduction factor (LRF) that should take effect as soon as possible after the adoption of the new target. If the adjustment is delayed, then the risk is that the LRF needs to be set disproportionately high to reach the same GHG emissions reduction by 2030, but in a much shorter timeframe. Such a disruptive shape of the ETS allowance cap trajectory would be clearly unfavourable since an early adaptation will create more predictability and a more cost-efficient reduction pathway.

The Market Stability Reserve's (MSR) main aim is to ensure a stable and significant ETS price, and it has played a decisive role in tackling the structural surplus of ETS allowances that has emerged from previous trading periods. The intake rate should therefore remain at 24 per cent after 2023 to maintain the MSR's current ability to prevent any new over-supply in the ETS market and a resulting collapse of the CO<sub>2</sub> price in the future.

It would also make the EU ETS more robust if more sectors were included in the system, as foreseen in the Green Deal and in the recently presented renovation wave strategy. For the heating and cooling sectors, further measures are needed to make the sector carbon-neutral by 2050, by, e.g., including the entire heating sector in EU ETS or by exposing individual heat boilers to an adequate CO<sub>2</sub> price through other means. It is important to ensure that all sectors contribute, and that the EU's climate strategy is cost-effective overall. When including small scale heating installations in EU ETS, an upstream approach for monitoring, reporting, and verification should be implemented to maintain the cost-efficiency of the system. Extension of the EU ETS to cover maritime transport is welcomed, however, it is too early to include the transport sector as a whole. The reason for this is that there are big structural differences in the other subsectors within the transport sector compared to the existing ETS as well as the ability to pay.

To achieve "net-zero" GHG emissions by 2050 at the latest, there is a need to promote technologies that can lead to negative CO<sub>2</sub> emissions, as shown in both the IPCC's 1.5 °C report and the European Commission's 2050 roadmap. One of these technologies is Biomass-CCS (BECCS). The EU has currently no effective policy that gives incentives for such CO<sub>2</sub> removals. Thus, it should be investigated how the EU climate policy framework can be developed to support negative CO<sub>2</sub> emissions, possibly also through the EU ETS.

The present EU ETS Directive is implemented differently in the EU Member States regarding the inclusion of waste incineration plants. The rules on the possible inclusion of waste incineration plants within EU ETS must be clarified and harmonised and the actual steering effect evaluated. We also suggest that bioenergy installations should be covered by the ETS Directive and that annex 1 should be changed in that respect. The reason for this is not to incentivise the use of fossil fuels in installations that are able to use both fossil and renewable fuels. ETS framework should steer to a complete phase out of fossil fuels in heat production plants."

Swedenergy would also like to note the importance of that the ETS Directive should require the Member States to spend more revenues from the system on climate-related purposes.

**For more information**

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