

Nordenergi supports a strong EU ETS as the main driver for decarbonization

On July 14th 2021, the European Commission published amendment of the EU Emissions Trading System (Procedure 2021/0211 (COD) amending Directive 2003/87/EC). Being a crucial part of the Fit For 55 Package, Nordenergi hereby presents comments on the proposal.

Nordenergi strongly advocates ambitious climate policy with EU ETS as the main driver for decarbonization. The revised ETS proposal is ambitious and is the main instrument of the European climate policy. Generally, we are very positive towards the improvements made across the board. First, we *endorse the Linear Reduction Factor (LRF) 4.2%*, which must be maintained. Second, we welcome the retention of the reserve of *24% of allowances outlined by the Market Stability Reserve (MSR)*. This is an important tool for future price stability, although the proposed buffer zone (between 833 and 1,096 million allowances) should be reduced further to increase effectiveness. We call for continuous work to improve ETS and to ensure its functioning. Finally, we commend the *gradual expansion of the scope of the ETS* to the maritime sector and to apply carbon pricing on buildings and road transportation starting with a separate ETS. Fairness and solidarity are fundamental in the Green Deal. The burden needs to be divided fairly and cost effectively.

One of the successes for ETS is that it is rather straightforward. In the forthcoming negotiations we call for caution not to make the main mechanism too complicated. We also call to maintain the mechanism purely volume based and not to include elements making ETS sensitive to emissions rights' prices and hence risking striving for decided emissions' reductions.

Member States and Parliament can make the proposal even stronger. We consider the reports prepared by the ENVI rapporteur Peter Liese and ITRE rapporteur Mauri Pekkarinen to provide a good basis for to improve the Commission's proposal. Nordenergi agrees on several amendments.

Our key recommendations to further improve the ETS proposal:

- **Allow high-performance biomass plants to remain in scope.** The 95% threshold hinders innovation and promotes keeping fossil-production. Good performers should be encouraged rather than forced out of the scope (Annex I).
- **Give positive incentives to Bioenergy Carbon Capture and Storage (BECCS).** Applying CCS on bioenergy should produce positive incentives e.g. in the form of free allowances (draft report by ENVI).
- **Ensure reasonable conditions for hydrogen-production.** The threshold of 25 tons/day for green hydrogen production to be included in the scope is way too high, and unattainable for probably 8-12 years. Nordenergi proposes lowering this threshold (Annex I).
- **Avoid addressing different targets with multiple legislations** and removing the references to energy audits and specific measures as conditions for free allocation. The reason for this is that companies could have other energy efficiency priorities compared to the energy audit. Nordenergi proposes deleting paragraph (12) (a) (i) (Article 3h).



Nordenergi is the joint collaboration between the Nordic associations for electricity producers, suppliers and distributors. Members are Danish Energy, Energy Norway, Finnish Energy and Swedenergy. Overall, Nordenergi represents more than 800 market actors (member companies), most of them active in the electricity sector, but also in other areas such as district heating, gas and services.

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Annex

This annex contains two parts:

- Part 1: comments on **MEP Peter Liese's draft report on ETS**, https://www.europarl.europa.eu/doceo/document/ENVI-PR-703068_EN.pdf
- Part 2: comments on **MEP Mauri Pekkarinen's draft report on ETS**, https://www.europarl.europa.eu/doceo/document/ITRE-PA-703053_EN.pdf
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1) Comments on MEP Peter Liese's draft report for the ENVI Committee	
Amendments we support	Justification
AMD 3, 80 (positive incentives for CCUS)	<i>In order to efficiently remove carbon from the atmosphere and to be stored or used in products replacing fossil products, in addition to investment support, a market mechanism is needed. The market mechanism is most efficient and reflects the value of carbon storage or usage (CCS/CCU) when it has a direct connection to carbon prices, and hence to allowances.</i>
AMD 19 (Innovation Fund used for aviation sector)	<i>Aviation is one of the hard to abate sectors and we welcome the proposal to strive for innovations.</i>
AMD 20 (ETS extended to all fuels)	<i>We consider it highly important that carbon pricing shall be applied also for heating and transport, and agree that it would be simpler were all fossil fuels outside the main ETS covered by the new ETS.</i> <i>We though lack an explicit requirement that no fuels shall be subject to both main ETS and to new ETS, and that when fuels supplied are subject to new ETS, the company using the fuels or selling them forward shall not be liable with respect to the main ETS. We call the Commission to prepare a report on how to avoid possible overlaps between the two systems</i>
Amendments we do not support	Justification
AMD 15, 62 (Carbon leakage Protection Reserve)	<i>While agreeing that it is important to avoid carbon leakage and that free allocation is still important, we are hesitant with respect to the proposal, and worried that it will complicate both ETS and CBAM.</i> <i>Until the EC has positively assessed and tested the effectiveness of the CBAM in terms of protection from the carbon leakage risk, as well as it has successfully addressed the export competitiveness of the EU products, the CBAM sectors should continue to receive free allocation. It's decisive to develop a smart ETS design that allow for growth in green industry in Europe. We have unforeseen high CO2 price levels, and this makes the situation difficult for European industry in an increasingly uneven carbon constraint world.</i>
AMD 51 Climate neutral plan	<i>Commission's initial proposal to link requirements in EED and free allocation rules in ETSD is not appropriate. We consider the Rapporteur's amendment</i>

	<p><i>as an improvement but not fully addressing the challenge of the Commission's approach.</i></p> <p><i>We welcome recognizing that companies should have climate neutrality plans but are deeply concerned that the proposed linkage with free allocation conditions would induce very burdensome requirements for the plans, and hence have an adverse effect.</i></p>
AMD 53, 99 on taxation	<p><i>The Energy taxation directive is being discussed and we call for cautious including statement related in the ETSD</i></p>

2) Comments on MEP Mauri Pekkarinen's draft report for the ITRE Committee	
Amendments we support	Justification
AMD 10, 23 on 'biomass 95 %'	<p><i>We emphasize that having high share of biomass instead of fossil fuels, even close to 100 % must not be punished. However, we do consider that such a threshold might be beneficial for installations using negligible amounts of fossil fuels for avoiding unnecessary bureaucracy</i></p>
Amendments we don't fully support	Justification
AMD 3, 13	<p><i>Commission's initial proposal to link requirements in EED and free allocation rules in ETSD is not appropriate. We consider the Rapporteur's amendment as an improvement but not fully addressing the challenge of the Commission's approach.</i></p> <p><i>We'd recommend deleting this linkage, but consider having the linkage to enterprises covered by the obligation to implement an energy management system better than having the linkage energy audits</i></p>