

Politik & samhälle
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Consultation Response on the Revision of the EU Emissions Trading System (EU ETS) Post-2030

About Swedenergy

Swedenergy (Energiföretagen Sverige) represents and gives a voice to approximately 500 companies that produce, distribute, sell and store energy. Our mission is to develop the energy sector through knowledge, a holistic perspective on the energy system and cooperation with our stakeholders, for the benefit of society as a whole.

Executive Summary

- Swedenergy supports the EU's ambitious 2040 climate target (a net reduction of 90% compared with 1990 levels) and considers EU ETS1 a key policy instrument for achieving climate neutrality by 2050. After 2030, the system must continue to provide a strong, long-term and predictable carbon price signal that drives electrification, fossil-free energy production, energy efficiency improvements and permanent carbon removals.
- The Commission's proposal contains several welcome elements, including the inclusion of permanent carbon removals, a harmonised inclusion of waste incineration, continued free allocation for district heating, and strengthened financing instruments. At the same time, the overall level of ambition is reduced in a manner that risks weakening the carbon price signal, postponing investments and undermining conditions for actors that have moved early in the transition.
- Swedenergy therefore believes that the Linear Reduction Factor (LRF) should remain at 4.4% at least until 2035 in order to provide stability for investors, and only thereafter be adjusted to ensure achievement of the 2040 climate target. International credits should not be used to reduce ambition within the EU ETS. Permanent removals should be integrated subject to stringent quality requirements, adequate and robust financing, and without increasing the allowance for fossil emissions.
- The Market Stability Reserve (MSR) must continue to manage imbalances in the ETS market effectively.
- Waste incineration should be included in the EU ETS in a harmonised manner and on equal terms across all Member States. However, implementation should occur faster than proposed and should not disadvantage countries, such as Sweden, that included waste incineration earlier and have thus taken the lead. Auction revenues and EU-wide funds should primarily support electrification, industrial decarbonisation, CCS and permanent removals within the EU.
- Several major reforms are proposed simultaneously, yet the impact assessment only partially addresses their combined effect on allowance supply, demand and

prices. This applies to the interaction between the LRF and MSR, as well as other planned initiatives affecting the market and the ability of ETS to drive climate transition effectively, such as the separate proposal to abolish the automatic cancellation mechanism. The ETS1 reform should therefore be designed cautiously and with maintained environmental integrity. A reduction in ETS ambition during 2031–2040 will also have direct implications for sectors outside ETS1 that may need to compensate for the resulting emissions. The reform should therefore take account of the implications for other EU climate instruments, including the Effort Sharing Regulation (ESR) and ETS2, which will begin in 2028.

Detailed Comments

General Reflections

Swedenergy supports the ambitious EU climate target for 2040 established in the European Climate Law. The EU ETS is a central instrument for achieving climate neutrality by 2050. The system must continue to provide a strong, predictable and long-term carbon price signal that incentivises investment in electrification, fossil-free energy production, energy efficiency and negative emissions.

The proposal must be assessed as part of the broader EU climate framework. Ambition should be evaluated based on cumulative emissions and long-term investment signals rather than emissions levels in a single target year.

The proposal entails too significant a reduction in ETS ambition. This risks weakening the carbon price signal, delaying investment in emission reductions and ultimately reducing the competitiveness of European industry. It may also prolong dependence on fossil fuels and reduce Europe's strategic autonomy.

The combined effect of a lower LRF, international credits, permanent removals above the emissions cap, reduced MSR intake, abolished cancellation mechanisms and continued extensive free allocation risks increasing the overall supply of emission allowances and weakening the carbon price signal.

Given the EU's target of at least 85% domestic emission reductions by 2040, ETS1 will likely need to deliver greater reductions than currently proposed. Lower ambition in ETS1 shifts a larger burden to ETS2, ESR and LULUCF, which is politically problematic and unlikely to represent the most cost-effective strategy.

Development of the Linear Reduction Factor (LRF)

Swedenergy opposes the proposed reduction of the LRF from 4.4% to 3.7% during 2031–2035 and 1.7% during 2036–2040. The LRF should remain at 4.4% at least until 2035. Thereafter it should be adjusted consistently with a pathway towards the EU's 2040 climate target while allowing a limited amount of emissions after 2039, as envisaged in the recent revision of the European Climate Law.

We also oppose the proposed mechanism under which the LRF after 2035 would be either 1.7% or 2.7%, depending on a future assessment of international credit availability conducted in 2033. This approach creates uncertainty regarding the future emissions cap and carbon price trajectory.

Long-term investment decisions should not depend on an assessment to be conducted in 2033. In our view, the greater uncertainty concerns whether the EU can procure 250 Mt

of EU-based BECCS and DACCS credits rather than the availability of international credits under Article 6 of the Paris Agreement. Increasing the ETS cap ex ante without certainty that such credits will materialise creates unnecessary risks both for investors and for achievement of EU climate goals.

A lower rate of reduction risks weakening the carbon price signal, penalising early movers and rewarding those who delay investments, particularly in capital-intensive sectors, electrification projects and CCUS investments.

International Credits

Swedenergy does not support the integration of international credits into the EU ETS, either directly or indirectly through a lower LRF. International credits may be procured by the EU, but should function only as a safeguard within the broader climate framework rather than reducing pressure for domestic emission reductions.

It is positive that operators cannot directly use international credits for compliance purposes. However, using them indirectly through a lower LRF still reduces overall ambition and creates uncertainty regarding the emissions cap.

The European Commission also appears to assume full utilisation of the flexibility allowed under the Climate Law, while the legislation permits international credits for “up to” 5% of the 2040 climate target. Such credits should be reserved for sectors where emissions are most difficult to abate.

Auction revenues should primarily support domestic emission reductions and permanent removals. Investments within the EU contribute to innovation, industrial transformation, competitiveness, employment and reduced dependence on imported fossil fuels.

Permanent Removals in the ETS

Swedenergy welcomes the integration of permanent removals into the EU ETS and the proposal for a central procurement programme. This could create long-term demand for Bio-CCS and support the development of a negative emissions market. In the longer term, a market-based compliance-oriented voluntary market should be established.

However, integration must not increase the allowance for fossil emissions, which the current proposal risks doing. Environmental integrity must remain paramount. Carbon removals must not come at the expense of reducing fossil fuel use.

We find it unlikely that revenues from auctioning up to 250 million allowances, plus an additional 10 million allowances, will be sufficient to finance an equivalent volume of permanent removals. The proposal therefore requires a more robust financing mechanism ensuring that procured removals fully correspond to the additional emissions space created.

The procurement programme should also account for the differing maturity, delivery capacity, costs and long-term potential of various technologies. Similar investment conditions should apply to both Bio-CCS and Waste-CCS projects.

To establish a viable project pipeline, procurement arrangements should feature balanced risk allocation, long-term contracts and predictable terms. Given project lead times, the procurement function should ideally be established already in 2028, or as early as possible.

Rules governing certification, verification and the interaction between the EU ETS and the Carbon Removal Certification Framework (CRCF) must be clear, efficient and designed to prevent double counting.

Market Stability Reserve (MSR)

Swedenergy supports maintaining a rule-based and volume-based MSR whose parameters are adapted to post-2030 market conditions. Dynamic thresholds are justified and welcome.

However, the rationale for reducing thresholds and release volumes by exactly 4% annually requires further analysis. The interaction with the LRF, international credits, permanent removals and free allocation should also be examined more thoroughly.

We are sceptical of reducing the intake rate from 24% to 12% already in 2028 and of abolishing the cancellation mechanism. The intake rate should remain at 24% to ensure that the MSR retains sufficient capacity to absorb substantial surpluses.

The MSR must be capable of addressing persistent market surpluses without becoming a price-management mechanism while preserving a high degree of predictability for market participants.

Free Allocation and Benchmarks

Swedenergy is critical of changes that extend or increase free allocation without simultaneously ensuring a strong carbon price signal and level playing field.

Free allocation may continue to be justified during a transition period to address carbon leakage risks, but the long-term objective should remain a transition towards the Carbon Border Adjustment Mechanism (CBAM).

Heat and fuel benchmarks should be technology-neutral and should not disadvantage efficient district heating, electrification, recovered energy or the phase-out of fossil fuels.

Continued, or for some installations resumed, free allocation for district heating is important, particularly in relation to extended free allocation for other sectors. It helps protect the competitiveness of district heating relative to individual fossil-fuel-based heating systems.

Free allocation should also remain available for heat generated from waste incineration.

Waste Incineration

We welcome the harmonised inclusion of waste incineration in the EU ETS.

However, the scope definitions in Annex I need clarification. The terminology used for different categories of waste combustion should be aligned to avoid overlap and regulatory ambiguity. For example, consideration should be given to replacing “municipal waste” with “non-hazardous waste”.

EU-wide carbon price for waste incineration strengthens competitiveness neutrality and incentives for emissions reductions, recycling and CCS. However, complementary product and waste policies are required to reduce fossil carbon content, particularly plastics, in waste streams. This follows the polluter-pays principle and shifts incentives further upstream in product value chains.

The proposed phase-in period from 2031–2034 is excessively long and disadvantages Swedish facilities already included in the system since 2013. A more rapid and synchronised implementation across the EU is preferable.

Swedish facilities should be granted equivalent transitional provisions and compensation mechanisms, including incentives for Waste-CCS investments. According to an initial analysis by the Swedish Environmental Protection Agency, the additional cost to Swedish

facilities during the transition period could amount to approximately SEK 17 billion assuming a carbon price of EUR 100 per tonne.

We also believe Swedish waste incineration facilities should be fully compensated until 2031 for costs incurred relative to comparable facilities elsewhere in the EU.

Finally, the proposal remains insufficient to address the risk of carbon leakage to landfills. Waste landfills should either be included in the EU ETS or be subject to equivalent mandatory measures providing comparable climate incentives.

CCU

Swedenergy welcomes the proposal to shift ETS liability downstream in CCU value chains. This can strengthen incentives for CCU, reduce risks of double carbon pricing and improve conditions for using captured carbon as a feedstock.

Nevertheless, while the proposal improves regulatory conditions, CCS and permanent removals still receive considerably stronger economic incentives than CCU. These risks limiting investments in CCU value chains despite their importance for decarbonising sectors such as aviation, shipping and parts of the chemical industry.

The Commission should therefore consider how ETS-related support mechanisms can also provide long-term investment signals for CCU projects delivering verifiable climate benefits and fossil substitution.

Aviation and Maritime Transport

Swedenergy supports extending effective carbon pricing to a larger share of aviation and maritime emissions while ensuring that risks of avoidance and double charging are addressed.

Support for sustainable fuels, electrification and other zero-emission propulsion technologies can facilitate the transition where cost gaps relative to fossil alternatives remain large. Such support should be technology-neutral, transparent and consistent with the polluter-pays principle.

The 95% Rule for Bioenergy Installations

Swedenergy believes the 95% biomass rule should be reviewed and ultimately abolished.

The rule risks creating distorted incentives for installations with high biomass shares and may hinder development of Bio-CCS. It also creates administrative complications when installations move in and out of ETS coverage depending on annual fossil fuel use.

Installations should not need to increase fossil fuel consumption simply to remain within a regulatory framework that provides access to a functioning CCS value chain.

Use of Revenues, Industrial Decarbonisation Bank and Innovation Fund

Swedenergy welcomes directing a larger share of auction revenues to activities covered by the EU ETS and supports both the continuation of the Innovation Fund and the establishment of the Industrial Decarbonisation Bank (IDB).

These instruments should provide long-term predictability, reduce investment risk and lower capital costs for projects that would otherwise not be realised.

Allocation criteria, carbon premiums and climate contracts should be transparent and technology-neutral. Support schemes should also be coordinated with national support mechanisms and State aid rules to avoid duplication and unnecessary administrative burdens.

Climate contracts for CCS projects involving mixed fossil and biogenic flue gases should be eligible for support.

The EU ETS must not gradually evolve from a market-based instrument into a complex subsidy system. A strong and credible carbon price signal must remain the foundation, while targeted support financed through ETS auction revenues should be used only to address market failures and investment risks.

Amendments on waste incineration

Waste Incineration and Waste Co-Incineration under the EU ETS

Main message

We support the establishment of a harmonised Union-wide EU ETS activity for waste incineration and waste co-incineration under Annex I from 1 January 2031.

The preferred outcome is full and harmonised EU ETS coverage from 2031, without national opt-outs or differentiated transitional arrangements. A common framework is necessary to prevent fragmentation of the internal market, ensure comparable carbon-cost exposure across Member States and maintain a strong, predictable and technology-neutral investment signal for decarbonisation.

Installations already covered by the EU ETS have for many years been subject to carbon pricing, monitoring, reporting and verification requirements, and the obligation to surrender allowances. Many have incurred substantial compliance costs and undertaken early investments in emissions reduction and carbon capture in response to the existing regulatory framework.

The objective of the revision should be to harmonise carbon pricing across the Union, not to weaken existing obligations, reward delayed implementation or place installations that have acted early at a competitive disadvantage.

This principle should apply both to transitional arrangements under Articles 12a and 12b and to access to support under the Industrial Decarbonisation Bank. Early movers should not bear the full costs of earlier carbon pricing while later entrants benefit from both transitional relief and more favourable access to Union decarbonisation support.

Article 12a Phase-in of surrender obligations

Preferred amendment

Article 12a should be amended to require the surrender of allowances corresponding to 100% of verified emissions from 1 January 2031.

Alternative amendment if the phase-in is retained

The following subparagraph should be added to Article 12a:

The phased surrender obligation laid down in this Article shall not apply to installations that were subject to the obligation to surrender allowances under this Directive before 1 January 2031. Such installations shall continue to surrender allowances corresponding to 100% of their verified emissions. Their reclassification under the activity "Waste incineration and waste co-incineration" referred to in Annex I shall not confer a new phase-in period or any other transitional treatment.

Justification

A common starting date and full surrender obligation would ensure that the same activity faces the same carbon cost throughout the Union.

Installations already covered by the EU ETS have borne the full carbon cost, complied with the applicable MRV requirements and made investments in response to the EU ETS price signal. Their transfer to the new Annex I activity constitutes a reclassification, not a new entry into the EU ETS.

If the phase-in is retained, it must therefore not interrupt existing obligations or reset the compliance status of installations already covered by the EU ETS.

Article 12b - National opt-out**Preferred amendment**

Article 12b is deleted.

Alternative amendment if Article 12b is retained

The following paragraph should be added to Article 12b:

The derogation provided for in this Article shall not apply to installations that were subject to the obligation to surrender allowances under this Directive before 1 January 2031. Such installations shall continue to surrender allowances corresponding to 100% of their verified emissions. Their reclassification under the activity "Waste incineration and waste co-incineration" referred to in Annex I shall not alter their existing surrender obligations.

Justification

A general national opt-out would allow installations carrying out the same activity to face different carbon costs depending on their location. This would fragment the internal market, weaken the common EU ETS carbon-price signal and create uncertainty for long-term decarbonisation investments.

National measures relating to carbon taxation, recycling or landfill diversion may complement the EU ETS but should not replace a harmonised surrender obligation.

If Article 12b is nevertheless retained, it must not weaken surrender obligations that already applied before 1 January 2031.

Industrial Decarbonisation Bank - Protection of early movers and access to Union support

Article 10cc(1) expressly covers capital investment and operational expenditure for emission reductions or removals in Annex I installations, including waste-incineration installations. It also makes the support available to projects in all Member States while reserving part of the first-phase allowances for Member States below the specified GDP threshold.

To translate the early-mover principle into the Bank's operative rules, amendments should also be made to the Investment Booster provisions in Article 10cd and the competitive support mechanisms in Article 10ce.

Proposed amendment to Article 10cc(1)

The following subparagraph should be added to Article 10cc(1):

In implementing the Industrial Decarbonisation Bank, the Commission shall ensure effective and non-discriminatory access to support for installations that were already subject to the obligation to surrender allowances under this Directive before 1 January 2031. The design of the support instruments shall recognise earlier regulatory exposure and early decarbonisation investments and shall not systematically favour installations benefiting from transitional measures under Articles 12a or 12b over installations already fully exposed to the EU ETS carbon price.

Proposed amendment to Article 10cc(6)

The following sentence should be added to Article 10cc(6):

Those delegated acts shall include appropriate safeguards to ensure that earlier inclusion in the Union greenhouse gas emission allowance trading system, earlier compliance costs or early decarbonisation investments do not constitute grounds for less favourable treatment in relation to eligibility for, access to or allocation of support under the Industrial Decarbonisation Bank.

Article 10cd - Investment Booster

The first phase of the Bank allocates support through fixed carbon premiums. Eligible projects are pre-selected and then ranked chronologically according to when a completion bond is submitted. The Terms and Conditions determine eligibility, minimum emissions reductions, documentation, completion bonds and MRV requirements, and may include differentiated Terms and Conditions.

Proposed amendment to Article 10cd(2)

The following sentences should be added:

The Terms and Conditions shall ensure effective access to support for projects at installations that were already subject to the obligation to surrender allowances under this Directive before 1 January 2031.

For waste incineration and waste co-incineration installations, the Terms and Conditions shall include a dedicated funding window or an equivalent mechanism ensuring that installations already fully exposed to the EU ETS carbon price are not placed at a disadvantage in relation to installations benefiting from a phase-in or derogation under Articles 12a or 12b.

Any such mechanism shall be based on objective, transparent and technology-neutral criteria and shall take into account the project's expected verified emission reductions or removals, implementation maturity and contribution to the Union's climate objectives.

Proposed consequential addition to Article 10cd(7)

The delegated acts referred to in this paragraph shall specify the arrangements necessary to implement the safeguards and the dedicated funding window or equivalent mechanism referred to in paragraph 2.

Article 10ce - Industrial Decarbonisation Bank phase two

From 2031, the Bank is intended to support industrial decarbonisation mainly through competitive bidding procedures awarding Carbon Contracts for Difference or carbon premiums. Its Terms and Conditions will determine eligibility, documentation, bid and completion bonds, and MRV requirements.

Proposed amendment to Article 10ce(2)

The following sentences should be added:

The Terms and Conditions shall ensure that installations already subject to the obligation to surrender allowances before 1 January 2031 are able to compete effectively for support.

The design of competitive bidding procedures shall not systematically favour installations benefiting from transitional measures under Articles 12a or 12b over installations already fully exposed to the EU ETS carbon price. Where necessary to preserve competitive neutrality and recognise early decarbonisation investments, the Commission shall establish a dedicated funding window, differentiated auction conditions or another equivalent mechanism for such installations.

Selection shall remain based on objective, transparent and technology-neutral criteria, including the expected verified emission reductions or removals, cost-effectiveness, project maturity and timely delivery.

Proposed consequential addition to Article 10ce(8)

The delegated acts referred to in this paragraph shall specify the arrangements necessary to ensure effective access for installations already subject to surrender obligations before 1 January 2031, including, where appropriate, dedicated funding windows, differentiated auction conditions or equivalent mechanisms.

Consolidated rationale

The same activity should face the same carbon cost throughout the Union.

Installations already covered by the EU ETS have incurred compliance costs, responded to the carbon-price signal and invested in decarbonisation over many years. The establishment of a dedicated Annex I activity for waste incineration and waste co-incineration constitutes a reclassification of activities, not a new entry into the EU ETS.

The preferred outcome is therefore full and harmonised EU ETS coverage from 2031 without national opt-outs or differentiated transitional arrangements.

If transitional measures are nevertheless retained, they should facilitate the orderly integration of new entrants without penalising early action or distorting competition. They must not reset existing obligations or confer a new phase-in or national opt-out on installations already subject to full surrender obligations.

The same principle should apply to Union support. The Industrial Decarbonisation Bank should support investment across the waste-incineration sector without placing early movers at a disadvantage.

Installations that have already borne the costs of carbon pricing should not face a situation in which later entrants benefit both from transitional relief and from more favourable access to public decarbonisation support.

A dedicated funding window, differentiated auction conditions or an equivalent mechanism should therefore ensure that earlier regulatory exposure does not become a structural disadvantage. Such arrangements should not confer an automatic entitlement to support. Projects should continue to be assessed against objective, transparent and technology-neutral criteria.

Union climate policy should reward early decarbonisation and regulatory compliance, not delayed participation.