Interinstitutional files:
2021/0211 (COD)

Brussels, 15 June 2022

WK 8613/2022 ADD 2

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CONTRIBUTION

From:	General Secretariat of the Council
To:	Coreper I
Subject:	Fit for 55 package - ETS: Comments from delegations

In view of Coreper I meeting on 15 June 2022, delegations will find attached a joint non-paper on ETS from AT, DK, FI, NL and SE.

2022-06-14

Joint Non-paper from SE, DK, NL, FI and AT on the EU ETS revision

The revision of the EU Emission Trading System constitutes the central element for achieving our enhanced climate targets in a cost-efficient way and is a key driver of the European green transition. Ahead of the Environment Council on the 28th of June, Sweden, Denmark, the Netherlands, Finland and Austria wish to express their joint view on some crucial elements that need to be fulfilled in order to ensure a sufficient level of ambition in the EU ETS and a cost-effective delivery of the EU's 2030 climate target.

- **Ensuring achievement of the -61 % EU ETS target by 2030**

An ambitious EU ETS is crucial for reaching the EU climate target to 2030 in a cost-efficient way. **A strengthened linear reduction factor** combined with a **rebasing of the cap**, remain critical elements for the agreement of this Directive. Coupled with a sufficiently strong **Market Stability Reserve**, including a preserved intake rate of 24 % until 2030, these elements are essential for maintaining a strong price signal on the market and delivering the EU ETS reduction target of -61%.

- **Upholding market integrity in the ETS**

Predictability and rules-based provisions are prerequisites for a well-functioning market. We should therefore **refrain from making structural changes through ad-hoc decisions**, such as increasing the surplus on the market by auctioning allowances from the MSR as proposed by the Commission in the RePowerEU plan.

- **Extension of emission trading to new sectors**

Experiences from two decades of EU climate action has clearly demonstrated that emissions trading is the most effective tool for reducing emissions. We therefore fully support the extension of emissions trading to the **maritime sector** as well as an introduction of a **new emissions trading system for, at least, road transport and buildings**. The risk for negative social impacts, especially for citizens, should be mitigated. As such, we support the Commission's approach to frontload the auctioning of allowances and introduce a market stability reserve from the start. Considering that these elements already allow for a smooth start, we do not see a need for further measures in this regard, especially since this would risk compromising the integrity, ambition and effectiveness of the system.

The new ETS plays a significant role in achieving the EU's 2030 climate target. Therefore, the ambition level must be kept intact. Any potential changes in terms of timing, such as a delayed start of the system, will have to **include a steeper linear reduction factor** to ensure the climate effect in the Commission's proposal.

The level of financial compensation for introducing emissions trading in the Commission's proposal for a Social Climate Fund is oversized given the level of funding already available for the green transition in the MFF, NGEU as well as the estimated increase in national ETS revenue. We further underline that any adjustments that reduce the climate ambition of the new emissions trading system would result in further downward adjustment to the level of a potential financial compensation for addressing social and distributional impacts.

- **An Innovation Fund based on excellency**

The Innovation Fund has a great potential for overcoming market failures by increasing the **development and deployment of new zero and low emitting techniques** within the Union. To ensure that the funds are spent as efficiently as possible, only the best applications with the greatest potential for reducing emissions should be granted support based on the **principle of excellency**.

- **Exclude fossil fuels from the Modernisation Fund**

Investments in fossil fuels are not in line with the EU 2030 climate target and the EU's long-term target of climate neutrality by 2050 at the latest. There is **no room for investments in any fossil fuel** technology if we are to reach our targets. Not only is this a prerequisite for achieving our climate transition, but also a matter of energy security. We therefore **strongly ask for a complete exclusion of investments in fossil fuels** from the Modernisation Fund.