

Climate change – updating the EU emissions trading system (ETS)

The Swedish Gas Association – Energigas Sverige –refrains from responding to those parts of the Commission’s proposal that concern a carbon border adjustment mechanism, CBAM¹.

The Swedish Gas Association welcomes the fact that the EU is now taking an ambitious holistic approach to climate policy. The new climate package "Fit for 55" is an important step in reducing emissions by at least 55% by 2030 and achieving climate neutrality by 2050 - two urgent goals that we fully support and stand behind.

We welcome the position taken in “Fit for 55” that regulations and directives should work together in a better way as they do today. This is a prerequisite for effective regulation and for the opportunities to achieve the climate goals. Unfortunately, we must state that several directives/regulations still do not fit well together, despite the good work of the European Commission. This needs to be addressed during future negotiations around the climate package.

The Commission's legislative package includes a number of instruments which, in several cases, affect the same sectors. For example, shipping is proposed to be included in EU Emissions Trading Scheme (EU ETS), to be taxed according to the proposal for a revised Energy Tax Directive (ETD)², and having new requirements to reduce greenhouse gas emissions as part of the FuelEU Maritime³ proposal. Road transport is proposed to be included in the EU ETS, be subject to fuel taxation based on environmental performance (among other things) as outlined in the proposed revision of the ETD, and to be required to reduce emissions as directed by the proposal to strengthen standards for CO₂ from new cars and vans⁴ (CO₂-standard regulation). A deeper analysis of the combined impact of these instruments would have been desirable, both to assess the overall effects, but also to identify which methods are most effective in moving towards the package’s goal.

The Swedish Gas Association also notes that there are a number of references to delegated acts and implementing acts in the Commission’s proposal. We generally believe that there is reason to be cautious about authorisation that gives the Commission the power, via delegated acts, to change the details of legislation that has been previously dealt with through the EU legislative process.

¹ https://eur-lex.europa.eu/resource.html?uri=cellar:a95a4441-e558-11eb-a1a5-01aa75ed71a1.0001.02/DOC_1&format=PDF

² https://eur-lex.europa.eu/resource.html?uri=cellar:1b01af2a-e558-11eb-a1a5-01aa75ed71a1.0001.02/DOC_1&format=PDF

³ https://eur-lex.europa.eu/resource.html?uri=cellar:078fb779-e577-11eb-a1a5-01aa75ed71a1.0001.02/DOC_1&format=PDF

⁴ https://eur-lex.europa.eu/resource.html?uri=cellar:870b365e-eecc-11eb-a71c-01aa75ed71a1.0001.01/DOC_1&format=PDF

Overall Comments

The Swedish Gas Association supports the Commission's proposal to revise the EU ETS so that the regulations are in line with the goal of reaching net greenhouse gas emission reductions of at least 55% compared to 1990 levels, by 2030.

According to the stated proposal, the combustion of biofuels will continue to be assigned an emission factor of zero, and will therefore not be affected by emission allowance costs. We agree with this approach, and share the Commission's view that it incentivises fuel suppliers to sell biofuel, thus increasing its market share and reducing the usage of fossil fuels. However, it is apparent that the proposals in the "Fit for 55" package are not coordinated, because the Commission, in the proposal on CO₂-standard regulation, recommends that biofuels and biogas to be classified as fossil fuels, which would lead to that the use of biofuels being phased out. These proposals are patently incompatible.

The Swedish Gas Association cannot, at this time, adopt a position on whether it is appropriate to expand the EU ETS to cover new sectors or not. The effects from the proposal to include emissions from road transport and the building sector are dependent on, among other things, the total combination of tax and costs from the EU ETS. It is likely that fuel suppliers will pass on the cost of emissions to consumers via fuel prices. In the same way, the cost of energy taxation will also push fuel prices upwards. The consequences depend on both the final form of this tranche of EU regulation revisions, and the decisions of the Swedish government and parliament about other economic instruments used in combination with the EU ETS.

In Sweden, the CO₂ tax has been the primary climate control instrument for road transport fuels since its introduction in 1991. Its purpose is – via high taxation of those fuels and uses that do not contribute to climate and environmental policy goals – to influence people's behaviour and provoke better decision-making. Although the primary purpose of the CO₂ tax is climate-related rather than fiscal, it has nevertheless raised significant tax revenues (20.4 billion SEK according to Ekonomifakta⁵). With this background, and taking into account the Commission's proposal for a revised ETD, it is reasonable to assume that the level of fossil fuel taxation in Sweden will be relatively high regardless of whether the EU ETS is expanded to include new sectors such as road transport or not. It can therefore be expected to see increases in fossil fuel prices in Sweden if road transport is included in the EU ETS. In this context, it is important that societal factors are considered and that measures are taken to avoid conflict between cities and the countryside.

Regarding the proposal to include maritime transport in the EU ETS

With regard to maritime transport, the Commission has proposed that the EU ETS should be extended to include CO₂ emissions from large vessels (above 5,000 gross tonnage), regardless of their flag. This would cover all emissions from ships' journeys departing and arriving at ports under the jurisdiction of EU Member States, 50% of emissions from journeys either starting or ending at a port outside the jurisdiction of EU Member States, and all emissions that occur when ships are berthed at ports under the jurisdiction of EU Member States.

The Swedish Gas Association agrees that maritime transport, as with other sectors, needs to switch to a more sustainable fuel mix. Emissions that are directly harmful to the environment and to health need to be sharply cut, and emissions that contribute to climate change must be reduced. Gas has a significant role to play here. When applied to conventional technology, switching from marine bunker oil to liquefied natural gas (LNG) sees shipping companies reduce CO₂ emissions by at least 10-20% and reduce emissions of nitrogen oxides (NO_x) by as much as 85-90%. Problematic sulphur and particulate emissions are cut to almost zero. The strongest motivator for switching from oil to gas in shipping is the increasingly stringent emission requirements for sulphur and NO_x. Additionally, an advantage of changing from marine bunker oil to LNG is the potential to

⁵ <https://www.ekonomifakta.se/fakta/skatter/skattetryck/skatteintakter-per-skatt/>

gradually replace fossil-based gases with renewable gases. We consider it positive that the Commission intends to work to provide the maritime industry with a better basis to enable them to switch to sustainable fuels.

It is, however, important that the proposed instruments are analysed carefully, both with regard to their efficiency and with consideration to the competitiveness of the shipping industry. This is especially so as the Commission, within the “Fit for 55” framework, proposes that multiple parallel instruments be applied. The ETD proposes that the tax exemption for fuels used in shipping is to be removed. In addition, stricter GHG intensity limits are stated in the FuelEU Maritime proposal. It is important that an impact assessment is done to map out how these instruments will affect the market in relation to each other, and how they jointly contribute to creating an effective adjustment at a reasonable cost. The Swedish Gas Association calls for a coherent analysis of their impact on the shipping industry’s competitiveness.

In addition to the type of analysis mentioned in the previous paragraph, we also call for an analysis of the proposal's consequences for sectors other than shipping, such as industry. It is relatively difficult and expensive to reduce fossil emissions in the maritime industry today, why the proposal risks to drive up the costs for EU ETS-allowances also for those sectors that already are included in the EU ETS. The proposal risks causing higher costs for large parts of Sweden’s basic industries. On top of the increased cost of EU ETS-allowances, the industry also may have to bear increased transport costs, as the proposal may cause shipping to become more expensive. In light of these factors, it is important to consider that Sweden has a fairly remote location and depends on sea transport.

In the absence of a deeper analysis of the effects of the combined measures proposed within the “Fit for 55” framework, the Swedish Gas Association refrains from taking a position on whether maritime transport should be covered by the EU ETS or not. The comments made in this consultation response, are predicated on the supposition that shipping is included in the EU ETS.

The opinion of the Swedish Gas Association is that the proposal’s boundary for inclusion in the EU ETS should be adjusted from 5000 gross tonnage to 400. This change should reduce the risk of distorting competition and protect employees’ well-being, as it would prevent disadvantaging investment in substantial crew spaces. Also, more vessels and therefore a larger share of emissions would be covered by the EU ETS.

If shipping is included in EU ETS, the cost of maritime transport is likely to increase relative to other kinds of transport such as rail and road transport. Although we support the proposal that any expansion of the EU ETS should be done stepwise and gradually, it will still take time for sectors without experience of the system to adapt business models, adjust contract law documents and so on. It is our view that the start date for the inclusion of shipping in the EU ETS should coincide with the date that road transport is included (this is to be announced, according to the Commission’s proposal, in 2026). This is to ensure that differences in start times will not affect the competitive relationship between maritime and road transport.

Regarding the proposal for a new system for the building sector and road transport

In the absence of a deeper analysis of the effects of the combined measures proposed within the “Fit for 55” framework, the Swedish Gas Association refrains from taking a position on whether road transport and the building sector should be covered by the EU ETS or not.

If it is decided that road transport and the building sector will, in fact, be included in the EU ETS, the Swedish Gas Association agrees to that this should be done through a separate trading system.

With the same proviso, we also support the view that the new system should be aimed at fuel suppliers (as they already are liable to pay tax) rather than households and car drivers.

Road transport

We reiterate the statement at the introduction to this consultation response, that the Swedish Gas Association supports the Commission's proposal that biofuels will continue to be assigned an emission factor of zero, and will thus not be affected by emission allowance costs. It is, however, clear that the various proposals in "Fit for 55" are not coordinated because elsewhere in the framework – in the proposal for CO₂-standard regulation – the Commission proposes that biofuels and biogas should be classified as fossil fuels, which would risk phasing out the usage of biofuels and biogas in the transport sector. These proposals are patently incompatible. We believe that all renewable alternatives are necessary to cope with the transition to the stated targets, and thus agree that the EU ETS should be designed to promote the use of biofuels, including biogas. We emphasise that it is important that the Commission does not – for example, through the proposed CO₂-standard regulation – close the door on the use of the renewable alternatives in road transport.

The Swedish Gas Association considers that it is important that reporting requirements in the extension of the EU ETS to the building sector and road transport is linked with companies' existing reporting requirements within the trading system. This is to ensure that no additional reporting requirements are introduced that would increase the administrative burden on the actors.

Building sector

For Sweden, the effects of including heating of buildings in the EU ETS will be marginal, as there is almost no fossil fuel used in the heating sector. Nevertheless, it would have positive effect of creating a CO₂ price signal for all heating markets in the EU where fossil fuels are still dominant in the fuel mix in most countries.

Additional detailed comments

Article 10a; The proposal to link free allocation of emission allowances to the implementation of energy audit recommendations under the Energy Efficiency Directive is not appropriate

The proposal states that installations covered by the obligation to conduct an energy audit under the Energy Efficiency Directive⁶ must implement the audit's recommendations, to the extent that the pay-back time for the relevant investments does not exceed five years. Otherwise, their free allocation of emission allowances shall be reduced by 25%. The Swedish Gas Association does not believe that energy efficiency should be linked to instruments for reducing emissions. When regulations with different purposes overlap in this way, there is a risk that the cumulative result will be ineffective. It is not clear that emissions and energy efficiency measures always lead in the same direction – a measure to reduce emissions can, in some cases, even lead to an overall increase in energy use. We therefore contend that the proposal relating to energy efficiency measures should be deleted.

Annex I The 95% bioenergy threshold for free allocation of emissions is inappropriate

Finally, the Swedish Gas Association considers it inappropriate that a threshold value of 95% bioenergy use is proposed (see Annex I) for free allocation of emission allowances. This gives a signal that only 95% of fossil fuels should be phased out rather than 100%. The share of fossil fuels in the Swedish district heating industry was approximately 1% in 2020, meaning that Sweden already has the lowest proportion of fossil fuels in its heating sector in the EU.

⁶https://eur-lex.europa.eu/resource.html?uri=cellar:a214c850-e574-11eb-a1a5-01aa75ed71a1.0001.02/DOC_1&format=PDF



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