

Nordenergi position paper: ETS is vital to Europe's clean, green and affordable transition

Summary

- Nordenergi fully supports the EU climate target and the intermediate 2040 target of 90 percent emission in line with the 1,5-degree target set by the Paris Agreement. Efforts to limit climate change must accelerate, and the 2040 target will pave the way toward the EU goal of climate neutrality by 2050.
- Nordenergi calls for the climate target to guide the EU's decarbonization efforts, placed at the top of the target hierarchy.
- The EU Emissions Trading System (ETS) stands as the cornerstone of European climate policy, offering the most efficient and cost-effective tool for reducing greenhouse gas emissions across sectors and technologies. Stable and long-term rules are essential to give industries the confidence needed to invest in low-carbon solutions and to enable a smooth transition.

Introduction

For the EU to achieve its ambition of becoming the world's first climate-neutral continent by 2050, it is vital to deliver a robust post-2030 framework that supports both deep decarbonization and accelerated electrification, while ensuring security of supply. This framework must be designed to ensure progress towards the interim targets of a 55% reduction in greenhouse gas emissions by 2030 and 90% by 2040. The European Commission has announced that it will present an initial proposal for this new framework in the third quarter of 2026.

Ambitious overarching climate target

The current framework, where the EU Emissions Trading System (ETS) covers emissions from the power sector and industry at the European level, while land use and effort sharing sectors are managed at the Member State level, remains a functional basis for the post-2030 period. This division of responsibility helps ensure both EU-wide coherence and national accountability. The ETS should remain the primary instrument for emissions reduction, given its proven effectiveness and ability to deliver cost-efficient decarbonization.

Looking ahead, the role of carbon capture will become increasingly important. These technologies are crucial both for permanently removing CO₂ from the atmosphere and for providing sustainable carbon feedstocks that can replace fossil-based raw materials in industrial processes. It is important to ensure a clear pathway and a workable framework for commercial scale carbon capture and utilisation (CCU) especially with regards to e-fuels that can replace harmful fossil fuels. Strengthening incentives for CCUS within the EU framework will be essential to achieving climate neutrality.

In summary, Nordenergi recommends that the EU remains committed to an ambitious climate target supported by a robust CO₂-price through the ETS.

Nordenergi fully supports the 2040 climate target in line with science

Nordenergi is a strong supporter of the EU climate target in line with the 1,5-degree target set by the Paris Agreement. Global warming is a threat to mankind, and extreme weather phenomena are more frequent with severe consequences. Efforts to limit climate change must accelerate, and the intermediate 2040 target of 90 percent emission reduction will pave the way towards climate neutrality 2050. Furthermore, the investor community will get more predictability and confidence

about the EU's decarbonization path ahead. It should also lay the foundation for the development of an ambitious, cost-effective, and highly supportive EU 2040 legislative climate framework.

A strong, reliable and expanding ETS as the primary driver

The EU Emissions Trading System (ETS) stands as the cornerstone of European climate policy, offering the most efficient and cost-effective tool for reducing greenhouse gas emissions across sectors. To sustain its effectiveness, it is crucial to ensure that the ETS remains robust, credible, and predictable for market participants. Stable and long-term rules are essential to give industries the confidence needed to invest in low-carbon solutions and to enable a smooth transition, as highlighted in the earlier comments. Political interference is detrimental to investments in low carbon solutions.

Both ETS1 (covering power and industry) and the upcoming ETS2 (covering buildings and transport) are pivotal for decarbonisation, and their ambition levels must be fully aligned with the overall EU climate targets for 2040 and beyond. The ETS2 must be implemented timely and fully. Unnecessary delays would undermine the credibility of the system and slow progress towards climate neutrality.

As the ETS evolves, the integration of permanent carbon removals into the system must be approached with care. Linking verified, durable removals to the ETS could strengthen the mechanism by incentivising investment in negative emissions technologies. However, it is vital that such removals are rigorously certified and limited to ensure they complement, rather than dilute, the system's integrity.

Furthermore, international units should not be introduced into the ETS. Mixing international credits with the EU's domestic system risks undermining environmental ambition and could create uncertainty in the market.

Looking ahead to the late 2030s, the potential merging of ETS1 and ETS2 warrants careful consideration. A unified ETS could simplify the regulatory landscape and deliver a more harmonised carbon price across the economy, further enhancing efficiency. However, such a move must be underpinned by thorough impact assessment to ensure a fair and orderly transition for all sectors involved.

Achieving the necessary emissions reductions on a European level by 2040 will require leveraging all zero and low-carbon energy solutions, including renewables, nuclear, energy efficiency, storage, CCS, CCU, carbon removals, geothermal, hydro-energy, sustainable bioenergy, and all other current and future net-zero energy technologies, whilst fully respecting that the energy mix in individual EU countries remain a Member State competence.

Electrification is the core solution to the climate crisis, both in industry, transport, and in buildings. It is to a large extent driven by the CO₂-price in ETS1 and expectations for ETS2 but requires large investments in infrastructure like grids and charging systems that need other measures. In addition, the ETS2 does not cover all emissions from energy use. The lack of progress with electrification clearly shows this.

While energy efficiency is important, strict quantitative targets risk misallocating resources and may conflict with clean industry and with electrification, which is essential for decarbonizing Europe. Clean electricity uses are generally more efficient than combustion alternatives, and rigid rules could hinder these efficiency gains, industrial growth and climate goals.

Full and timely implementation of the existing legislation

Full and timely implementation of the existing legislation is key to meeting the new 2040 target. Nordenergi encourages EU policymakers to maintain the RePowerEU pace, which represents a *Nordenergi is the joint collaboration between the Nordic associations for electricity producers, suppliers, and distributors. Members are Green Power Denmark, Energy Norway, Finnish Energy Industries, Samorka 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.*

speedier transition towards climate-neutrality than that which could be achieved through the implementation of the 'Fit for 55' Package alone.

Ensure regulatory stability

The climate transition brings significant risks, as decarbonization investments must be both substantial and made rapidly. For companies and investors, regulatory predictability—both in the short and long term—is an essential requirement for making investment decisions. Without a stable operating environment, even the most innovative financing solutions will lack a solid foundation. Goeconomic uncertainties already introduce considerable instability, making it crucial for the EU to maintain consistent regulation, especially regarding its strategic direction. Uncertainty directly impacts the cost of capital.

Recently, the functioning of the ETS has been questioned, and ad hoc interventions have been proposed. The front-loading of allowances in 2022, introduced through RePowerEU, was an unfortunate intervention and has heightened perceptions of political risk. To foster a stable investment climate, ad hoc political interventions should be avoided in the future.

Public acceptance and/or support for climate change mitigation policies is key to reaching the targets

As we move towards more ambitious targets, climate change mitigation policies will be increasingly stringent and CO₂-prices will increase significantly. The viability of more stringent climate policies and the achievement of climate neutrality depend not only on their efficiency but also on their (re)distributional impacts and public perception. Therefore, public support, or at least acceptance, for these policies is vital for political stability. Policies with negative social consequences and/or impacts for industrial competitiveness must be followed by policies ensuring a just transition, whilst avoiding turning energy policy into social policy. Otherwise, there is the risk of a severe backlash when targets are questioned or even reduced. Compensation should not be linked to the energy market and energy prices including CO₂-prices, but directly towards decarbonisation efforts like the social fund or the industrial decarbonisation bank or CBAM, CO₂-compensation and/or free allowances to avoid carbon leakage.

We remain available for further discussions.

Petteri Haveri
Petteri.haveri@energia.fi
+358 50 5711554

Knut Kroepelien
knut.kroepelien@fornybarnorge.no
+47 93864018

XX
greenpowerdenmark.dk
+45

Per Holm
per.holm@energiforetagen.se
+46 70 648 0108



Nordenergi is the joint collaboration between the Nordic associations for electricity producers, suppliers, and distributors. Members are Green Power Denmark, Energy Norway, Finnish Energy Industries, Samorka 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.