ETS is vital to Europe's clean, competitive and affordable energy transition – updated Nordenergi position on the revision of ETS1

Summary

- Nordenergi supports the EU's 2040 climate target of a 90% reduction in greenhouse gas emissions and climate neutrality by 2050.
- The ETS must remain the EU's primary instrument for delivering cost-effective emissions reductions. A strong, liquid and predictable carbon market is essential for investment in electrification, renewable energy and industrial decarbonisation.
- The proposed revision weakens the ambition of ETS1 too much. The final framework must preserve a credible emissions reduction trajectory (LRF) and a robust long-term carbon price signal for climate-friendly investments. Nordenergi therefore calls for the proposal to be strengthened rather than further diluted.Adjustments to the Market Stability Reserve are welcome, provided that the MSR remains volume-based, predictable and supports both market stability and sufficient liquidity.
- The integration of permanent carbon removals into the EU climate framework is welcome and should include biochar and permanent products in addition to BECCS and DACCS. The framework must follow CRCF criteria for ensuring environmental integrity. The linking should not lead to an increase in the ETS cap, but at the same time not restrict the use of removals fulfilling ETS liablities.
- The proposed use of international credits creates a risk of weakening incentives for emissions reductions and clean investments within Europe. Therefore, Nordenergi is against inclusion of international credits in the ETS system.
- European funding instruments must support industrial decarbonisation, electrification, renewable energy, hydrogen, grids, storage and other investments in green technologies necessary for Europe's transition and competitiveness.

A strong and predictable ETS

The EU ETS remains the cornerstone of European climate policy and the most efficient instrument for reducing greenhouse gas emissions across sectors and technologies.

Stable and long-term rules are essential to provide companies and investors with the confidence needed to invest in renewable production, electrification and green energy. Ad hoc political interventions in the carbon market would increase regulatory risk and the cost of capital and should therefore be avoided.

The ETS must continue to support efficient price formation, market liquidity and effective risk management. These elements are necessary for both cost-effective decarbonisation and long-term investment certainty.

We welcome the proposed scope extensions to waste incineration (however, the phasing in period is too long) and in aviation and maritime transport. We also consider it appropriate to maintain the threshold for inclusion in the EU ETS at 20 MW. In addition, the so-called 95% rule should be repealed.

Preserve the ambition of ETS1

Nordenergi strongly opposes the proposed revision, as it would weaken the ambition of ETS1 to an unjustifiable degree. A weaker reduction trajectory (LRF) would increase the supply of allowances, weaken the carbon price signal and delay necessary investments in European decarbonisation. Therefore, we ask for a strengthened and more ambitious proposal at this stage.

ETS1 must continue to make a substantial contribution to the EU's 2040 climate target. Reducing the ambition of ETS1 would place additional pressure on other parts of the EU climate framework, including ETS2, the Effort Sharing Regulation and the land-use sector, where emissions reductions may be more costly, time-consuming and/or uncertain.

The final agreement should therefore maintain a credible and predictable emissions reduction trajectory that rewards early action and preserves incentives for future investments.

Maintain a well-functioning Market Stability Reserve

Nordenergi welcomes adjustments to the activation thresholds of the Market Stability Reserve to improve the balance of the carbon market.

The MSR must be able to address structural allowance surpluses while preserving sufficient market liquidity, transparency and opportunities for risk management. Its operation should remain volume-based, predictable and protected from ad hoc political intervention.

Integrate permanent carbon removals carefully

Nordenergi welcomes the integration of permanent carbon removals into the EU climate framework, whereby the Commission purchases certified permanent carbon removals from BioCCS and DACCS, while a corresponding amount of allowances is added to the EU ETS (without leading lower emissions). A credible framework can create investment opportunities for carbon removals and stimulate investment in technologies such as BECCS and DACCS. Biogenic CO2 will also be needed for Renewable Fuels of Non-Biological Origin (RFNBO) particularly in shipping and aviation. The ETS should therefore ensure equal price signals for CCS and CCU, as both technologies are needed to meet net zero and reduce dependence on imported fossil fuels.

Permanent removals must be based on robust CRCF-certification and hence provide verifiable climate effects and sufficiently durable storage. Their integration must complement emissions reductions and preserve the environmental integrity and credibility of the ETS.

The framework should also provide sufficiently clear and predictable conditions to mobilise private investment and support the development of a functioning European market for carbon removals and CCU, without creating unintended distortions between technologies

The nature-based solutions (carbon farming) are far more difficult to measure and verify, and their durability is questionable, and hence those must not be included into the ETS.

International credits should not be included in the ETS and should not be an option

The use of international credits creates a risk of weakening incentives for emissions reductions and clean investments within Europe. Therefore, Nordenergi is against inclusion of international credits in the ETS system.

Further, any role for credits in the EU climate framework must therefore be designed so that it does not dilute the ETS carbon price signal, undermine environmental integrity or reduce investment in European electrification and industrial decarbonisation.

Use European funding to accelerate the transition

European funding instruments should contribute more effectively to industrial decarbonisation and the deployment of clean technologies. The Innovation Fund, Investment Booster and Industrial Decarbonisation Bank should work together to mobilise private capital and strengthen European competitiveness.

Funding should support investments in renewable energy, electrification, hydrogen and renewable fuels, grids, energy storage, energy efficiency, industrial transformation, CCU, CCS and permanent carbon removals.

Support should address genuine market failures, be transparent and mobilise rather than replace private investment. It should promote long-term decarbonisation and avoid creating new dependencies on fossil fuels where renewable, resilient and commercially viable alternatives are available.

The European funding must be primarily excellence-based to boost European competitiveness and innovation.

Electrification and CCU

Electrification is the core solution for decarbonising industry, transport and buildings. Everything that can be electrified should be electrified. Indirect electrification through hydrogen is needed in hard-to-abate sectors. A strong carbon price must be complemented

by investments in enabling infrastructure, particularly electricity grids, hydrogen pipelines, storage and charging infrastructure.

Clear and workable rules are also needed for carbon capture and utilisation, including the use of captured carbon in e-fuels and other products that replace fossil fuels and fossil-based feedstocks.

ETS2 and implementation of existing legislation

ETS2 must be implemented fully and on time. Weakening ETS1 should not result in a disproportionate transfer of the emissions reduction burden to transport and buildings covered by ETS2.

More broadly, the full and timely implementation of existing EU climate and energy legislation is essential. Regulatory stability and consistency across the EU framework are necessary to maintain investor confidence and deliver the 2040 climate target.

Conclusion

The final revision must preserve a strong, credible and predictable ETS1. Weakening the carbon price signal would delay electrification and industrial transformation, increase investment risk and ultimately make Europe's transition more expensive.

A robust ETS, combined with targeted funding for clean investment and stable long-term regulation, is essential for delivering climate neutrality while strengthening European the competitiveness of European industry and energy security.