



SolarPower Europe response to Inception Impact Assessment on Updating the EU ETS

In the context of enhanced EU climate ambition and the increase of the EU's 2030 GHG emission reduction target from 40% to at least 55%, the bloc's main climate change laws for 2030 need to be recalibrated accordingly. The EU ETS – one of the central pillars for EU decarbonisation – and its mechanisms have to be reformed in light of such stronger ambition. SolarPower Europe believes that this reform is of utmost importance since a higher carbon price in the electricity sector would significantly speed up the transition to renewables across Europe.

When looking at the revision of the current ETS architecture, the EU Commission should prioritise the following aspects:

- **Adjustment of the ETS cap.** A new trajectory for the Linear Reduction Factor (LRF), the new base level for the LRF, and the start year for implementing the new LRF need to be evaluated. It is key to strike the right balance between these factors to define a more sustainable and feasible trajectory for decarbonisation in accordance with the 2030 target and the 2050 climate neutrality goal.
- **Adjustment of the Market Stability Reserve (MSR).** The MRS has proven to be an effective tool to curb the effects of exogenous shocks on the ETS carbon price and should continue to do so in the future.

Considering the relevant impact of the LRF adjustment on the market, it is recommended to avoid any delay in the implementation of the ETS reform – the longer it takes to bring about the changes, the more challenging the decarbonisation will be.

On this note, to optimise the decarbonisation effort in a cost-efficient manner, the opportunity to link the EU ETS with ETSs from other jurisdictions should be better explored. Evidence shows that economic and environmental benefits are possible, provided that the right conditions in terms of ETS design and ambition are in place.

Another major aspect under consideration is the extension of the ETS to other sectors that are currently outside of its scope. On this regard, it is important to acknowledge that the ETS is one among several policy instruments to set a price for carbon. What is essential is to have some form of carbon pricing in place in all sectors of the economy – and whether an extension of the ETS is an appropriate tool to implement carbon pricing in a non-ETS sectors should be carefully evaluated:

- a. First, some of the potential non-ETS sectors are already under CO₂-related measures, which have proven to be strong instruments to decrease emissions. The compatibility and interaction of a mix of policy instruments should be assessed.
- b. Second, there are different taxation schemes from member states across the EU which can be impacted at different levels by the introduction of harmonised carbon prices. It should be ensured that the ETS extension does not lead to double taxation.
- c. Third, the ETS extension to non-ETS sectors might have unintended negative distributional impacts, especially on socially disadvantaged households. Such impacts need to be counterbalanced.



Against this background, **we support the inclusion of the shipping sector to the ETS** as it will drive decarbonisation forward in a sector where no carbon pricing is in place today and industry-led commitments appear insufficient.

By contrast, we identify **several fundamental challenges to the direct inclusion of road transport into the ETS**. First and foremost, EU-wide emission performance standards for vehicles constitute an already effective decarbonisation tool. The application of emission performance standards provides a strong market signal to drive the electrification in road transport as the most effective way to decarbonise. Moreover, in the eventuality of extending the ETS to road transport, the price of carbon would need to be much higher than today to drive an effective switch from carbon-intensive uses towards electrification. Therefore, in order to consider and devise a carbon-pricing based measure for road transport able to drive the decarbonisation of the sector across the EU:

1. Attention should be paid to overlaying different policies onto the same sector, which is likely to keep the CO₂ price lower than needed; and
2. Carbon price for road transport would need to be detached from carbon price for industry, since such high level would be politically and economically unsustainable for EU manufacturing.

In addition, effects of decarbonisation measures (standards vs. carbon pricing) on road transport in terms of costs being passed on to end customers and resulting in high distributional impacts would need to be carefully assessed.

As for the **building sector**, **we recommend a detailed assessment of the impacts of its inclusion in the ETS scope**. While it is crucial to adjust the playing field in a sector where electric heating is subject to carbon pricing and gas heating is not, distributional effects and the setting of an appropriate price for carbon need to be addressed as well.

A higher carbon price and the possible extension to new sectors implies that the revenues generated from the ETS will significantly increase in the future. Part of these funds should be earmarked to finance policies to counterbalance negative distributional impacts from the ETS. In addition to this, these larger funds should also be used to tackle carbon leakage, which is an issue that will grow proportionally to the increase in carbon prices. The ETS review, in concert with the proposal to implement a Carbon Border Adjustment Mechanism, should make sure that carbon pricing does not lower EU competitiveness at the global scale. Finally, a higher percentage of the EU ETS revenues should be reinvested in climate mitigation activities, and there should be a higher degree of transparency in their usage. To this end, the Innovation Fund should be allocated a larger amount of ETS revenues, as it will provide a strong support to low-carbon innovation across the EU industry.