

September 15, 2021

Referral response

Modification of the greenhouse gas emissions trading scheme

The Confederation of Swedish Enterprise has been given the opportunity to comment on the abovementioned review and would like to make the following comments.

Summary

The Confederation of Swedish Enterprise supports the goal of the EU achieving net zero by 2050, and we actively contribute to discussions on how the EU can best achieve the tightened 2030 goal. The cornerstones of Sweden's and EU-wide climate policy must be based on cost-effectiveness and policies that strengthen competitiveness and avoid carbon leakage. Swedish Enterprise therefore believes that greater focus on cost efficiency would have been welcome when the European Commission allocated emission reduction targets between trading and non-trading sectors. The significant increase in the burden on the trading sector means that it will be unnecessarily costly to achieve the 55 per cent. Swedish Enterprise has also previously expressed strong support for the introduction of a national minimum tax on CO₂ across the Union. The European Commission has chosen instead to proceed with a proposal for a new emissions trading system for heating buildings and for transport. This new system risks creating significant difficulties for Sweden, not least by adding another instrument to the wide range of instruments that already regulate the Swedish transport sector. Furthermore, we see a risk that costs are stacked on top of each other. Finally, Swedish Enterprise believes that the design of the proposed social climate fund should be changed. In its current form, Swedish companies and households will have to bear a significant burden to finance the transition not only in economically weaker parts of the Union but also in countries such as France.

Flawed cost efficiency

WSP has shown¹ that greater focus on the non-trading sector would have been more cost-effective than the proposal presented by the European Commission. Significant emission reductions are achievable in the non-trading sector in large parts of the Union at a significantly lower cost than by increasing emissions trading to the extent now proposed.

¹ https://www.svensktnaringsliv.se/sakomraden/hallbarhet-miljo-och-energi/ett-skarpt-utslappsmal-till-2030_1172186.html

According to WSP's calculations, a more cost-effective distribution of emission reductions between sectors would more than halve the cost of achieving the 55 per cent target. Swedish Enterprise believes that the non-trading sector's emissions reductions must increase if we are to achieve a 55 per cent reduction in emissions cost-effectively.

Protect global climate benefits

Due to previous reforms, the EU ETS price has risen sharply in recent years, which has accelerated transition in the power sector. For Swedish industry, however, it is primarily processing emissions that need to be eliminated. Opportunities to rapidly eliminate these emissions through pricing mechanisms other than by shutting down production altogether are non-existent. It is not possible to pass on the cost of emissions trading because in this situation you must accept prevailing prices on a global market. These goods and products are traded to a very large extent on global markets where Swedish and European production face fierce competition and a reduction in Swedish production would be immediately replaced by production in third countries.

Swedish companies create significant global climate benefits by displacing dirtier production abroad. In 2018, Swedish exports reduced global emissions by 26 million tonnes, according to calculations made by Material Economics.² Undermining conditions for Swedish companies to compete on international markets directly puts this climate benefit at risk. Furthermore, a non-cost-effective European climate policy risks damaging the competitiveness of the entire EU and thus contributing to increased carbon leakage when European production is replaced by dirtier production in third countries.

It will thus continue to be crucial that we limit the risk of carbon dioxide leakage through the free allocation of emission rights at a level that ensures the competitiveness of Swedish and European companies in the global market. Swedish Enterprise has also submitted a response to the consultation regarding the introduction of a ceiling adjustment mechanism for carbon dioxide that is closely linked to this issue.

Overlapping directives are problematic

Swedish Enterprise welcomes price setting for emissions in several sectors. However, we recommend that this is done through the introduction of a national minimum tax instead of, as now, introducing a parallel emissions trading system for transport and heating. The fact that these sectors also formally remain in the non-trading sector is also problematic. One of the strongest advantages of having a common emissions trading system is that emission reductions must take place where it is most cost-effective. This benefit is now limited by the fact that member states are also bound by national emission reduction targets which include these sectors.

For Sweden, this also creates an additional problem because we already attach a price to these emissions with a considerable CO₂ levy. Adding another system and additional costs on top of this already heavy CO₂ tax would damage Swedish competitiveness and further add to existing red tape. Furthermore, dual CO₂ pricing systems are a highly inefficient way of achieving emission reductions. The introduction of a new emissions trading system would require a comprehensive review of Swedish CO₂ taxation to ensure the effectiveness and efficiency of climate policy.

² https://www.svensktnaringsliv.se/sakomraden/hallbarhet-miljo-och-energi/klimatnyttan-av-svensk-export_1167102.html

Increased transfers are concerning

The European Commission has proposed the introduction of a social climate fund to support the climate transition in economically weaker parts of the Union. The fund will be funded by the new emissions trading system for transport and the heating of buildings. A quarter of the income is proposed to be allocated to the common fund and then distributed further. Given which sectors are included in the new emissions trading system, this means that Swedish households and companies will contribute to the fund through increased costs, primarily for transport. The funds will then be distributed, with the largest recipients being Poland, followed by France, Spain and Italy. Sweden's proposed share of the fund is very modest.

This fund risks undermining support for EU-wide instruments among the Swedish population and in other parts of the Union. Sweden would therefore like to take steps to stop the fund or alternatively, to change the fund's design so that Sweden's share of the fund increases and that the burden on Swedish companies and households is reduced.

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