

## › POSITION PAPER

regarding the proposal of the European Commission amending Regulation on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement

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The German Association of Local Public Utilities „Verband kommunaler Unternehmen“ (VKU) represents around 1,500 local public utilities in Germany, operating in the sectors of energy, water/waste water, waste management and telecommunication. In 2019, VKU’s members, which have more than 283,000 employees, generated a turnover of around 123 billion euro of which more than 13 billion euro were reinvested. In the end-customer segment, VKU’s member companies have a market share of 62 percent in the electricity market, 67 percent in the natural gas market, 91 percent in the drinking water sector, 79 percent in heating supply market and 45 percent in waste-water disposal. Every day, they dispose of 31,500 tons of municipal waste through separate collection and take a vital role in ensuring recycling rates of 67 percent, which rate the highest within the EU. Additionally, more and more local public utilities are committed to the deployment of broadband infrastructure. 203 members invest more than 700 million euro every year. When deploying broadband infrastructure, 92 percent of local public utilities rely at least on fibre to the building.

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VKU agrees to a publication of the position statement.

If contact person details are included, please black them out before publication.

## VKU's key positions in detail

The goal of climate neutrality represents a large challenge that concerns society as a whole, and that can only be successfully tackled with appropriate measures. VKU welcomes the adjustment of the Effort-Sharing Regulation (ESR) according to the new EU climate goals in the context of the European Green Deal. It is therefore not only fair but also just that all sectors and EU Member States should contribute toward the new, higher reduction goal. In this respect, VKU welcomes the fact that the obligations for all Member States should increasingly reduce their greenhouse gas emissions in the years 2021 to 2030. Climate change affects us all. Climate protection is a cross-border and cross-sector challenge everyone has to address. In terms of a fair and economically sensible effort sharing, all Member States and other sectors should be included in reducing greenhouse gas emissions, without exceptions.

VKU explicitly welcomes the proposal of the EU Commission to bind all Member States more strongly to climate protection. Furthermore, VKU profoundly supports the pricing of greenhouse gas emissions created through the combustion of fossil fuels. However, avoiding greenhouse gases in buildings and traffic remains behind what the sectors actually could have achieved through emissions trading. The transport sector in particular is lagging behind expectations. Because emissions trade has shown itself to be an accurate and economically efficient climate instrument, VKU expressly welcome the proposal for the new, separate, EU-wide emissions trade for the heating and transport sectors. We can only reach the goal of climate-neutral municipalities with cross-sector strategies. The introduction of a European emissions trade for heating and transport corresponds to the path that Germany has already started for CO<sub>2</sub> pricing with the Fuel Emissions Trading Act (BEHG) in these sectors. This is the right path to make a technologically open and cost-effective competition for CO<sub>2</sub>-neutral technology possible.

**However, we see as criticisable the planned double counting**, which means that the sectors concerned by the new emissions trade would remain in the scope of the effort sharing. VKU had already spoken in favour of immediately reducing the sector coverage of the Effort-Sharing Regulation in parallel to the extension of emissions trade in these sectors. VKU opposes a double counting of bound companies under the new ETS and ESR. A European emissions trading system must completely replace the national systems for the affected sectors.

## VKU's position in detail

### **No double counting of sectors in the new emissions trade system and in the context of the Effort-Sharing Regulation**

#### **Recommendation**

If a sector is covered under the new emissions trading system for heating and transport, it should be removed from the scope of application of the Effort-Sharing Regulation.

#### **Justification:**

The interaction of the new emissions trade, which determines economic incentives for companies to avoid CO<sub>2</sub> emissions, and of the ESR, which defines binding requirements for Member States, is not clearly defined and raises many questions. The lack of separation could increase regulatory uncertainty for the obligated companies and disturb the free trade of emissions rights. If a Member State is at risk of failing its ESR obligations, regulatory interventions are unavoidable, even if companies are in compliance according to the new emissions trade system. Acquiring emissions rights or investing in avoidance are therefore no protection against regulatory measures. This could give an unclear signal for avoidance and lead to non-transparent double obligations for the market participants, distorting the Cap-based emissions trade in its function as an accurate climate instrument. We also oppose the double-counting proposal with regard to the additional administrative effort required to monitor emissions. The scope of the Effort-Sharing Regulation should therefore be reduced according to the introduction of the ETS for transport and heat. A European emissions trade system must completely replace the national systems for the affected sectors, keeping in mind that the existing national management structures should continue to be applicable with the smallest possible administrative cost.

#### **For questions or remarks, please contact:**

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