



*Employers entrusted to deliver
Sustainability Growth Innovation*

Opinion

**Designing a Resilient Climate Architecture beyond 2030:
Aligning SGI priorities with the 2040 Climate Law**

Adopted by the General Assembly on 04 February 2025

Executive Summary

- **SGI Europe urges that the new EU climate architecture, together with the upcoming Clean Industrial Deal, must decisively reinforce the role of Services of General Interest (SGIs) as key enablers of Europe's transition to climate neutrality by 2050.** SGIs form the backbone of Europe's economy and society, providing essential services that are fundamental in achieving a fair and sustainable transition.
- For this demand to become a reality for Europe, SGI Europe advocates for:
 - **Empowering local and regional authorities in climate governance:** Decentralisation must be a cornerstone of the new framework, with an energy and climate policy that allows Member States and their enterprises, municipalities and public authorities more flexibility to pursue emission reductions through approaches tailored to their local and regional contexts, enabling more effective and practical climate action.
 - **Maintaining a technology-neutral approach to decarbonisation:** This requires an EU framework open to diverse low-carbon technological solutions on a level playing field with renewables. Maintaining a technology-neutral stance that supports all pathways to decarbonisation and renewable energy development, provided they contribute meaningfully to emissions reduction and climate mitigation goals. A flexible approach enables Member States to adopt the most efficient technologies for their energy mix while achieving climate goals.
 - **Supporting climate mitigation in hard-to-abate sectors:** SGI Europe advocates for pragmatic climate tools such as CCS/CCU in industries where full decarbonisation remains challenging. These technologies should complement, rather than replace, broader efforts to reduce emissions at the source. Additionally, municipal services of general interest must be central to these policies to balance climate action with essential services, prioritising public drinking water security while pursuing robust, sustainable climate measures.
 - **Facilitating a modal shift towards sustainable transport:** The transport sector remains one of the most challenging areas for emissions reduction. The EU must adopt a policy and financial framework that prioritises shifting from road to rail and public transport. Allowing an adequate budget for the Connecting Europe Facility (CEF) for all Transport modes is key to internalise external costs associated with high-carbon transport modes.
 - **Protecting Critical Infrastructure for Resilience and Security:** To ensure long-term service continuity and economic stability the resilience of critical infrastructure must be protected. Investments should prioritise modernising and maintaining energy, water, transport, and waste management systems. Also, a coordinated approach to protecting infrastructure from both physical and cyber threats is essential to ensure the uninterrupted delivery of essential services.
 - **Ensuring a socially just transition:** The EU Green Deal must be accompanied by a structured EU Climate Dialogue with EU Social Partners to facilitate workforce adaptation, skill development, and employment stability. A strong focus on green skills should be put in the upcoming "Union of Skills", and should help equip workers for the climate transition, while ensuring that no sector or region is left behind.
- SGI Europe calls on the European Commission to integrate these recommendations into the forthcoming legislative and policy initiatives under the new EU climate Architecture for 2040. We stand ready to collaborate and provide further input to ensure a climate framework that fully harnesses the potential of SGIs for a sustainable future.

Designing a resilient climate architecture beyond 2030: Aligning SGI priorities with the 2040 climate law

To achieve the EU's net-zero emission targets and climate neutrality goal for 2050, the European Commission's communication "Securing our future: Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society" (COM(2024) 63) recommended that Europe should reduce GHG emissions by 90% by 2040. This ambitious target underscores the urgency of strengthening our approach to climate resilience and adaptation in the face of escalating climate challenges. Each year, extreme weather events – from record-breaking heatwaves and severe droughts to devastating floods and high winds – inflict rising costs and strain the EU economy. These climate impacts signal an unprecedented **need for effective climate adaptation and mitigation strategies to sustain Europe's economic and environmental stability. Simultaneously, the EU must address rising challenges to its competitiveness and security.**

Addressing this dual challenge requires comprehensive, coordinated action across sectors, with an emphasis on making climate strategies cost-effective, well-manageable, environmentally and socially sustainable. **Services of General Interest (SGIs) – encompassing energy, transport, water, waste management, and telecommunications – are essential in this coordinated response.**

In collaboration with local and regional authorities, **SGIs play a pivotal role in ensuring Europe's readiness to meet its climate goals, preserving economic stability while safeguarding the subsidiarity principle that respects Member States' autonomy.** SGI Europe's cross-sectoral approach recognises the essential function that our members serve daily for citizens and the economy: SGIs are not just participants in Europe's climate architecture but are fundamental pillars supporting the EU's long-term energy and climate strategy.

As the EU will need to ensure that the new climate architecture beyond 2030 is compatible with the upcoming **Clean Industrial Deal, SGI Europe urges that this framework should strengthen the role of SGIs in supporting Europe's transition to climate neutrality by 2050.** It must prioritise the integration and resilience of SGIs and help maintain Europe's position as a global leader in sustainable economic practices.

More flexibility for Member States' EU energy and climate policy approaches

A flexible, decentralised and technology-neutral EU energy and climate policy framework that respects the subsidiarity principle is essential to achieve Europe's climate goals while recognising the unique capacities and circumstances of each Member State. Article 194(2) of the Treaty on the Functioning of the European Union (TFEU) makes some areas of energy policy a shared competence, in which each Member State maintains its right to 'determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply'¹.

SGI Europe advocates for an energy and climate policy that allows Member States and their enterprises, municipalities and public authorities this flexibility to pursue emission reductions through approaches tailored to their local and regional contexts, enabling more effective and practical climate action. This requires an EU framework open to diverse technological solutions, maintaining a technology-neutral stance that supports all pathways to decarbonisation and renewable energy development, provided they contribute meaningfully to emissions reduction and climate mitigation goals.

¹ Article 194(2) of the Treaty on the Functioning of the European Union (TFEU)

This also supports the agreed EU policy approach of the EU Energy Union (2015) highlighting its five dimensions to safeguard Member States in fulfilling the goals towards their 2030 energy and climate targets by looking into Energy Security, Internal Energy Market, Energy Efficiency, Decarbonisation of the Economy, Research, Innovation and Competitiveness². Therefore, the new EU climate architecture for 2030 and beyond must reinforce the five dimensions of the EU Energy Union and reflect them in its approach to achieve its targets whilst safeguarding a cross-sectoral approach and ensuring the economic, environmental and social security of this transition.

For this reason, **SGI Europe is echoing the latest EU Energy Union report from September 2024, calling on all Member States to submit their updated National Energy and Climate Plans (NECPs) to ensure predictability and investment security for SGIs and public services providers³.**

The crucial role of decentralisation in the EU's mitigation process

Empowering the local and regional levels through decentralisation is crucial, as these are where impactful, immediate steps towards GHG reduction can be most efficiently implemented. By creating a European platform that respects and supports Member States' autonomy, Europe ensures that each state can remain ambitious within its resources and constraints, fostering sustainable climate commitments across all levels of governance. **Flexibility will allow countries, regions and local authorities to adopt technologies and policies that best suit their economic structures, energy landscapes, and societal needs, strengthening resilience and maintaining public support for the energy transition.**

Furthermore, **a decentralised approach enables a dynamic, adaptive response to evolving climate challenges**. Allowing Member States the latitude to harness diverse, locally relevant low-carbon technologies will not only accelerate the transition but also build a more robust and regionally adaptable energy system across Europe. **This adaptable framework should also recognise and support investments that directly benefit the energy resilience of local communities, creating jobs, fostering regional economic stability, and driving sustainable growth across Europe.**

SGI Europe calls for a forward-looking EU energy and climate policy that is both ambitious and adaptive, respecting local and regional SGIs prerogatives while fostering collective progress towards climate neutrality.

The necessity of streamlining technology neutrality while taking into consideration the different energy mixes and energy needs at the local level

Achieving the ambitious climate targets while ensuring competitive energy costs and energy security requires expanding and using all sustainable, GHG-neutral and low-carbon energies in the EU and the inclusion of all sectors. **The new EU climate architecture should follow a technology-neutral stance in which all low-carbon sources, including CCS/CCU solutions, should be treated according to their practical reduction contribution and in which their contribution to achieving the EU's climate neutrality target is recognised.** The EU framework should remain technology-neutral and take into consideration local needs and energy mixes. This technology-neutrality must also extend to the allocation of EU resources, whether directly

² A framework strategy for a resilient energy union with a forward-looking climate change policy (COM/2015/080)

³ State of the Energy Union Report 2024

managed by the European Commission or through other European entities like the European Investment Bank (EIB).

Today, through the Renewable Energy Directive and the Governance Regulation, the **EU has set an EU-wide target for renewable energy in gross final energy consumption** and proposed national allocations of such share to each Member State⁴. However, **such an allocation ignores the meaningful contribution of low-carbon energy sources that are not considered renewable as such**, for example nuclear energy, natural gas combined-cycle power generation with solutions of CCS/CCU, combined heat and power generation, low-carbon hydrogen, and low-carbon e-fuels, etc. Furthermore, it should be possible to make better use of waste heat (including from wastewater) and waste-to-energy.

While **these energy sources are essential for reducing GHG emissions and can quickly help to decarbonise the energy demand, making it possible to use local and regional resources, they have been largely overlooked in the current framework**. Even within the EU Taxonomy Regulation, the Complementary Delegated Act emphasises that investments in nuclear and gas are transitional, aiming to replace more polluting energy sources like coal while requiring compliance with rigorous environmental and transparency criteria⁵. It supports the shift towards a climate-neutral energy future, while Member States maintain autonomy over their energy policies, which SGI Europe also supported⁶. **Yet, as a result, Member States face limited flexibility in their energy choices** because EU legislation does not encourage the adoption of low-carbon technologies on a level playing field with renewables.

Therefore, **a technology-neutral approach should be adopted to include all low-carbon technologies. Any targets or contributions by Member States regarding their national energy mix should be subordinate to their contributions towards the EU 2040 climate targets.**

Implementing this shift would have significant benefits. **Such a shift would not only allow for greater flexibility at the local and regional levels in energy choices but also clarify and put increased emphasis on the overall targets for reducing GHG emissions**. Looking at all options, it would provide a clearer and more flexible framework on how Member States can fulfil their responsibilities.

Ultimately, this approach would improve our chances of successfully reaching the EU reduction targets by ensuring that all relevant alternatives to reduce GHG emissions are adequately considered and incentivised.

Along the same lines, it should be up to Member States to make their national energy savings contribution (Energy Efficiency Directive (EED) Article 4) subordinate to their GHG reduction targets of the Effort Sharing Regulation (ESR), as long as targets are reached. The present energy savings contributions do not regard increased industrial production, transition to energy-intensive hydrogen production, and population growth. Neither do these requirements regard the actual need and costs for energy renovation of the national building stocks.

⁴ European Parliament & Council. (2018). Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action. Official Journal of the European Union.

⁵ European Commission, Complementary Delegated Act on the EU Taxonomy, including transitional and enabling activities for nuclear and gas energy (C(2022) 631)

⁶ SGI Europe position paper, 'Feedback to the complementary DA on Nuclear and Gas', 13 January 2022.
<https://sgieurope.org/publications/sgi-europe-feedback-to-the-complementary-da-on-nuclear-and-gas/>

The heating transition to achieve climate targets

The EU Commission's impact assessment accompanying the 2040 climate target recommendation (SWD(2024)63) did not look at the greater benefits of heating and district heating. Yet, the climate targets cannot be achieved only with renewable and low-carbon electricity. **Especially for urban areas, the decarbonisation of district heating and the expansion of heating networks are necessary.** More than half of the final energy consumption in the EU is used to heat homes, offices and stores and to provide heat for trade and industry. The heating transition is a core element in the transformation strategies of many municipalities, utilities and energy supply companies. **The decarbonisation of district heating through a massive expansion of heat use from renewable, waste-heat and low-carbon, and climate-neutral sources and technologies (such as cogeneration) is crucial.** This includes the massive ramp-up of large heat pumps, deep geothermal energy, waste heat, waste-to-energy, solar thermal energy, power-to-heat and the use of hydrogen.

Municipal utilities and heating network operators are ready to invest billions in these technologies. However, these investments can only occur on the scale needed to meet climate goals if the (heating) policy framework is consistently aligned with and supports these investment efforts.

Accelerate the expansion of heating networks and simplify permitting procedures

Heating networks are the heart of a socially responsible and cost-efficient heating transition. The expansion and conversion of heating networks is a central component of the transformation strategy. **In densely populated areas, the grid-based heat supply is often the only way to supply a large number of households, commercial customers and industries with climate-friendly heat simultaneously and on a large scale.** Reducing bureaucracy and simplifying **planning and approval procedures** are essential for the **construction of heating networks**. Furthermore, with regard to the decarbonisation of the heat supply, it is also important that the EU Taxonomy does not exclude anymore or hinder any technologies that are necessary to achieve the EU climate targets, such as waste-to-energy.

Simplify the financing of the energy transition and reduce bureaucracy

Since the "Fit-for-55" package has mainly focused on regulatory provisions, **this legislative term must have a stronger focus on the issue of financing the energy transition in a faster and simpler manner.** This applies not only to further develop the EU Taxonomy but also reduce bureaucracy and accelerate **approval procedures under state aid law**. This includes allowing aid to support investments in a sustainable and low-carbon energy supply under simplified conditions on a permanent basis.

To ensure that municipal companies can continue to play a key role in shaping modern SGIs in a sustainable manner, the definition of SMEs⁷ must be adapted so that municipal companies are no longer excluded. This is the only way that smaller municipal companies can also benefit from targeted simplifications in terms of reducing bureaucracy and benefiting from support and financing measures that are intended for companies of their size.

⁷ In Article 3(4) of the Annex to Commission Recommendation 2003/361/EC SMEs that are mainly or entirely owned by public authorities —also known as the ownership criterion— do not fall under the European definition of an SME. This non recognition has negative consequences on: o their access to financing opportunities, by limiting the scope of funding and financial programmes available to them; and o their right to benefit from administrative simplification measures, leading to distorted conditions of competition for public SMEs.

Engage in modal shift to sustainable modes of transport to decarbonise the EU's mobility sector

For the EU climate architecture beyond 2030, the decarbonisation of the transport sector is unavoidable and crucial in driving down GHG emissions significantly.

Transport is the only sector where GHG emissions have increased over the past three decades, rising by 33.5% between 1990 and 2019. Emissions originate primarily from road transport (72%), while maritime transport and aviation respectively represent 14 % and 13 % of emissions. Regarding rail transport, the share is 0.4% only, even though it accounts for 8% of passenger transport and 19% of freight transport in Europe.

In the framework of the EU Green Deal's objective to cut GHG emissions in the transport sector by 90% by 2050, **a key lever is to shift to more sustainable transport modes from road to rail and to public transportation in particular**. For example, trains are the most GHG-efficient form of passenger and freight transport in the EU. Rail has three key environmental advantages, as it saves CO₂, energy and land. Rail transport is essential for decarbonising, relieving congestion in cities and motorways, and consuming less energy. Sustainable public transport contributes to social and territorial cohesion by connecting regions, linking remote areas to city centres, and being accessible to all.

SGI Europe calls for a clear recognition and integration of the modal shift in the transport sector to rail and public transportation in the context of the new EU climate architecture. It is a call for a dual transformation: promoting a massive shift from polluting to non-polluting modes of transport and greening polluting modes of transport. Furthermore, the role of electric mobility in the private transport sector is notably important for reducing emissions in this area.

For a policy and financial framework favouring a modal shift

The European Scientific Advisory Board on Climate Change presents decarbonisation options for the transport sector. It highlights the fact that **decarbonisation of the transport sector “can be achieved with a decrease in road and air transport and an increase in rail transport, other modes of public transportation and shared mobility services”⁸**. It also reads that this shift “requires a change in behaviours, as well as the development of the rail network, including high-speed rail, and **can be supported by digitalisation, the development of Intelligent Transport Systems and multi-modal transport connections, and connected vehicles for shared services**”.

SGI Europe shares this recommendation and notably **calls for a level playing field that reflects the real costs of transport for society**. With full internalisation of external costs (encompassing costs related to congestion, accidents, environment, air pollution, noise, landscape, etc.), this will:

- **Make sustainable modes of public transport, and rail in particular, more competitive and incentivise modal shift;**
- **Generate new revenues that can help finance the transition to sustainable modes of transport and finance rail and public transport infrastructure.**

⁸ European Scientific Advisory Board on Climate Change. (2023). Scientific advice for the determination of an EU-wide 2040 climate target and a greenhouse gas budget for 2030–2050 <https://climate-advisory-board.europa.eu/reports-and-publications/scientific-advice-for-the-determination-of-an-eu-wide-2040>

Moreover, SGI Europe highlights the need for a performant policy and financial framework at the EU level. Sustainable transport development and behaviour changes can only occur if a global and incentivising framework accompanied by resources is adopted.

Fully implementing the Fit-for-55 package and going beyond

SGI Europe calls for a full implementation of the EU ETS Directive. Its recent revision will help reinforce the polluter-pays principle and will allow it to achieve a level-playing field between transport modes by ensuring that carbon pricing reflects their impact on climate and society – in particular for the aviation sector that benefited from free allowances. Doing so will foster a modal shift to clean modes of transport by sending a price signal that internalises their impacts.

Furthermore, **SGI Europe calls on Member States to adopt the Revised Energy Taxation Directive. The revision of the Directive should end the mandatory exemption of kerosene taxation for passenger and freight aviation.** It should also provide a tax incentive for renewable and low-carbon fuels while removing the exemptions currently allowed for fossil fuels, therefore internalising external costs and establishing fiscal and social equity between modes.

Since behaviour change is key, SGI Europe supports the **CountEmissionsEU initiative**. Currently, there is no EU-wide comparator for transport modes' GHG emissions. Yet, this is key to raise awareness among transport users, individuals, and companies. **This initiative is, therefore, central to achieve a level playing field. It will demonstrate the comparative advantage of rail and public transport over other modes of passenger and freight transport, hence creating incentives for people and companies to use sustainable transport modes.** This initiative should make GHG emissions reporting mandatory for all entities organising or providing transport services. It will be key that private cars fall under the scope of application to be even more effective in generating the modal shift.

In addition, SGI Europe calls for fully implementing the revised Eurovignette Directive in the Member States. The optional provisions provided by the directive, such as mark-up or external cost charges, are indeed key elements to achieve a level-playing field between transport modes. A future revision of the directive should be the opportunity to go further and make these provisions mandatory.

A climate ambition that comes with resources

To achieve a modal shift, an ambitious financing framework is needed to ensure the regeneration and modernisation of infrastructures, new high-speed lines, interoperable rolling stock, etc. Additional resources are also needed to develop infrastructure projects related to climate change adaptation. Climate change already affects railway equipment and public transport and is highly likely to have even more consequences.

Therefore, SGI Europe pledges for a dedicated and adequate financial framework for railways and public transportation. An adequate budget for the Connecting Europe Facility (CEF) for all transport modes, energy and digital sectors is key, as well as the mobilisation of other funds, such as the European Regional Development Fund (ERDF) for which the critical transport infrastructure should be identified as one of the priorities.

Another crucial leverage to boost the development of rail and public transport is notably the mobilisation of ETS revenues. Since the recent revision, the EU ETS I and II will generate large revenues for Member States

and the EU, which could notably be used for the completion of the TEN-T network including urban nodes with urban public transport and foster modal shifts within the transport sector.

When setting the climate target for 2040, **the Commission should consider the share of avoided GHG emissions thanks to a modal shift within the transport sector.** Accounting for the avoided GHG emissions is already applicable when building new or upgrading and maintaining rail infrastructure. It should be applied to the transport sector as a whole. It will make it possible to take into account the benefits of developing low-carbon modes and modal shift towards them. For the private mobility sector, SGI Europe also highlights the opportunity to support and finance the development of the charging infrastructure necessary to electrify road transport.

Improving the resilience of critical infrastructures through quality investments in SGIs

Extreme weather and gradual climate change threaten Europe's energy, water, transport, waste management, telecommunication infrastructure and built environment, endangering societies' well-being. These risks are heightened by an ageing infrastructure and increasing demand for services. Infrastructure assets are often interconnected within a network of systems, where a disruption to one asset can rapidly cascade, impacting other sectors and assets. **The European Risk Assessment report from Spring 2024 explains the fast and costly impact climate change has on these critical infrastructures** and recommends some key priorities for policy actions including conducting assessments and implementing existing EU policy measures such as the TEN-T and E to enhance the resilience of critical infrastructure on a cross-sectoral level⁹.

Moreover, the EU climate and energy policies should more effectively integrate climate adaptation into energy, waste and transport sector planning and implementation, supporting decarbonisation goals and ensuring the security of supply. For example, **existing energy infrastructure maintenance and new infrastructure planning must incorporate hydrological forecasting and monitoring to address risks from prolonged droughts and water scarcity.** Additionally, new energy infrastructure in water-scarce regions should prioritise water efficiency and be designed with climate projections and competing sectoral demands in mind. In this regard, SGI Europe emphasises the need to streamline and connect these cross-sectoral challenges within its climate adaptation and resilience strategy, as well as in developing the upcoming EU Water Resilience Initiative. These elements are essential to ensure that critical infrastructures remain robust against external shocks.

SGIs are active in fields such as energy and water provision, public transport, postal services, media, telecommunications, waste management, housing, healthcare and education. As such, SGIs provide – on national, regional, and local levels – the core services and infrastructures that companies need to develop innovative technologies that contribute to green and digital transitions and create competitive advantages for the European economy.

It is imperative that the EU public funds not only focus on expanding infrastructure but also prioritise the quality of expenses associated with upgrading and managing these critical assets. Improving the quality of expenses in SGIs leads to greater efficiency in resource allocation. When funds are used accordingly, it ensures that investments are directed towards the most impactful projects, reducing waste and promoting

⁹ European Environment Agency (EEA). European Risk Assessment Report. April 2024, P.26

operational efficiency. This is particularly important for critical infrastructure projects, where financial mismanagement can result in delays, cost overruns, and compromised service delivery. Enhanced expense quality allows stakeholders to assess the necessity and impact of each expenditure, facilitating informed decision-making that aligns with broader societal goals.

Critical infrastructure requires initial investment and ongoing operational funding to maintain and update services. By **focusing on the quality of expenses, SGIs can ensure that funds are allocated for immediate needs and long-term sustainability**. This means investing in maintenance, upgrades, and capacity-building initiatives. Such foresight prevents the deterioration of infrastructure over time, ultimately leading to lower life-cycle costs and enhanced service reliability. Sustainable practices also align with the EU's commitment to green and resilient recovery, tapping into funds that support environmental goals.

Investing in high-quality expense management can also foster innovation. When SGIs carefully analyse their spending, they can identify areas for modernisation or re-engineering. This may include adopting new technologies or methodologies that enhance service delivery and operational outcomes.

Overall, the quality of expenses associated with SGIs is instrumental in effectively managing critical infrastructure, especially in allocating and recalculating EU funding to finance the EU Green Deal and the Clean Industrial Deal. By enhancing efficiency, ensuring sustainability, promoting accountability, facilitating innovation, and fostering social equity, **SGIs can maximise the benefits of public investment and support the EU's broader objectives**. As we move forward, **it is essential to prioritise expense quality, not only to optimise current infrastructure but to build a resilient foundation for future generations**. The commitment to high standards in financial management will enable SGIs to deliver essential services that contribute actively to the well-being of society and the economy as a whole.

Strengthening the EU security of supply: A common overview in protecting critical infrastructures

The security of critical infrastructures in the energy, water, waste, transport and telecommunication sectors is a cornerstone of societal resilience, **encompassing both physical and cyber dimensions and must be a key aspect of the climate architecture beyond 2030**. As threats grow more sophisticated and interconnected, ensuring the uninterrupted operation of these infrastructures demands a coordinated approach. **A comprehensive overview across the EU is crucial to identify vulnerabilities, share best practices, and establish common security objectives**. This approach helps mitigate risks and reinforce public trust in the reliability of these essential systems.

The EU recently approved the revision of the **NIS2 Directive (Directive (EU) 2022/2555)** and the new **CER Directive (Directive (EU) 2022/2557)**. It will be particularly important to **ensure a complete and timely implementation to safeguard SGIs**, which support both citizens and enterprises. Any disruption to the provision of SGIs, whether caused by a physical attack or a cyber breach, can have far-reaching consequences. By fostering an EU framework, Member States, regional and local authorities can collectively enhance their preparedness and response capabilities based on their needs and physical availabilities, ensuring that these critical services are resilient and capable of adapting to emerging threats in an increasingly volatile landscape.

The provision of securely available capacities in the electricity market must also be appropriately taken into account and remunerated in order to ensure optimal utilisation of flexibility options and security of supply. The

recently published **Electricity Market Regulation** (Regulation (EU) 2024/1747) provides for a revision of the application of capacity mechanisms. **SGI Europe calls upon the European Commission to envisage measures to simplify and accelerate the approval of capacity mechanisms.** It is important that a proposal is drawn up and implemented quickly, as capacity mechanisms are an essential component of the security of supply.

Supportive climate tools in hard-to-abate sectors

In pursuing the EU's 2050 net-zero goals, **SGI Europe supports adding climate tools and measures to effectively reduce greenhouse gas emissions in the energy sector as a last-mile solution to realise our climate targets fully.** Alongside the Emissions Trading System (ETS), carbon capture, utilisation, and storage (CCS/CCU) are useful instruments that support Europe's decarbonisation journey.

Once sufficiently developed and cost-competitive, these technologies can provide a useful tool for the waste management sector to reduce unavoidable emissions from both fossil and biogenic waste. They can also enable negative emissions through bio-CCS.

However, it is essential that these measures are carefully designed and implemented to prevent unintended social and environmental harm. As a cross-sectoral association, **SGI Europe emphasises the need to consider their broader implications, including potential effects on drinking water supplies during CCS operations and the social impact of an increasing carbon price, particularly in the housing and transport sectors.**

The following sections outline SGI Europe's rationale for supporting these measures and highlight the precautions necessary to ensure their responsible implementation.

Creating effectiveness and fairness for all sectors in the ETS system

SGI Europe fully supports the reinforcement of the EU Emissions Trading System (EU-ETS) beyond 2030 and the creation of ETS2 as cornerstones of the European climate policy, calling for improved visibility on Europe's carbon budget and better alignment with complementary tools like the Effort Sharing Regulation (ESR). The recent EU-ETS revisions, including a stricter emissions cap and broader scope, underscore its importance in reducing emissions and attracting investments in low-carbon technologies.

Given the potential social impact of ETS2, accompanying policies should be introduced for the road transport and building sectors. In particular, policies to support the development and use of public transport and rail, as well as the decarbonisation and electrification of final uses, will help citizens to move towards more energy-efficient and climate-friendly solutions.

While all sectors should contribute to decarbonisation, **SGI Europe emphasises that any future extension of the EU ETS to new sectors must be carefully weighed to balance emissions reduction considerations with potential impacts on the economy, society and other EU targets.**

This is particularly relevant as the European Commission is considering an extension of the EU ETS to municipal waste incineration as of 2028. **Any future revision of the EU-ETS should be careful not to create an unfavourable environment for waste incineration, which is a key technology to reduce and progressively phase out landfilling in the EU, particularly for Waste-to-Energy technologies (WtE).** WtE technologies are currently the most efficient and cleanest technology for treating non-recyclable waste streams. They can contribute to renewable energy generation and replace fossil fuels by producing electricity and heat. Moreover, contrary to economic operators in industry or power generation, operators in waste

management cannot control the fossil content of the waste streams they receive. Therefore, an extension of the EU ETS to municipal waste incineration would likely result in additional costs for citizens, without a corresponding reduction in emissions.

A holistic view of the waste sector, including methane emissions in landfills, is required. If municipal waste incineration was included in the ETS, landfills would need to be included too.

SGI Europe also emphasises that **extending the EU ETS to additional sectors might require a full policy mix that complements the ETS. Measures to mitigate social impacts should be reinforced, particularly for vulnerable households.** To ensure a fair and inclusive transition, it is crucial to bolster the EU Social Climate Fund, providing targeted support for those most affected by higher energy and mobility costs. Furthermore, a robust carbon pricing mechanism will foster a level playing field, encouraging a shift toward greener transportation options, such as rail, and reducing the competitive edge currently held by road transport. This balanced approach should strengthen climate action while safeguarding social equity and economic stability across all EU regions.

Any future legislative framework for the EU ETS will need to consider the role and the economic case for CCS/CCU. The European Commission's impact assessment of the ETS foreseen for 2026 will offer a crucial opportunity to engage stakeholders in this respect. A balanced approach is needed to create a market for carbon capture and carbon removal technologies without destabilising price signals towards decarbonisation in the ETS market.

An economic and environmentally-balanced Carbon Capture Utilisation and Storage approach

SGI Europe underscores the critical role that Carbon Capture and Storage (CCS) and Carbon Capture and Utilisation (CCU) technologies play in achieving climate neutrality, especially for sectors with hard-to-abate emissions. Once sufficiently developed and cost-competitive, these technologies can provide a useful tool for the waste management sector to reduce unavoidable emissions and enable negative emissions through CCS. **SGI Europe strongly supports that these technologies receive clarity in policy frameworks, specifically through comprehensive legislation that aligns with Europe's broader emissions reduction targets.** It is crucial that funding guidelines and policies include provisions to support CCS/CCU initiatives in sectors where emissions are difficult or impossible to avoid and for negative emissions. In light of the economic challenges facing CCS/CCU adoption – particularly in energy sectors like gas power plants – **SGI Europe calls for a structured EU funding framework to support municipalities and industries that need CCS/CCU for emission reductions.**

Once again, it is crucial for **SGI Europe that the industrial, agricultural, and transport sectors make greater efforts to reduce CO₂ emissions** from both production processes and products. **As far as feasible, preference should be given to CO₂ reduction before deploying CCS/CCU.**

Additionally, as a cross-sectoral organisation, **it is vital to acknowledge the need to safeguard EU water resources and ensure the security of the drinking water supply remains paramount.** SGI Europe supports that using onshore geological storage for CO₂ should not compromise groundwater or water resources. **SGIs must be central to these policies to balance climate action with essential services, prioritising public drinking water security while pursuing robust, sustainable climate measures.**

Create a platform of dialogues with EU social partners and recognise the key role of services of general interest in the social transition

As an EU cross-industry social partner, SGI Europe and its members contribute to creating a fair EU. **For the EU Green Deal to become a European political success on the national ground in Europe, they must also be socially fair and foster the social acceptance of enterprises and citizens.**

SGI Europe hereby calls for a platform where **EU social partners can actively participate in the implementation of the EU Green Deal and discuss the rollout of initiatives** such as the Just Transition Fund and the Social Climate Fund.

For this reason, SGI Europe stresses the need to swiftly **start a structural dialogue, including via dedicated Climate Dialogues with the EU Social Partners.** Social partners have a key responsibility to develop, in the context of the climate transition, a socially acceptable and fair model. Discovering what skills Europe will need for the climate transition and to keep up with the speed and scale of the transformation of the labour market, imposed by the Green Deal, requires the early and effective involvement of social partners.

Social partners should be given the means to increase the visibility of occupations in different sectors, especially in those with low attractiveness for young people but with high importance to the critical infrastructure. **SGI Europe deems it as important to include in the future ‘Union of Skills’ a strong “green skills” component that would guide enterprises, industries, and their workers through the Green Deal transitions.** In this task, SGI Europe underlines the importance to EU institutions to clearly and explicitly recognise the role SGIs play – as providers of essential services – in the EU social and economic mode.

Lastly, at the national level, **better transversal coordinated national plans amongst different sectors** and labour markets must be provided to safeguard quality jobs for the transition whilst also providing a dedicated strategic and institutional framework that ensures a platform for national social partners for coordination and implementation strategies.