ETS II: Ensuring a Fair, Feasible, and Inclusive Carbon Pricing Framework

Liquid Gas Europe Position Paper on ETS II

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The EU Emissions Trading System for Buildings and Road Transport (ETS II) represents a significant expansion of Europe's carbon pricing framework. By 2027, it will cover emissions from heating fuels, road transport, and small industries.

ETS II will directly affect millions of European citizens and businesses. The impact on consumers will be immediate and tangible for the liquid gas sector. Households, small businesses, and Autogas users in rural and off-grid areas, where alternatives are limited, face risks of sharp cost increases. Without safeguards, ETS II could drive vulnerable consumers into energy poverty and force smaller distributors out of the market, reducing competition and choice. Such outcomes would undermine public support for the energy transition and create political risks at the EU and national levels.

Structural Risks in ETS II

ETS II faces systemic challenges that could seriously affect affordability, fairness, and competitiveness:

- Speculation and price volatility: The Market Stability Reserve (MSR) is not reactive enough to protect against sudden price spikes that immediately affect household energy costs.
- Insufficient consumer protection: The absence of timely intervention mechanisms risks exposing millions of households and SMEs to disproportionate energy cost shocks.
- Misalignment with RED III: Reducing ETS II allowances may outpace the ramp-up of renewable fuels foreseen under RED III, creating artificial scarcity and penalising suppliers despite the lack of renewable alternatives at scale.
- Disadvantage for smaller distributors: ETS II favours financially strong companies capable of hedging. Smaller, often rural distributors risk being pushed out of the market, reducing competition and consumer choice.
- Regulatory overlaps: ETS II duplicates objectives already targeted by RED III, the Energy Performance of Buildings Directive (EPBD), and CO_2 standards for

vehicles. Moreover, ETS II is not coordinated with the Energy Taxation Directive, which risks unnecessary complexity and compliance costs.

- Unclear use of revenues: Without earmarking ETS II revenues to support renewable fuels and vulnerable consumers, end users risk paying the price without seeing benefits in return.

Challenges for the Renewable Liquid Gas Sector

The design of ETS II also creates specific challenges for renewable liquid gases:

- In several Member States, bioLPG and renewable DME face practical obstacles to being treated as zero-emission fuels under ETS II. While these fuels comply with RED III sustainability criteria and should, in principle, be exempt from CO_2 taxation, complex and inconsistent certification requirements under Regulation (EU) 2022/996 and the fragmented nature of off-grid supply chains often prevent distributors from applying the exemption in practice. These administrative and logistical barriers create competitive distortions, discourage investment, and generate uncertainty for producers and distributors.
    - To ensure fairness and consistency, the implementation of ETS II should be aligned with simplified and harmonised certification and verification procedures under RED III, reflecting the realities of decentralised supply chains, ensuring regulatory equivalence with gas grid operators, and guaranteeing the practical application of zero-rating for all certified renewable molecules across all Member States.
- Risk of double carbon pricing: Poor alignment between ETS II and national energy taxation frameworks risks overlapping charges and excessive consumer costs.
- Impact on off-grid and rural communities: Rural households and SMEs dependent on LPG may face higher costs without affordable alternatives or targeted support. It's important to remember that rural municipalities are not connected to city gas networks or urban heating systems. With 90% of the housing stock made up of larger and older detached houses compared to urban areas, rural households already face heating costs that are around 20% higher.
- Impact on vulnerable consumers who rely on LPG for transport, attracted by its environmental advantages and cost savings compared to conventional fuels.

Policy Recommendations

To ensure ETS II delivers on its climate objectives without compromising fairness or competitiveness, Liquid Gas Europe calls for:

- Postponement of ETS II implementation until systemic and sector-specific issues are resolved.
- Alignment with RED III to ensure allowance reductions match the availability of renewable fuels.
- Introduce structural safeguards against speculation and price spikes to protect households and SMEs and ensure affordability and market stability.
- Switch the measures already set in case of an excessive price increase from provisional to structural.
- Simplification of certification requirements to reflect the realities of decentralised supply chains.
- Clear earmarking of ETS II revenues to support renewable fuels, blending incentives, equipment upgrades, and vulnerable consumers. Each energy sector must be supported in proportion to its contribution to the ETS.
- Technology neutrality to ensure renewable molecules complement electrification in the transition.

Conclusion

Liquid Gas Europe supports Europe's climate ambitions and the principle of carbon pricing. But ETS II, in its current form, risks destabilising markets, burdening citizens, and sidelining renewable solutions that are already available. **A postponement of ETS II implementation is the responsible step: it would allow time to address systemic flaws, ensure consistency with existing legislation, and provide space for renewable fuels like bioLPG and renewable DME to scale. Postponement is not delay for delay's sake – it is the only way to <u>guarantee that ETS II delivers both climate impact and social fairness,</u> especially in rural areas.**

Liquid Gas Europe stands ready to work with EU institutions and national governments to design an effective, fair, and inclusive ETS II, with renewable liquid gases as a central part of the solution.

Who We Are: Liquid Gas Europe

Liquid Gas Europe is the European association representing the entire liquid gas supply chain, from producers and distributors to equipment manufacturers and national associations. With a strong presence in urban and rural communities, the sector delivers secure, flexible, and clean energy to millions of households and businesses across Europe. Today, the industry is driving the transition towards renewable liquid gases (such as bioLPG and renewable DME), which offer immediate and scalable decarbonisation potential in heating, cooking, transport, and industry—particularly where electrification is not feasible or affordable.