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Municipal Waste Europe outlines key priorities for the revision of the EU Emissions Trading System

On 17 July, the European Commission put forward a proposal to review the Emissions Trading System (2026/0212(COD)[1], the EU flagship instrument for reducing greenhouse gas emissions, with the aim of decarbonising the EU while supporting industrial competitiveness.

This review brings, for the first time, the municipal waste management sector into the system. The proposed progressive inclusion of non-hazardous municipal waste incineration (MWI) from 2031 to 2034, the inclusion of landfilling for MRV purposes, and the assessment of the appropriateness of incorporating landfills by 31 December 2034 will undoubtedly have an impact on waste management treatment and are highly relevant for local authorities.

The potential extension of the EU ETS to municipal waste incineration would introduce a harmonised carbon pricing instrument into a sector characterised by substantial differences in national policies on waste incineration. It is therefore essential that any future legislative framework adequately takes account of these differing starting points and avoids unintended consequences for waste management systems and public services. Against this background, and with a view to fostering a constructive discussion during the co-legislative process, Municipal Waste Europe would like to highlight the following key priority areas, should EU policymakers eventually decide to include MWI in the EU ETS:

1) Recognising the role of the waste management sector in avoiding CO_2 emissions
2) Moving the Polluter-Pays Principle upstream in the value chain
3) Securing the return of ETS revenues and funding to MWI and the waste management sector
4) Recognising the fundamental difference between MWI and other industrial processes
5) Preventing waste diversion to landfills and criminal activity
6) Preventing perverse incentives for Member States reliant on landfilling
7) Bringing alignment with forthcoming rules under the Circular Economy Act

[1] https://climate.ec.europa.eu/areas-action/carbon-markets/eu-emissions-trading-system-eu-ets_en

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1) **Recognising the role of the waste management sector in avoiding CO_2 emissions**. When regulating MWI, it should not be overlooked that it is part of the broader waste management system and, therefore, of a European circular economy strategy, with strong links to waste management and ecodesign policies. Taking this holistic approach, municipal waste management contributes significantly to avoiding CO_2 (and methane) emissions by waste prevention actions and ensuring that separately collected and sorted waste is directed towards appropriate treatment pathways, including preparation for reuse and recycling. Waste that is not suitable for these pathways is directed to MWI or, as a last resort, landfill, in accordance with the waste hierarchy. Therefore, any new targets or deadlines for MWI under the EU ETS should be aligned with broader European circular economy objectives and, in particular, with the targets and deadlines established in other waste-related legislation, notably the Waste Framework Directive, legislation on extended producer responsibility and the Landfill Directive.

2) **Moving the Polluter-Pays Principle upstream in the value chain.** The ETS review must prevent the costs of the potential inclusion from falling on local budgets and taxpayers. The potential inclusion would increase gate fees, making the treatment of municipal mixed residual waste costlier for local authorities, despite the need for proper treatment. MWI plants and local authorities provide an essential public service in the treatment of non-recyclable municipal waste and therefore cannot be held accountable for the design and quality of the products that are placed on the EU market or for prevailing consumption patterns. The fossil CO_2 emissions from MWI (particularly those from non-recyclable plastics, which remain a major source of fossil carbon in residual waste) are ultimately linked to current linear economy. Therefore, the ETS review should ensure that producers bear the costs of the waste and emissions generated by their non-recyclable products.

3) **Securing the return of ETS revenues and funding to MWI and the waste management sector.** The revenues generated by the potential inclusion of MWI in ETS should be entirely reinvested in the sector to support innovation in decarbonisation and energy efficiency. The Commission's proposal provides that national authorities remain responsible for deciding how to allocate at least 50% of ETS revenues to support the decarbonisation of ETS sectors, based on one or more of a list of priorities. There is a risk that national authorities may allocate little or none of these revenues to MWI, favouring larger ETS industries. Therefore, to ensure that MWI receives adequate funding support, we recommend amending the Commission's proposal accordingly.

   The proposed Industrial Decarbonisation Bank, as well as the Modernisation and Innovation Funds, should also support the decarbonisation of MWI plants and assist local authorities in advancing the transition towards higher levels of the waste hierarchy, notably through investment in separate collection, sorting, preparation for reuse and recycling.

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4) **Recognising the fundamental difference between MWI and other industrial processes.** A MWI plant is not a production facility. While a waste co-incineration plant primarily aims to generate energy or manufacture material products, using waste as a fuel, the primary purpose of an MWI plant is the safe sterilisation and treatment of waste, while also enabling the recovery of metals and energy (for example, through district heating or electricity generation). In other words, MWI recovers but does not produce. This is a simple but crucial distinction. A co-incineration plant can be incentivised to switch to more sustainable fuels, such as from renewable energy sources, instead of using waste or virgin fuels. MWI, however, cannot simply switch to an alternative "fuel", as its primary purpose is the treatment of waste. Nevertheless, the Commission's proposal does not distinguish between these fundamentally different activities and treats them as part of the same sector, despite their different purposes and operating models.

5) **Preventing waste diversion to landfills and criminal activity.** Increased gate fees, combined with non-compliance with the conditions proposed under new Article 12b for Member States, could create incentives for waste to be diverted to landfills, which rank lower in the waste hierarchy, or to enter illegal pathways within or outside the EU, notably illegal shipments and dumping. The ETS review should therefore include appropriate safeguards to prevent such unintended consequences and the potential inclusion of MWI should be accompanied by the effective implementation of such safeguards.

6) **Preventing perverse incentives for Member States reliant on landfilling.** On 8 June 2023, the Early Warning Report[2] identified 13 Member States as being far from the 2035 target of limiting municipal waste landfilling to a maximum of 10%: Bulgaria, Croatia, Cyprus, Czechia, Greece, Hungary, Latvia, Malta, Poland, Portugal, Romania, Slovakia and Spain. These Member States have little to no MWI capacity. Therefore, any transition period or conditionality mechanisms for opting out should take into consideration differences in capacity across the EU and, very importantly, avoid penalising lagging countries, but instead support them in progressing up the waste hierarchy.

7) **Bringing alignment with forthcoming rules under the Circular Economy Act**. New provisions and amendments to existing legislation are expected in the areas of Extended Producer Responsibility (EPR) and landfills. The discussion on the ETS should take these developments into account to avoid any incoherence; greater alignment between EPR rules and ETS is urgently needed.

MWE stands ready to contribute constructively to the work of the European co-legislators to ensure that the revision advances the decarbonisation of the EU municipal waste incineration sector and supports the EU's climate and circular goals, while ensuring a fair and workable transition for the sector.

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023DC0304

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Municipal Waste Europe represents European public responsibility for municipal waste management. Our members are municipalities and public waste management companies that play a crucial role in providing this Service of General Interest and in delivering a circular economy in Europe. We support the waste hierarchy, resource efficiency and the exchange of good practices to develop environmentally sound and efficient waste management systems in Europe.

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