

## **FORTUM GROUP'S POSITION ON THE COMMISSION'S PROPOSAL FOR A REVISION OF THE EU EMISSIONS TRADING SYSTEM (EU ETS), COM(2021 551 final)**

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*This position paper presents Fortum Group's priorities on the EU ETS. The position has been jointly agreed between Fortum and Uniper.*

Both Fortum and Uniper have long been strong supporters of the EU Emissions Trading System (EU ETS). It continues to be regarded as the EU's flagship policy towards achieving Europe's climate objectives in a cost-effective manner – and rightly so, in light of its success to date<sup>1</sup>. Its importance is becoming ever more apparent in the context of the EU's long-term climate ambitions of achieving climate neutrality by 2050. This, along with an increased CO<sub>2</sub> reduction target by 2030, is very much in line with our ambition of going carbon neutral with our European power generation by 2035.

A credible, reinforced, and expanded EU ETS, providing a reliable price on CO<sub>2</sub> emissions whilst ensuring the necessary flexibility for operators, is key to achieving the European 2030 climate targets and the 2050 climate neutrality objective in a cost-effective way. At present, the EUA price is at an all-time high, a direct reflection of the political ambition set out in the European Climate Law and in the proposals of the Fit for 55 package, as well as a clear signal from the market and a sign of its trust in this instrument.

As such, we very much welcome the efforts of the European Commission to review and strengthen the EU ETS. We call for a swift adoption of the file, as the market participants need predictability for investments and for the energy market. The later the ETS reform is adopted, the starker the immediate impact on them will be. The climate files of the Fit for 55 package should be adopted as soon as possible and independently of the most controversial and political files where the process may take more time. We understand that consistency of the ETS with other parts of the Fit for 55 package is important, but quick adoption is a preference.

### **ETS ambition**

The emissions trading system is the most cost-efficient instrument to decarbonise the European economy. We commend the Commission's approach to upholding cost-efficiency as the basis for the allocation of the 2030 target between ETS and non-ETS sectors.

We support the proposal to increase the linear reduction factor (LRF) and implement a one-off rebasing of the cap. However, in the case that adoption of the revised directive is much delayed, allocation of rebasing over several years would be wise, in our view.

<sup>1</sup> Emissions in the ETS sector have decreased by about 35% between 2005 and 2019. Non-ETS as a whole has reduced by 10%.

We support the proposal to continue the 24% intake rate until 2030 and to adjust the market stability reserve (MSR) thresholds. Although the buffer zone proposal is appropriate and makes the system more predictable, the buffer zone may weaken the operation of the MSR. As such, a lowering of the upper threshold from 833 million should be considered. A lower upper threshold would mirror the lower hedging needs by power sector operators due to a growing share of renewable electricity and increased coal-to-gas switching.

### **ETS scope**

Gradual expansion of the EU ETS to other sectors (e.g. maritime transport, as proposed by the European Commission) will help safeguard climate ambitions at lowest cost to the overall EU economy.

We think that waste incineration should be included in the ETS during the ongoing revision to encourage waste treatment facilities to decarbonize, incentivize households, services and industries to generate less waste and recycle more as the price of treatment increases. The inclusion of this sector would create incentives to reduce emissions e.g. in plants equipped with CCS/CCU technologies.

### **The new ETS**

We support the introduction of a separate Emissions Trading System for buildings and transport and the prospect of merging both systems into one in the near future. We urge the EU to implement a meaningful carbon price across all sectors as soon as possible and to make sure that eventually all carbon emissions from industry, transportation, and households that do not fall under the EU ETS are covered by the new ETS, to remove distortions of competition.

It is important to protect the operation of the existing ETS. The rapid inclusion of new sectors in the EU ETS, such as buildings or transport, may result in an overall insufficient, relatively low price signal for these sectors to decarbonise. Indeed, abatement efforts would mainly materialise in the current ETS sectors, leaving them exposed to a relatively high CO<sub>2</sub> and thus higher exposure to carbon leakage, thereby jeopardising the industrial base of our European economies.

For this reason, preference is for a gradual or two-step approach that would first see new sectors included in a separate market-based trading system running in parallel to the current EU ETS. Such a parallel system could well include proven elements of the current ETS, such as the Linear Reduction Factor (LRF), carbon leakage provisions, and established MRV procedures, along with a review clause that would assess whether sectors or parts of sectors are ready for integration into the EU ETS.

However, we are concerned about the design of the new ETS. The setup of the new system seems complicated regarding the establishment of the cap and the MSR design. We urge for caution on price-based triggers in the MSR and instead would ask to opt for volume-based triggers, as we have in the existing ETS. The basic design of the two systems should be similar and the ground for future linking should be prepared now.

## Carbon removals

We believe that CO<sub>2</sub> removal and negative emissions technologies (e.g. bioenergy with carbon capture and storage, BECCS) complement the EU's existing climate change mitigation tools and will be necessary for reaching net negative emissions after 2050. Carbon removals (both natural and technological) should be additional to emissions reduction. In order to make carbon removal and negative emissions technologies commercially viable and to upscale them, they should be incentivised. They should be better recognised in legislation and, ideally, promoted via market-based tools, i.e. carbon pricing.

The EU needs a legislative framework for technological solutions for carbon removal and negative emissions technologies. Proven stationary removals should be integrated into the EU ETS. We welcome the Commission's plan to issue a certification scheme for removals in 2022 as a first step.

## Carbon contracts for difference

The EU ETS proposal includes a new incentive: a Carbon Contract for Difference (CCfD) that has been mentioned in connection with the Innovation Fund. In the CCfD model, financial support is linked to the price of emissions allowances. We consider this an interesting funding model and it should be looked at in more detail, as it serves to promote the uptake of emissions reduction technologies.

Carbon Contracts for Difference may support innovation, but should neither undermine nor substitute incentives from the EU ETS. CCfD can be the right instrument to spur innovation and to reduce carbon emissions where the business case is not economically viable.

At present, the EU ETS Directive foresees a maximum funding rate of 60% of the relevant costs for projects financed through the Innovation Fund. This could be increased but only in cases where competitive bidding (e.g. via CCfD) are utilised. In any case, CCfD should be used in a very focused manner and only for the most promising technologies that help us leapfrog ahead.

## For additional information:

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## About Fortum and Uniper

*Fortum and Uniper form a European energy group committed to enabling a successful transition to carbon neutrality for everyone. Our 50 gigawatts of power generating capacity, substantial gas import and storage operations, and our global energy trading business enable us to provide Europe and other regions with a reliable supply of low-carbon energy. We are already Europe's third largest producer of CO<sub>2</sub>-free electricity, and our growth businesses focus on clean power, low-carbon energy, and the infrastructure for tomorrow's hydrogen economy. In addition, we design solutions that help companies and cities reduce their environmental footprint. Our 20,000 professionals and operations in 40 countries give us the skills, resources, and reach to empower energy evolution toward a cleaner world.*

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