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FORTUM'S VIEWS ON THE EU ETS PROPOSAL, COM(2026) 616 FINAL

Fortum welcomes the Commission's proposal for the revision of the EU Emissions Trading System (EU ETS) as a sound starting point for the negotiations. The proposal preserves the ETS as the EU's main climate instrument, keeps its core design intact, strengthens market stability and supports electrification.

However, the proposal sends conflicting investment signals. While it expands funding instruments and directs additional revenues towards decarbonisation, it simultaneously weakens the emissions cap trajectory and risks reducing the carbon price signal on which many industrial decarbonisation, electrification, hydrogen, and e-fuel investments depend. Competitiveness should be strengthened through predictable carbon pricing, electrification, innovation, and targeted investment support, rather than by weakening allowance scarcity.

Fortum's key messages on the ETS proposal:

- **Preserve an ambitious and predictable emissions cap trajectory.** We regret the proposed weakening of the Linear Reduction Factor (LRF). A weaker LRF would reduce allowance scarcity, undermine the carbon price signal, slow industrial transformation, and disadvantage companies that have invested early in decarbonisation. It would also shift a greater share of the emissions-reduction effort to sectors outside ETS1. The current emissions cap trajectory should therefore remain in place at least until 2035.
- **Maintain a strong, predictable and rules-based Market Stability Reserve (MSR).** We support a more dynamic, rules-based MSR driven by allowance volumes rather than prices. However, a lower intake rate and the removal of allowance invalidation could increase oversupply and weaken both the carbon price signal and decarbonisation incentives. The Commission's earlier proposal to remove invalidation should be considered in the context of the overall ETS revision. Any future review mechanism should be based on transparent, predefined criteria and should not create an avenue for ad hoc political intervention in the market.
- **Strengthen competitiveness without diluting the carbon price.** The proposal strikes a reasonable balance between climate ambition and competitiveness. Competitiveness should be driven by funding, electrification, and innovation incentives rather than a weaker carbon signal. We therefore welcome the tighter link between free allocation, ETS revenues, and decarbonisation plans and investments. Free allocation and indirect cost compensation may remain necessary as transitional carbon-leakage measures for sectors exposed to international competition, particularly until the effectiveness of CBAM has been demonstrated. Support should be predictable, proportionate, and linked to credible decarbonisation investments, without weakening incentives to reduce emissions or electrify industrial processes.
- **Integrate high-quality permanent carbon removals into the EU ETS under robust safeguards.** We support the inclusion of permanent removals under robust rules on permanence, monitoring, liability, and double counting. Their integration should support the long-term functioning of the ETS without weakening allowance scarcity or incentives for direct emissions reductions. A market-based approach allowing eligible removals to be traded and used for compliance would create a stronger business case than a proposed centralised purchasing model.
- **Allow only limited use of high-integrity international carbon credits.** International credits may contribute to cost-effective global mitigation and cooperation under Article 6 of the Paris Agreement. Their possible use in the EU ETS should nevertheless

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be limited, subject to strict quality and accounting criteria, and preceded by a thorough assessment of their impact on allowance scarcity, the carbon price, and European decarbonisation investments. International credits should complement, not replace, domestic emissions reductions and permanent removals within Europe.

- **Maintain a credible investment framework for hydrogen and e-fuels.** Hydrogen business cases rely heavily on a strong carbon price signal. We are concerned that the proposal weakens support for electric sustainable aviation fuel (eSAF) by reducing aviation ETS funding from 95% to 60%, undermining investment incentives. The current support level should be maintained, and all low-carbon eSAF should remain eligible for SAF allowances after 2030. The proposed 110 million allowance pools for aviation and maritime fuels also appear insufficient to deliver RefuelEU Aviation and FuelEU Maritime targets. In addition, the ETS should support an EU-wide Book and Claim system for eSAF to expand market access, strengthen offtake opportunities, and accelerate investment in production capacity.
- **Provide a predictable transition framework for district heating.** We welcome the proposed increase in heat-benchmark allocation until 2030 and the continuation of free allocation for district heating until 2040. These measures can provide greater investment certainty during the transition. They should be designed to support the decarbonisation of efficient district-heating systems, including through electrification, heat pumps, electric boilers, thermal storage, waste heat, and other low-carbon heat sources.
- **Include municipal waste incineration in the EU ETS.** We support its inclusion, accompanied by harmonised monitoring rules and safeguards against waste diversion. The corresponding emissions should be reflected appropriately in the ETS cap.
- **Use ETS revenues to accelerate electrification and industrial transformation.** We welcome the proposal's focus on investment support, including the Industrial Decarbonisation Bank and revised funding instruments. Funding should be technology-neutral and allocated on the basis of excellence, cost-effectiveness, and European added value, rewarding frontrunner projects and wider energy-system benefits.
- **Advance linking with other ambitious carbon markets.** Linking the EU ETS with compatible systems, particularly the UK ETS, could improve market liquidity and cost-effectiveness while supporting closer European climate cooperation. Any linkage must preserve the environmental integrity and ambition of the EU system.
- **Translate the EU's simplification objective into the ETS framework.** Monitoring, reporting, verification, and compliance requirements should be streamlined, while safeguarding environmental integrity and market transparency. New requirements should be proportionate and avoid duplication with other EU legislation.
- The regulatory framework will only be confirmed after the legislative process is completed, and many issues will be left to delegated implementing acts to be issued later on.
- Going forward, the main objective should be that the proposal does not deteriorate further when going through the European Parliament and the Council. The system must be made more robust against ad-hoc political interventions as they significantly undermine the long-term credibility of carbon pricing.

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