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FORTUM'S VIEWS ON THE EU ETS REVISION

Fortum supports the EU Emissions Trading System (EU ETS) as the primary, market-based tool for EU decarbonisation, viewing it as essential for cost-efficient emission reduction. The ETS should continue as a fundamental mechanism for achieving decarbonisation of the EU economy, and the upcoming revision should make it not only fit-for-2040 but also fit-for-2050. Long-term predictability and visibility are crucial for investments, and the integrity of the system as a cornerstone of Europe's climate, competitiveness and resilience strategy has to be safeguarded.

Fortum's key messages on the ETS revision:

- The EU ETS is the most cost-efficient, technology-neutral, and well established and tested instrument for decarbonising the European economy. It is essential to maintain the ETS as a fundamental mechanism for achieving decarbonisation of the EU economy through market-based means. A revision of the directive is needed to deliver on the new EU 2040 climate ambition as well as the 2050 climate neutrality goal. The upcoming review must ensure long-term predictability, market stability, and a credible investment environment as the ETS emissions cap approaches zero and emissions abatement becomes increasingly challenging.
- The existing ETS1 must be accompanied by an effective ETS2 and by a robust carbon border adjustment mechanism (CBAM) that prevents carbon leakage and provides a level playing field for European industry.
- A clear and feasible emissions trajectory is essential. The ETS ambition (linear reduction factor, LRF) has to provide a predictable pathway towards reaching the 2050 net-zero goal. To preserve the ETS's credibility and predictability, the LRF should stay at its agreed level, with the ETS cap reaching zero by 2039.
- The market stability reserve (MSR) is a key instrument in balancing the supply of allowances and has to remain volume-based. The main function of the MSR is to keep the TNAC (total number of allowances in circulation) stable. The adjustment of the thresholds should be thoroughly considered to avoid any adverse effects or undermining the price signal of the system. We also urge that the removal of the invalidation rule, as proposed by the Commission, be considered as a part of the upcoming ETS revision.
- We call for avoidance of any temporary political interventions. Releasing surplus allowances from the MSR, as done in 2022 under RePowerEU, showed how ad-hoc policy changes increase market uncertainty and political risk. Such interventions raise the costs of decarbonisation and threaten progress towards climate goals.
- To ensure that ETS remains robust and liquid as the emissions cap tightens, its scope should be expanded. Carbon removals will be required both to balance the residual emissions of hard-to-abate sectors and to stabilise the market in the final years of the ETS system. Domestic, high-quality permanent carbon removals, particularly technological solutions, and municipal waste incineration should be integrated into the ETS.
- EU ETS auction revenues have become one of the EU's most important and rapidly growing funding sources for the clean transition. All ETS revenues, national and EU level, should be treated as strategic investment capital and aligned with instruments

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such as the future Industrial Decarbonisation Bank. We prefer excellence-based EU-level funding to fragmented national schemes. To ensure industry competitiveness, a bigger share of the ETS revenues should be recycled back to industrial decarbonisation, both at the EU and member state level.

- Overlapping national or EU measures can undermine the ETS carbon price signal and create regulatory uncertainty. The revision should improve policy coherence between the ETS, renewable energy, energy efficiency, carbon border adjustment mechanism (CBAM), and industrial policies. It is important to protect the EU ETS from unintended impacts of overlapping policies at both the EU and national levels.
- We support expanding carbon pricing and linking carbon markets more globally. Linking of the EU ETS with other national or regional carbon pricing schemes should be promoted. Linking should be done with systems that have comparable ambition, design, and enforcement standards, starting with the UK ETS.
- We are cautious about allowing the use of international credits in the EU ETS; however, we do not support a full exclusion in principle. Any use of international credits must not weaken the ETS cap, price signal, or environmental integrity. Clarification from the Commission on the role of international credits for compliance in the ETS is needed as soon as possible.
- We acknowledge the industrial concerns related to the ETS. Short-term protection measures could be considered for energy-intensive industries until CBAM is fully effective: continuation of free allocation in transitional and declining form and indirect cost compensation, but tightly linked to credible decarbonisation plans and investments. There is also an obvious need to harmonise and optimise indirect cost compensation among the member states.

For further information:

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