Corporate Relations
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FORTUM'S VIEWS ON THE EUROPEAN COMMISSION'S PROPOSAL FOR THE REVISION OF THE EU ETS DIRECTIVE POST-2020

Fortum welcomes the Commission's proposal (15 July 15 2015) on the amendment of the Emissions Trading Directive and considers it as an important element to implement the 2030 greenhouse gas reduction target and as a natural continuum to the Backloading and Market Stability Reserve (MSR) decisions to revitalise the functioning of the Emissions Trading System (ETS).

Fortum has been advocating for a strong ETS as the most cost-effective, technology-neutral and flexible tool for mitigating climate change. A robust and trustworthy ETS can reduce the risk of increasing national and divergent climate policies and can reduce the need for subsidies for electricity production. In Fortum's opinion, ETS is the best tool for providing affordable, reliable and sustainable energy to the EU economy.

Long-term stability and clarity of the climate policy is vital for the energy sector's efforts to decarbonise the energy system and to contribute to emissions reductions in other sectors too. An early decision on the ETS revision is therefore an important step in creating a stable and predictable framework for the post-2020 period.

In Fortum's view, the proposal is mainly constructive and we expect it to reinforce the carbon market. Free allocation will be more targeted and more dynamic and, consequently, will hopefully reduce over-allocation in some industrial sectors.

However, we do raise a couple of issues that need further elaboration during the approval process of the revision.

Capitalisation of the new funds

The Market Stability Reserve is expected to reduce the oversupply of allowances in the market starting in 2019. A proper functioning of the MSR is crucial for the ETS, and it should not be watered down by any other market intervention. According to the Commission's proposal, extra allowances would enter the market through the new funds.

Therefore, the timing of the capitalisation of NER400 and the Innovation Fund has to be synchronised with MSR so that it is not counterproductive for the market. In our opinion, additional allowances should enter the market as late as possible, preferably after 2023, and evenly throughout phase IV. Since the NER400 and Innovation Fund volumes partly originate from phase III allowances put into the MSR, this may already slightly water down the effect of the MSR. The market impact of the funds and the treatment of unallocated phase 3 allowances in the MSR should be further clarified
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Compensation of indirect costs

Fortum supports the proposal to more strongly encourage member states to compensate for the indirect costs of ETS. The competitiveness of energy-intensive industry is important for us and has to be addressed in terms of other jurisdictions in the world that do not have similar carbon constraints and pricing.

However, the proposal is lacking a harmonised approach on the compensation of indirect costs of ETS to industry. The indirect costs arising from increasing energy prices should be compensated based on EU-level criteria. It should also be investigated whether this compensation of indirect costs should be gratuitous or

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would be provided using the compensation for decarbonisation of the industry and/or technology development.

We support the principle of earmarking auction revenues for the low-carbon transition. The Commission's proposal has listed new categories for using proceeds from the ETS, e.g. for climate financing and adaptation.

ETS vs. non-ETS

The possibility of a (one-off) transfer of allowances between the ETS and non-ETS is not included, although it was discussed last spring in connection with the non-ETS consultation. Such a transfer between sectors could improve the overall cost efficiency of emissions reduction in society. The re-sharing of efforts between the ETS and non-ETS could be assessed in connection with the decision on burden sharing of non-ETS that is likely to be approved in parallel to the approval of the ETS revision.

Scope of the ETS

Harmonisation of the scope of the ETS should be enhanced by limiting opt-in/opt-out (e.g. small heating plants and waste-to-energy plants). Currently, we do have different implementation in different member states.

The proposal does not refer to the extension of the ETS into new sectors (e.g. heating & cooling, transport). Given the expected decarbonisation ambition within the EU's upcoming heating and cooling strategy as well as the large differences in the existing excise taxes on heating fuels across member states and fuel types, there is apparently room for improving the steering and cost efficiency of emissions reduction. Adding new sectors to the ETS could enable the decarbonising of the EU in a more cost-effective manner. This opportunity should be investigated, at least in the longer term, when the reduction target becomes stricter.

Global climate regime

Fortum considers the EU's INDC and proposal for the ETS revision as an important and constructive signal for the international climate negotiations ahead of the Paris COP. However, the process to raise the EU ambition level for emissions reduction after the Paris COP remains unclear, although we recognise that this may not be part of the directive revision itself. In Fortum's view, the EU should revise the 2030 target upwards – in case Paris COP21 ends up in a positive agreement.
The ambition level after Paris should be linked to the possibility to use international emission reduction credits. The use of those credits can facilitate the linking of regional trading schemes that are crucial in developing a global carbon market. In Fortum's view, the ultimate goal should be a global carbon pricing and market.

Other remarks

We also highlight that in the further implementation of the 2030 package, the role of the ETS as the cornerstone of the climate policy has to be maintained. The overlap of policies, especially renewable energy and energy efficiency, has to be addressed and eliminated in the future.

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