Corporate Relations
Kari Kankaanpää

7 September 2015

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 (July 15th, 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 to mitigate climate change. A robust and trustworthy ETS is able to reduce the risk of increasing national and divergent climate regulation and to reduce the need for subsidies for electricity production. In Fortum's opinion, ETS is the best tool to provide affordable, reliable and sustainable energy to the EU economy.

Long-term stability and clarity of the climate regulation is vital for the energy sector's efforts to decarbonise the energy system and to contribute to emission 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 hopefully reducing over-allocation in some industrial sectors.

Below we however 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 timing of the capitalisation of NER400 and the Innovation Fund has to be syncronised with MSR in order not to be 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 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.

Compensation of indirect costs

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

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

Corporate Relations
Kari Kankaanpää

7 September 2015

costs should not be gratuitous, but would provide using the compensation for decarbonisation of the industry and/or technology development.

We support the principle of earmarking auctioning revenues for 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 (one-off) transfer of allowances between ETS and non-ETS is not included although it was discussed last spring in the connection of the non-ETS consultation. Such a transfer between sectors could improve the overall cost efficiency of emission reduction in the society. Re-sharing of efforts between ETS and non-ETS could be assessed in connection to the decision on burden sharing of non-ETS that is likely to be approved parallelly to the approval of the ETS revision.

Scope of the ETS

Harmonisation of the scope of 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 ETS into new sectors (e.g. heating & cooling, transport). Given the expected decarbonization ambition within EU's upcoming heating and cooling strategy and 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 emission reduction. Adding new sectors to the ETS could enable decarbonising the EU in a more cost-effective manner. This opportunity should be investigated at least in longer term when the reduction target become stricter.

Global climate regime

Fortum considers 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 emission reduction after 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 review 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. Use of those credits can facilitate linking of the regional trading schemes that is crucial in developing a global carbon market. In Fortum's view, the ultimate goal shall be a global carbon pricing and market.

Other remarks

We also highlight that in the further implementation of the 2030 package, the role of 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.

For further information:

Kari Kankaanpää, Senior Manager Climate Affairs, +358 50 4532330,
kari.t.kankaanpaa@fortum.com