

## **Statement by the Finnish Energy Industries on the review of the EU Emissions Trading Directive (2003/87/EC)**

The EU emissions trading scheme (EU ETS) started in January 2005. The first three-year period is turning to the end and the preparations for the next five-year period (2008-2012) are in the phase of completion. The EU ETS directive is presently under a review process for the years post-2012.

The Finnish Energy Industries representing the electricity and district heating companies in Finland has considered the experiences of and expectations to the emissions trading scheme and has agreed on this statement in April 2007.

According to the view of the Finnish Energy Industries, the key considerations in the review of the directive are the goal setting of the emissions trading sector, the allocation method for emission allowances, and the scope of the system.

### **The objective of the scheme and competitive issues**

In our opinion, the long-term goal must be a global emissions trade with a world market price for carbon dioxide. The Finnish Energy Industries considers that the EU's emissions reduction target and especially the emissions reduction target sought with emissions trading must be in line with the obligations of other countries. The emissions reduction target in the Emissions Trading Directive must be set at a level that does not jeopardise the competitiveness of European industry. With respect to market development, efforts should be made to link the EU emissions trading scheme with other greenhouse gas emissions trading schemes as soon as possible.

The emissions trading scheme must be balanced between various industries throughout the European Union so that everyone must carry an equal responsibility for their emissions and treat actors in the same industry impartially. The scheme must also be predictable and it must provide security for investments. New plants must be treated equally with existing plants so that the emissions trading scheme will not become an impediment to investment.

The current allocation scheme for emission allowances has proved to be problematic for the energy industry. The allocation scheme treats unequally different countries and branches of industry, as well as various actors within a branch of industry, especially electricity generation. This kind of practice is resulting in a situation where energy generation, at least electricity generation, will no longer have any emission allowances after 2013 in some EU member states.

From the viewpoint of Finnish electricity generation industry the most important issue in the development of the emissions trading scheme, is equality with actors in the North European market area. In addition to competition with EU power companies, Finnish electricity generation has to compete with Russian electricity generation, which is outside the emissions trading scheme. The import of electricity from Russia covers up to 14 % (over 11 TWh/a) of the electricity consumption of Finland.

From the viewpoint of Finnish district heating industry the most significant issue is the scheme's impact on the position of district heat in the heating market. Competing heating forms, apart from electric heating, are not included in emissions trading.

## **Allocation of emission allowances**

Emission allowances can be allocated free of charge either with the present grandfathering system or benchmarking based on efficiency, or as an auction subject to a fee.

The Finnish Energy Industries deems that the allocation scheme to be applied must treat various industries and especially actors within the same industry equally at the EU level. The Finnish Energy Industries deems that centralised allocation of emission allowances at the EU level would create better preconditions to achieve this target than an allocation based only on national allocation plans. The Finnish Energy Industries regards free allocation of emission allowances as the best allocation method, preferably so that the allocation is based on the efficiency of operations. The Finnish Energy Industries also regards an auction as a possible allocation method if all actors take part in the auction on an equal basis.

## **The scope of the directive**

When examining the scope of the emissions trading scheme, it is our opinion that the inclusion of new industries in the emissions trading scheme must not jeopardise the functioning of the system. Therefore, it is important to assess, for example, the impact of a new industry on the emission allowance market and the impact of the inclusion on the new industry's product market. All operations must meet the emissions reduction obligations, but not necessarily through emissions trading.

Finland has applied the unilateral inclusion opportunity (opt-in) given in the existing emissions trading directive for district heating installations below the capacity limit of 20 MW. This has been important for the efficient operation of the district heating networks. We consider, that the directive must still allow this opt-in possibility. However, it must be ensured that small installations will not have to carry an unreasonable cost burden for the administration of the scheme.

We regard it as especially important that lighter procedures can be applied to the monitoring and reporting of emissions. We also regard it as justified that low-emission plants, such as nuclear power and the reserve capacity for maintaining the power network system should be excluded from the directive's scope of application.

Inclusion of new gases (e.g. CH<sub>4</sub> and N<sub>2</sub>O) in the emissions trading scheme must be based on careful evaluation of the level of reliability of determining the emissions and the costs in relation to the emission reduction potential to be achieved. Inclusion of the energy sector's methane and nitrous oxide emissions in the emissions trading scheme is not justifiable.

## **Development of the market transparency**

The functioning and transparency of the emission allowance market must be improved with reporting of carbon dioxide emissions that takes place more often than once a year. All actors significant in respect of the markets must contribute to the increasing of information. As far as we can see, in the energy industry, for example, all installations of over 300 MW could report

their emissions to the EU register on a quarterly basis, and the emission data of various actors would be published simultaneously from the register.

## **Kyoto project mechanisms**

When developing the emissions trading scheme, it must be ensured that the Kyoto project mechanisms are maintained and fully utilised as part of the scheme. The role of the project mechanisms to offer cost-effective emissions reduction methods and that way curb the price increase of emission allowances is important. Furthermore, they contribute to the linking of various emissions trading schemes with one another.

## **Development technologies and carbon capture and storage**

The development of climate benign technologies in order to mitigate climate change plays a key role. Technological development must be invested in, and the balance between climate change mitigation and adaptation actions must be evaluated in long-term planning. Initiatives to promote the Carbon Capture and Storage (CCS) technology and taking it into account in emissions trading are endorsable, but binding targets for CCS introduction must not be set under the conditions of emissions trading. The application of different technological solutions should be driven with the market value of CO<sub>2</sub> emissions allowances instead of overlapping policy measures. It should be also noted that according to present understanding the application of CCS technology is not possible in all European areas due to lack of available storage capacity.

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