# Emissions Trading System (ETS)

**Subject Overview**

The Emission Trading Directive is one of the European Union's main tools to reduce greenhouse gas emissions within the EU. The directive covers the entire energy-intensive industry and all energy production units with a capacity of over 20 MW. In 2022, it was expanded to include maritime transport, and later waste incineration. In the same context, a separate emission trading system for fuel distributors was outlined, which would apply to road transport, building heating, and industrial use. Afry has estimated that including maritime transport in emissions trading would increase transportation costs for export industries (all export sectors combined) by 146 – 291 million euros per year.

Operators within the emissions trading system must account for each ton of emissions generated with emission allowances. The number of emission allowances issued decreases each year, effectively capping emissions. The Emission Trading Directive includes several important points for the chemical industry, such as the definition of sectors vulnerable to carbon leakage, rules for calculating free allowances, and regulations related to emission trading compensation.

**Objective of the Chemical Industry**

The chemical industry welcomes ambitious climate goals and believes that the emission trading system is a cost-effective way to reduce emissions. However, this requires sufficient carbon leakage protection as long as carbon dioxide emissions are not globally priced equitably.
When raising the emission trading sector's targets, it is important to ensure the competitiveness of the industry with adequate carbon leakage protection, such as free emission allowances and emission trading compensation. Only a competitive industry can innovate. If there are insufficient free emission allowances for industry, rather than using a multi-sector correction factor, the auction share and the share of free emission allowances should adapt to the industry's needs, or emission allowances should be made available from the market stability reserve. One-time reductions are not needed either. Emission trading compensation should continue in Finland after 2025, and the Commission's calculation criteria should be revised to ensure sufficient protection for the industry.

The chemical industry is concerned that the expansion of emissions trading to maritime transport and the new emission trading system related to fuel distributors (ETS2) do not adequately consider the potential impact on industry costs in Finland. The new and separate emission trading system related to fuel distributors (ETS2) should be kept as a separate system for now. Overlaps with the current emissions trading system should be carefully avoided. The expansion to maritime transport seems to burden Finland the most among EU countries, as its exports are largely dependent on maritime transport. Auction revenues from maritime transport would largely end up with inland states that have no interest in developing maritime transport. Additionally, the current directive only partially takes into account northern maritime conditions. The effects of these changes should be closely monitored, and necessary adjustments should be made at the national and EU levels.

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The introduction of a carbon border adjustment mechanism will mean a reduction in free emission allowances for sectors covered by the mechanism. Industries entering the mechanism should be provided with a sufficiently long transition period for free emission allowances to allow companies to adapt to the changes. For exports outside the EU, not covered by the mechanism, full emission allowances should be granted.

**Addressing the Deficiencies in Enabling Sustainable Carbon Cycles**

The flaws related to enabling sustainable carbon cycles should be corrected in the Emission Trading Directive. Emissions should be correctly calculated in all circumstances. The requirement for permanent sequestration leads to double counting for short-lived products. Additionally, negative emissions should be accounted for. Carbon removal certificates could potentially be used for this purpose.

In the bigger picture, the Commission should focus on setting 2040 targets and correcting current flaws instead of opening up the 2030 targets.

**Current Situation and Timeline**

The current update of the Emission Trading Directive is based on the 2022 update. The national implementation of the directive began in 2023. At the same time, the Commission started preparing several clarifying provisions. The directive's changes will come into effect gradually, with most of them in place by the end of 2025. The Emission Trading Directive is likely to be updated concerning the 2040 targets and rules after the summer 2024 European elections.

**What We Influence**

We influence Finland's position, Finland's implementation processes, the European Parliament, the Commission, as well as Cefic's positions, and the future Commission work program. We monitor the positions of other countries.

Emissions Trading Directive (consolidated version).

**Additional information and materials:**

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