

4 September 2026
Technology Industries of Finland

Position on the revision of the Emissions Trading Directive

Technology Industries of Finland supports the EU's 90% emission reduction target for 2040, which represents an intermediate milestone on the path to climate neutrality by 2050. The EU's climate and energy policy for the 2030s must lay the foundation for achieving this target.

The EU ETS is central to achieving these objectives. It is a technology-neutral, market-based system covering the whole of the EU. It therefore allows emission reductions to be directed, through a price signal, to where they can be achieved most cost-effectively. In general, more cost-effective emission reductions can be achieved in the ETS sectors than, for example, in the sectors covered by the Effort Sharing Regulation (ESR). It is therefore justified that the ETS sectors should bear a relatively large share of the effort. Climate action must nevertheless be taken broadly across different sectors.

The EU ETS also creates a more level playing field between polluting and cleaner technologies. Finnish companies are frontrunners in developing many of the technologies critical to emission reductions, such as technologies that improve energy efficiency and enable electrification and the uptake of sustainable fuels. Finnish industrial installations have likewise already invested significantly in moving away from fossil fuels and improving energy efficiency. Developing clean technologies and investing in their deployment require, above all, consistent and predictable policy.

The EU ETS must therefore establish a clear pathway towards the 2040 and 2050 climate targets. The reform must preserve strong incentives for significant emission reductions and for the deployment of innovative technologies. The level of ambition must remain high.

Changes to the linear reduction factor (LRF)

According to the accompanying impact assessment, the Commission proposal is broadly aligned with the 2040 climate target. In practice, however, the proposal would significantly increase the volume of allowances issued compared with the existing legislation. According to our estimate, the proposal would increase the total volume of allowances issued by around 30–40% in 2031–2040 alone, depending on the use of international credits. Between 2031 and 2050, the cumulative volume could be more than 65% higher if the LRF were 1.7% from 2036 onwards.

Overall, increasing the volume of allowances issued, particularly in combination with the other proposed changes, would weaken the market-based incentive that the EU ETS provides for the deployment of clean solutions, and thereby the conditions for frontrunner investments.

The negotiations should aim for a stricter LRF than the one proposed. The LRF should remain high particularly in the beginning of the 2031–2040 period. Such a timetable for issuing allowances would both recognise the need to front-load emission reductions and provide a realistic timeline for sectors in which reducing emissions towards climate neutrality by 2050 is challenging.

We propose that the purchase of international credits should not be taken into account in the LRF by default. This would mean a factor of 3.7% for 2031–2035 and 2.7% thereafter. According to our estimate, a similar total volume of allowances issued would also be achieved if the current factor of 4.4% were maintained until 2035 and changed to 1.7% thereafter.

International credits

International credits under the Paris Agreement have a role to play in the EU's climate policy and in advancing carbon pricing globally. As a matter of principle, however, Technology Industries of Finland considers that international credits should not be included in the EU ETS. International credits should primarily be used as a flexibility mechanism enabling Member States to achieve their national targets and the EU's common targets.

If international credits are included in the EU ETS, operators should not be able to use them directly to meet their obligation to surrender allowances, so that the steering effect of the system is safeguarded. The Commission's proposal, under which allowances are set aside to fund the purchase of international credits through a dedicated facility, is therefore more appropriate.

International credits should be used strategically as part of the EU's climate policy in a way that creates demand for exports of clean technologies and strengthens partnerships that are important to the EU. They can also be used to support the decarbonisation of EU candidate countries, such as Ukraine, and their alignment with EU climate and energy policy. In the long term, this would directly support the achievement of the EU's climate targets. The EU and its Member States should accept only high-quality and high-integrity international credits. These must be based on genuinely additional and permanent action that leads to real emission reductions.

The Commission has proposed a fallback mechanism under which the LRF reverts to 2.7% from 2036 if high-quality and high-integrity international credits are not available, which TIF supports. However, the availability of such credits will not be assessed until 2033. As the choice between an LRF of 1.7% and 2.7% changes the cumulative volume of allowances issued in 2031–2050 by more than 35 percentage points, operators would only gain certainty on the required long-term emission reductions only relatively late. The review should therefore take place earlier.

Free allocation

The Commission proposes to continue free allocation until 2040. In CBAM sectors, the end of free allocation, and correspondingly the full introduction of the CBAM, would likewise be postponed to 2038. In addition, the share of free allocation would be higher than at present in 2028–2033, with correspondingly fewer CBAM certificates to be surrendered. Changes are also proposed to the benchmarks used for free allocation.

Technology Industries of Finland supports phasing out free allocation on the timeline set out in the current legislation and in step with the introduction of the Carbon Border Adjustment Mechanism (CBAM). We therefore do not support the proposal to increase free allocation above its current level. We nevertheless consider it positive that the proposal keeps the phase-out of free allocation aligned with the phase-in of the CBAM.

The proposal would significantly increase the volume of free allocation in the 2030s and would thereby weaken the price signal from allowances. We therefore take a generally positive view of the proposal to make free allocation conditional on decarbonisation investments in the EU from 2031. Free allocation could then serve as a driver of industrial renewal. At the same time, introducing such conditionality would, to some extent, be a departure from the market-driven nature of the EU ETS and therefore requires well-defined rules. To avoid uncertainty, the conditionality requirements imposed on free allocation should be defined as exhaustively as possible in the Directive itself rather than in a delegated act.

Meeting conditionality requirements must be feasible for companies, unambiguous to apply, and administratively light. The requirements must take into account the different stages of implementing industrial investments, including planning, permitting, grid-connection, and financing processes. Invest in EU decarbonisation plans must be able to draw on, for example, the climate transition plans under the Corporate Sustainability Reporting Directive (CSRD). The publication of these plans may involve risks relating to companies' business or trade secrets or to competition law, which must be taken into account when the detailed conditionality requirements are defined. At the same time, consideration should be given to making a greater share of free allocation conditional on the actual implementation of the investments rather than on the submission of the plan. The conditions must also be sufficiently robust from a climate perspective.

Tying investment requirements to specific individual installations and operators may create obstacles to corporate renewal. We support the Commission's proposal that the investment requirement may also be fulfilled via pooling through a joint decarbonisation investment agreement between several installations. Eligible joint investments by companies could include, for example, joint production, energy, hydrogen, carbon capture, material-cycle, and infrastructure projects, as well as investments based on long-term supply agreements, provided that a reliable link can be demonstrated between the investment and the emission reduction. It is also important to take into account cases in which decarbonisation is delivered as a project or service provided by a third party, for example, the production of low-carbon heat, electricity, or hydrogen.

To preserve incentives for frontrunners, the most efficient installations and zero- and low-emitting installations should be exempted from conditionality. It is also important to ensure that installations that have already invested in emission reductions are not placed at a disadvantage, for example because the investments required by conditionality have been made earlier. Where an installation is exempted because it has received support from EU funds, the exemption should be proportionate to the size of the supported investment and delivery on the goals that conditionality is intended to achieve.

Technology Industries of Finland notes that the Commission did not, as part of the ETS proposal, put forward an export mechanism corresponding to the gap left by the CBAM in terms of carbon leakage protection in third-country markets. We consider it necessary to introduce a WTO-compatible instrument covering the value chain of CBAM products.

The Commission proposes to continue allowing Member States to compensate indirect carbon costs beyond 2030. Discontinuing such compensation would reduce State aid competition within the EU. However, the extension of the Carbon Border Adjustment Mechanism to indirect emissions should not be undertaken before a sufficiently detailed and reliable assessment is available of the impacts of the current mechanism on the costs and competitiveness of metal

users and producers, and of its actual ability to prevent carbon leakage. We also draw attention to the cumulative impacts of extending the Carbon Border Adjustment Mechanism downstream.

Market Stability Reserve (MSR)

The Commission supplements its earlier proposal to cease the invalidation of allowances placed in the Market Stability Reserve (MSR) by proposing changes to, among other things, the intake and release thresholds. The new thresholds would decrease as the volume of allowances issued decreases. In addition, the intake rate would be reduced from 24% to 12% as from 2028, and the definition of the total number of allowances in circulation (TNAC), which determines intake and release, would be amended.

Technology Industries of Finland supports adjusting the Market Stability Reserve so that it functions better in a tightening market. We therefore support the introduction of dynamic thresholds.

We emphasise that the operation of the Market Stability Reserve must be based on transparent, predefined rules. The EU ETS as a whole must offer the market a predictable, long-term scarcity signal. Repeated political changes to the volume of allowances undermine the financing of industrial decarbonisation investments.

Under the proposal, the MSR's thresholds would continue to be based on the volume of allowances rather than on price. The operation of the MSR is thus aimed at a functioning, stable, and liquid market rather than at regulating or capping the price of allowances and therefore diluting of the price signal as a goal in itself.

The proposed gradual release mechanism, under which the MSR would release only the volume of allowances needed to reach the 400 million threshold, rather than a fixed 100 million allowances, supports this objective. A volume-based system is also better suited to the operating logic of the EU ETS, which specifically regulates the volume of emissions rather than price.

Carbon removals and carbon capture, utilisation and storage (CCUS)

Technology Industries of Finland emphasises that reducing emissions is the primary means of mitigating climate change. At the same time, a limited integration of domestic permanent carbon removals into the EU ETS is a useful way of promoting the deployment and commercialisation of carbon capture.

However, the proposed way of integrating removals may reduce the cost-effectiveness of the EU ETS, as purchasing removals could cost more than the auctioning of the corresponding allowances will raise. If the Commission cannot purchase removals for all the additional allowances issued, the allowances not matched by removals would also increase net emissions.

It is therefore important to ensure that the Commission is able to reliably purchase a quantity of permanent carbon removals corresponding to the allowances it issues, so as to safeguard the overall level of ambition of the EU ETS. For example, the issuance of allowances should be more tightly linked to the purchase of a sufficient volume of permanent carbon removal units. The proposed 250 million allowances could also be taken, at least in part, from the

allowances that would normally be auctioned, rather than being issued in addition to them. Departing from the Commission's proposal, allowances set aside for the purchase of permanent carbon removals should not be issued after 2041 if they remain unauctioned.

Biogenic carbon dioxide that is permanently chemically bound in products should also be recognised as a removal. Under the current legislation, captured fossil carbon dioxide that is permanently chemically bound in products is already taken into account. Under the proposal, however, only permanent geological storage (BioCCS certified under Regulation (EU) 2024/3012) is recognised for captured biogenic carbon dioxide, at least until 2034. Because Finland does not have geological formations suitable for storage within its territory, this places Finland at a structural disadvantage in generating removals, despite the availability of biogenic carbon dioxide.

We support the proposal to allow an operator to compensate its own fossil emissions with removals that it generates itself, as an alternative to selling those removals.

The EU ETS and other climate regulation must recognise the difference between fossil and biogenic carbon dioxide on the basis of their climate impacts. The difference described above in the treatment of carbon bound in products means, in practice, that the legislation provides stronger and broader incentives for the capture of fossil-based carbon dioxide than for biogenic carbon dioxide.

Technology Industries of Finland supports the proposal's continued recognition of emission reductions achieved through carbon capture. In some industrial processes and applications, such as maritime transport, the capture of fossil carbon dioxide can be a technically and economically justified means of reducing emissions. The Commission also proposes limited changes to support the utilisation of captured carbon dioxide (carbon capture and utilisation, CCU). The obligation to surrender allowances would be shifted from the point of capture to the point at which the carbon is released from products (for example, through the incineration of plastic waste) or, for e-fuels, to the fuel distributor level. This better reflects the use of carbon dioxide in short-lived products. In promoting CCUS, rules must be established not only for carbon dioxide but also for other carbon compounds, such as carbon monoxide and solid-state carbon, defining appropriate lifecycle, permanence, monitoring, and liability rules for them. It is important to ensure that emissions accounting remains reliable and that overlaps with the EU ETS2 are avoided.

Legislation promoting carbon capture and utilisation must take into account, in addition to carbon dioxide, other relevant carbon compounds, such as carbon monoxide.

We support the proposal that the Commission also assesses in the future a more market-based integration of carbon removals into the EU ETS. At the same time, it is important to ensure that including removals does not distort the use of biomass or biogenic carbon flows.

Use of EU ETS revenues and EU-level financing instruments

Technology Industries of Finland supports the general approach of the Commission's proposal, which seeks to channel ETS revenues more effectively towards industrial emission reductions through EU-level instruments and Member States. Revenues should be used primarily to develop and commercialise technologies that are not yet sufficiently mature or that do not compete on a level playing field with fossil alternatives.

It is important that ETS revenues be directed primarily to the sectors affected by the EU ETS. The Commission's proposal to require Member States to use at least 50% of national ETS revenues for, among other things, promoting industrial decarbonisation projects advances this principle. In directing revenues, account must be taken of the fact that the EU ETS also has effects on value chains outside the installations covered by the EU ETS.

While introducing the 50% earmark for industrial decarbonisation, the proposal would weaken the current requirement to use all auctioning revenues for climate- and energy-related purposes. Technology Industries Finland does not support diluting the existing 100% requirement.

Technology Industries of Finland supports additional funding for the Innovation Fund and takes a generally positive view of the proposal to establish an Industrial Decarbonisation Bank (IDB). Both existing and new instruments should direct funding to projects competitively on the basis of excellence. The key funding criteria should be defined directly in the Directive rather than in a Commission delegated act. The reference to geographical coverage should be removed from the Innovation Fund's criteria, as it directs funding on grounds other than excellence and competition.

Technology Industries of Finland has reservations about the proposed Investment Booster operating on a 'first in, first served' basis as part of the Industrial Decarbonisation Bank. If implemented as proposed, it should at least be subject to a predefined quality threshold, covering, for example, a project's additionality, lifecycle emission reduction, implementation readiness, scalability, value creation, and need for public support.

A particular focus on industrial emission reductions is justified, since reducing emissions from energy-intensive industry requires significant steps to modernize production processes, for example by means of largely new technologies based on clean electricity and hydrogen. At a general level, it is also important to ensure that no gaps arise between financing instruments targeted at different stages of technology development.

The benchmarks used for carbon contracts for difference (CCfDs) and for fixed carbon premium per tonne of CO₂ avoided must reflect a realistic fossil counterfactual preceding the investment. The methodology must be neutral with regard to the production route and based on uniform lifecycle emission-accounting rules. Part of the funding should be reserved for first-of-a-kind commercial installations and for the deployment of new technologies.

Technology neutrality should also be strengthened in the use of revenues, and it must be possible to direct funding broadly to projects based on clean energy and technology, on the basis of their climate impacts and quality criteria rather than any single technology or energy source.

Maritime and aviation

Technology Industries of Finland supports the proposal to extend the maritime EU ETS to smaller vessels. This would create incentives for the deployment of alternative propulsion in these vessel types. In addition to its own emissions trading system, the EU must actively promote international carbon pricing for maritime transport within the IMO. If a global measure pricing emissions is agreed at the IMO, the EU ETS must be adjusted to avoid double payment.

Winter navigation should continue to be taken into account in the maritime EU ETS through the derogation for ice-class ships. In addition to the proposal, the derogation should continue beyond 2035, since the challenging conditions of winter navigation are a permanent factor affecting Finland's accessibility.

We support the Commission's proposed mechanism to promote the use of sustainable fuels. The mechanism would implement the principle of channelling ETS revenues back to the sectors affected by the EU ETS.

The possibility of using revenues broadly for different solutions, such as biofuels, biogas, and synthetic fuels and alternative propulsion technologies, is a sound approach from the perspective of technology neutrality. No unwarranted, production-route-based distinctions should be made between the low-carbon fuels supported. The mechanism must enable sufficiently long-term and predictable fuel procurement contracts, so that the support can genuinely improve the investment case for new production capacity.

We support the proposal to simplify maritime reporting.

Carbon pricing in aviation should also continue to be promoted through the EU ETS and the CORSIA scheme. Carbon pricing strengthens incentives for emission reductions and, for example, for the deployment of sustainable fuels, and a broad scope of application for the EU ETS promotes a well-functioning and cost-effective market. At the same time, the geographical scope of the EU ETS must take into account the need to safeguard Finland's accessibility.

Municipal waste incineration

Technology Industries of Finland supports the proposal to extend the EU ETS to municipal waste incineration. The extension would create a more level playing field between different energy sources and promote cost-effective emission reductions and the circular economy. The incineration of hazardous waste would remain outside the EU ETS, which is justified from the perspective of the waste hierarchy.

However, the proposed gradual extension in 2031–2035 comes later than the start date of 2028 that the current ETS Directive requires the Commission to assess. We support including waste incineration in the EU ETS earlier than proposed.

Other observations

Technology Industries of Finland supports maintaining the threshold of the EU ETS at a total rated thermal input exceeding 20 MW. The definition of installation boundaries, rated thermal input, transfers of intermediate products, and emission liability must not result in the same emissions being priced twice, or leave actual emissions outside the system.

Leaving installations that use biomass for more than 95% of their fuel outside the EU ETS weakens the incentives to move away from fossil fuels and significantly affects the business of operators that have invested in bioenergy-based decarbonisation solutions. These installations should be brought back within the scope of the EU ETS.

Further information:

Teppo Säkkinen

Director, Sustainable Growth

+358 50 5162868

teppo.sakkinen(at)teknologiateollisuus.fi

Petteri Heliste

Advisor, Sustainable Development

+358 40 764 0929

petteri.heliste(at)teknologiateollisuus.fi