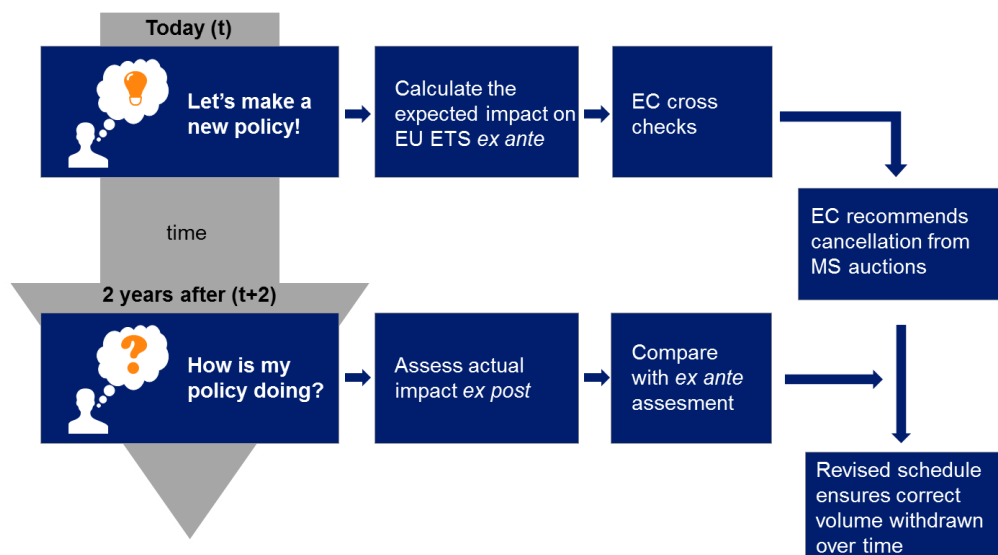


## Policy Coherence Mechanism

The proposed Regulation on the Governance of the Energy Union (Governance Regulation) represents a significant opportunity to promote enhanced policy coherence in the 2030 framework. Currently, a link to the EU Emissions Trading System (EU ETS) is missing in the Clean Energy Package (CEP). For coherence, the impact of other policies on the ETS must however be addressed. Otherwise, intersecting energy and climate policies will continue to undermine the efficiency of the ETS.

The Nordic utilities Fortum, Statkraft and Vattenfall propose a new **Policy Coherence Mechanism** to manage the future policy overlap with the ETS.

The mechanism is simple: it estimates the emissions reductions of a new policy before its introduction and adjusts the supply of allowances accordingly by cancelling allowances from the auction supply. Thereby, it avoids further oversupply and protects the CO<sub>2</sub> price signal. At the same time, it makes sure that the overlapping policy has a real environmental benefit, as the amount of allowances is reduced and not just redistributed in the system. The mechanism has no impact on the free allocation of allowances which is directed to the industry to protect it against carbon leakage.



The Policy Coherence Mechanism covers all policies at the EU and member state level that may reduce emissions. Member states are responsible for carrying out an ex ante assessment of policy overlap every second year from 2019 onwards based on their Integrated National Energy and Climate Plans and associated biennial reports. An equivalent amount of allowances will be cancelled from upcoming auctions from 2021 onwards.



The new mechanism can be implemented almost entirely through amendments to the Governance Regulation. As described, it builds largely on existing reporting requirements of the Governance Regulation.

To date, around 1/3 of the current surplus of allowances has originated from overlapping policies, especially related to energy efficiency and renewable energy. While the current ETS reform addresses part of the already existing oversupply, the future oversupply may continue to grow through more ambitious targets and new intersecting policies unless the interaction is properly managed. Therefore, the Policy Coherence Mechanism is necessary to protect the emissions trading system from being further weakened.

The attached report by Pöyry presents our proposal for the Policy Coherence Mechanism in detail. The report also includes the associated legislative amendments that are required mainly to the Governance Regulation.

**For further information:**

Fortum: Kari Kankaanpää, Senior Manager Climate Affairs, [kari.t.kankaanpaa@fortum.com](mailto:kari.t.kankaanpaa@fortum.com) +358 504532330

Statkraft: Anne C. Bolle, Head of Climate Policies, [anne.bolle@statkraft.com](mailto:anne.bolle@statkraft.com) +47 91353270

Vattenfall: Erik Filipsson, Issue Manager Decarbonisation Policies, [erik.filipsson@vattenfall.com](mailto:erik.filipsson@vattenfall.com) +46 761192285

Fortum, Statkraft and Vattenfall represent 258 TWh/a of electricity generation and 49 TWh/a of heat. We have for long advocated a strong emissions trading system (ETS) as the cornerstone of the EU climate and energy policy. We are convinced that the ETS is the most efficient driver for market based investments in low-carbon electricity generation. Thus, we fully support the ongoing revision of the ETS for the 4<sup>th</sup> trading period (2021 – 2030) to improve the system.