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EU ETS

## – The EU Emissions Trading System for CO<sub>2</sub>



In this PDF, you will find answers on how the EU Emissions Trading System (EU ETS) works and gain insight into supply and demand dynamics.

The EU ETS (European Union Emissions Trading System) is the EU's market-based mechanism for limiting greenhouse gas emissions. Introduced in 2005, it is now the world's largest carbon market, based on a simple principle: "You can only emit what you have allowances for."

### How the system works

EU ETS is built on the "Cap and Trade" principle:

- **Cap:** The EU sets an overall limit on how much CO<sub>2</sub> the covered sectors may emit each year. This cap is gradually reduced.
- **Trade:** Companies receive or purchase allowances giving them the right to emit one tonne of CO<sub>2</sub> equivalent. These allowances can be freely traded between companies.

### Who is covered?

- Power and heat plants
- Large industrial companies (e.g. steel, cement, glass, chemicals)
- Aviation within the EU – and gradually also maritime shipping from 2024

Together, EU ETS covers about 40% of the EU's total CO<sub>2</sub> emissions.

# Why is EU ETS important for you as a customer?

The EU ETS puts a price on carbon and thus provides a tangible incentive to reduce emissions. For your company, it represents both a responsibility and an opportunity.

Your benefits:

- Enhanced ESG reporting – allowances and carbon prices make emissions measurable and verifiable.
- Financial gains from reductions – every tonne of CO<sub>2</sub> saved means lower allowance costs.
- Strategic predictability – the system gives you insight into costs and potential within your climate accounts.
- Stronger profile – verifiable reductions strengthen your brand, investor confidence, and market position.
- Supports non-fossil solutions – biomethane, biogas, and other renewable alternatives can form part of your strategy to reduce emissions covered by allowances.

In short: EU ETS is both a management tool and a competitive advantage for companies serious about their climate strategy.

## How do CO<sub>2</sub> allowances work in practice?

- One EUA (European Union Allowance) equals the right to emit one tonne of CO<sub>2</sub>.
- Each year, companies must report their actual emissions and surrender an equivalent number of allowances.
- If they emit more than they hold allowances for, they are fined.
- If they emit less, they can sell the surplus.

## Allocation of allowances

- Auction: Most allowances are sold through EU auctions and trading platforms.
- Free allocation: Certain sectors still receive free allowances – mainly where there is a risk of production moving outside the EU (carbon leakage). Free allocation is gradually being phased out.

# Price and market

- The allowance price is determined by market supply and demand.
- Between 2022–2024, prices typically ranged between €60–100 per tonne of CO<sub>2</sub>.
- A higher allowance price motivates companies to invest in non-fossil technologies or energy efficiency.

# New rules and developments

With the EU's "Fit for 55" package and Phase IV of the ETS (2021–2030), the system has become significantly stricter:

- The emissions cap is reduced at a faster rate.
- Aviation and maritime shipping are gradually being included.
- Free allowances are being phased out over time.
- CBAM (Carbon Border Adjustment Mechanism) is introduced, ensuring imported goods face a carbon price equivalent to the EU's

## In short

EU ETS is the cornerstone of the EU's climate policy – and an essential tool for companies that want to:

- Document emissions reductions
- Manage CO<sub>2</sub> costs strategically
- Position themselves as responsible players in a market with increasing climate requirements





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