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FORTUM'S POSITION ON THE EU 2040 CLIMATE AND ENERGY FRAMEWORK

This position presents Fortum's views on the EU's upcoming 2040 target and policy architecture based on our response to the public consultation regarding the Governance Regulation on the Energy Union and Climate Action.

The adoption of the 90% net emission reduction target for 2040 marks a decisive step towards the EU's goal of climate neutrality by 2050. Europe's competitiveness, energy security, and climate leadership is at stake, and Fortum welcomes this ambition. The 90% target provides the long-term certainty that investors, utilities, and industrial actors need to commit capital to the clean energy transition at scale. The task now is to design a policy framework worthy of that ambition — one that is coherent, streamlined, and grounded in economic reality.

Simpler framework, anchored in a single climate target

Fortum's primary choice is to anchor the entire 2040 architecture in a single overarching driver: the EU climate target itself. Rather than replicating the layered structure of the Fit for 55 package, with its multiple and sometimes overlapping targets for renewables, energy efficiency, and emissions reductions, the post-2030 framework should be fundamentally leaner. **The headline climate target, allocated across ETS1, ETS2, the Effort Sharing Regulation, and LULUCF sectors, should be sufficient to steer investment and innovation.** The ETS is not merely one instrument among many; it is the most effective decarbonisation signal available to the market. **A robust carbon price creates a technology-neutral investment case for every low-carbon energy source:** renewables, nuclear, storage, demand flexibility, and carbon removal alike. It does not pick winners; it rewards outcomes. Additional sectoral targets risk creating regulatory friction, distorting markets, and undermining the cost-effectiveness that Europe's economy urgently requires. More fundamentally, they crowd out the very carbon price signal on which the business case for clean energy investment depends. **Weakening the ETS through overlapping mandates ultimately means weakening the economic foundation of the transition itself.**

Fallback option: an indicative clean energy target

Should a political decision be made to retain energy policy targets alongside the climate target, Fortum's fallback option is clear: **the existing renewable energy target should be broadened into an indicative clean energy target, encompassing both renewables and nuclear**, to ensure genuine technology neutrality, as the EU Climate Law itself demands. A dedicated renewables-only target is increasingly redundant: **most renewable electricity is already deployed under market conditions, and the EU Emissions Trading System provides a robust investment signal.** **Even in this scenario, any such target must remain indicative and avoid undermining the primacy of the carbon price.** Sector-specific obligations, such as hydrogen quotas in transport and industry under the Renewable Energy Directive, remain justified where direct electrification alone cannot deliver, and should be maintained on a long-term, increasing trajectory.

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Electrification as a central pillar of decarbonisation — common to both the primary choice and the fallback option

Regardless of which framework is adopted, one element is essential to both: an indicative EU-level electrification target. Electricity currently accounts for only around 25% of final energy consumption in Europe. **Meeting the 2040 target will require a dramatic acceleration of electrification across industry, heating, and transport.** Fortum supports the establishment of an **indicative EU-level electrification target within the 2040 framework**, integrated into the Electrification Action Plan and monitored through National Energy and Climate Plans. Eurelectric estimates that achieving climate neutrality will require an electrification rate of 51% by 2040 and 62% by 2050. These figures underscore the magnitude of the transformation ahead.

Delivering this transformation requires concrete enablers: expanded grid capacity, accelerated cross-border infrastructure investment, and sector integration. In addition, the EU should promote end markets to products that drive electrification and the green transition - green steel etc. It also demands a reform of electricity taxation. Today, taxes and levies disproportionately burden electricity relative to fossil fuels, creating a perverse disincentive against the very switch that decarbonisation requires. Closing this competitiveness gap is not merely a climate measure — it is an industrial policy imperative.

The ETS must remain the cornerstone of EU climate policy

The Emissions Trading System has proven its effectiveness as the most cost-efficient instrument for driving decarbonisation. Its integrity must be preserved and strengthened in the 2040 framework. Any ad hoc interventions have to be avoided because they increase market uncertainty. **The current linear reduction factor of 4.4% per year in ETS1 should be maintained beyond 2030, guiding the cap towards zero allowances by 2039 and providing the market with the visibility it needs.** Equally important, rules for recognising domestic permanent carbon removals within the ETS should be established promptly. As the EU approaches climate neutrality, technological and nature-based removals will become indispensable for offsetting residual emissions in hard-to-abate sectors. Early clarity on how removals integrate into the carbon market will accelerate investment in this nascent but critical field. The Commission should also clarify the role, if any, of international credits for ETS compliance without further delay.

The revenues generated by the ETS represent a significant and growing public resource. **Member States should be expected to direct a meaningful share of these proceeds towards supporting industry in its electrification efforts**, whether through investment in grid connections, electrification infrastructure, or transitional support for energy-intensive sectors. Recycling carbon revenues back into the transition is not only economically coherent; it is essential to ensuring that the ETS retains broad legitimacy and that the industries most exposed to the carbon price are genuine partners in achieving it.

Energy efficiency: a pragmatic approach

The added value of a standalone energy efficiency target in the post-2030 framework deserves careful scrutiny. The current target for primary energy use fails to account for economic growth powered by clean electricity and, paradoxically, penalises electrification — the single most effective pathway to reducing final energy demand. **Electrification of industry, transport, and heating inherently delivers substantial efficiency gains compared to fossil fuel combustion.** If an energy efficiency target is to be retained, it should be indicative, focused on primary rather than final energy consumption, and implemented with sufficient national flexibility to reflect the diverse circumstances of Member States.

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Governance: predictability without bureaucracy

The 2040 framework should be set without creating major new governance structures. In line with the Omnibus approach, simplification must be the guiding principle. Clarity and predictability are essential for mobilising the unprecedented levels of private investment that the transition demands. Overlapping targets and policies erode investor confidence and impose unnecessary administrative costs on both governments and businesses. The revision of the **Governance Regulation offers an opportunity to streamline planning and reporting requirements while strengthening delivery mechanisms** — ensuring that Member States translate EU-level ambition into concrete national action through effective, updated National Energy and Climate Plans.

Europe's competitiveness, energy security, and climate leadership depend on getting this framework right. The 2040 architecture must be ambitious in its goals and disciplined in its means — deploying market-based instruments, embracing all clean technologies, and trusting carbon pricing to do the heavy lifting it has already proven capable of delivering.

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