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Fortum Public Affairs

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FORTUM'S POSITION ON THE EU 2040 CLIMATE TARGET

Fortum strongly supports the goals of the Paris Agreement to limit the average rise in global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit it to 1.5°C. We have supported the EU 2050 climate neutrality goal and the 2030 target of at least 55% emission reduction from 1990.

Target setting

Fortum welcomes the Commission's initiative to establish a 2040 climate target, paving the way for the EU to reach the 2050 climate neutrality target and the ambition set in the Paris Agreement. The global carbon budget is limited and the EU has already used its fair share. Therefore, the EU should reach 2050 climate neutrality in a way that uses the budget as little as possible. The faster the target is reached, the fewer physical impacts from climate change there will be, leading also to less need for adaptation.

We prefer the EU's early action in meeting the 2040 target. Frontloading of emission reductions to 2040 would limit the cumulative emissions, which is why we need to accelerate the pace already today. Comparing a frontloaded scenario where the 2040 target is -87% vs. -70% reduction target (linear reduction path), the cumulative emissions are more than 3 gigatons less.¹ Fortum favours a target of around 90% net emission reduction by 2040 compared to 1990 with separate targets for emission reduction and removal. The target of around 90% reduction is also supported by the scientific advice from the European Scientific Advisory Board on Climate Change that recommends the EU to adopt a target of 90–95% reduction to keep within a carbon budget of 11–14 Gt between 2030 to 2050.²

Setting clear climate targets early on will offer clarity and investment signals for the way forward.³ Setting the most ambitious climate target in the world anchors the EU as a leading region for climate technology implementation.

Emission reduction should be the first priority, supported by carbon sinks and removals. Therefore, separate absolute targets for greenhouse gas emission reductions and carbon removals are needed. Separate targets create certainty around the volumes for both emission reduction as well as removal.

¹ The -87% scenario from the ICIS EU ETS Research Report Navigating a new horizon – what comes next for the EU ETS? April 2023

² Scientific advice for the determination of an EU-wide 2040 climate target and a greenhouse gas budget for 2030–2050. European Scientific Advisory Board on Climate Change

³ According to the IEA, “To reach net zero emissions by 2050, annual clean energy investment worldwide will need to more than triple by 2030 to around \$4 trillion”, which is why clarity of the investment environment is imperative

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Technology and sectoral pathways

We expect the power sector to lead the way by being the first sector to reach climate neutrality. Electrification and sector integration are central to the decarbonisation of other sectors, in particular industry, transport, and heating and cooling. However, electrification can only contribute to emissions reduction if the electricity is carbon-free.

To reach the 2040 emission reduction targets, a lot of new renewable and carbon-free electricity is needed. The bulk of the energy will come from intermittent renewables, but from the system perspective, it is crucial to have a balanced mix of variable, firm and flexible clean electricity generation. Already today both nuclear and hydropower contribute significantly to carbon-free electricity in the EU and both are increasingly needed going forward if the EU is to meet its climate ambition. Therefore, the EU should in the context of the 2040 climate strategy fully embrace technology neutrality and recognise the role and contribution of nuclear energy in the EU energy mix, including allowing nuclear to benefit from EU financing instruments similarly to other CO₂-free technologies.

By the mid-2030s, the easier and less expensive emission reduction measures have largely been implemented, hence achieving further reductions is increasingly more challenging based on current technologies. Even though emission reductions also from the industrial sector are expected already before 2030, they need to be speeded up rapidly after 2030 to mitigate cumulative emissions and reach carbon neutrality by 2050. Investment cycles and lead times in the industry can be long, therefore investment decisions for decarbonisation projects which are planned to be in place in the late 2020s and 2030s need to be started today. Hence, certainty on the available carbon budget after 2030 is needed as soon as possible.

A challenge for industrial decarbonisation is that significant investments are needed in "legacy" industries to decarbonise existing assets and to build large decarbonised greenfield projects. Especially in the absence of international carbon pricing, and because initial deployments of new technologies are expensive and come with a higher risk, public support including public funding and de-risking instruments for first movers in industrial decarbonisation is needed.

A variety of solutions are needed for climate neutrality.⁴ Carbon capture, utilisation and storage (CCUS) are important as hydrocarbons are required for many petrochemical products and cannot be "decarbonised". This does not mean that they should not be made climate neutral by using captured CO₂. The need for CCUS should be looked at systemic view preferring solutions that create wider value than storing carbon away. Therefore, the permanence of the product made from captured carbon should not be the only factor to be considered. For example, plastic packaging

⁴ Half of the measures can be done with existing technology, half need new solutions. IEA

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made with CCU displaces the need for virgin fossil fuels and can be circulated many times in the industrial carbon cycle close loop.

EU climate policy architecture

To reach the ambitious 2040 climate target of around 90% net emission reduction, existing policies need to be tightened and strengthened. The strengthening can be done mostly by calibrating existing legislation and therefore no new major legislative packages are needed. Adjustment and acceleration of the FF55 package and the REPowerEU plan can deliver the 2040 ambition.

The ultimate end goal and target for the EU should be to have a uniform carbon price across sectors that is shared with international partners. To take steps towards that direction, carbon pricing should be extended to all sectors. Once a sector is in the scope of the ETS, it should be taken out of the effort-sharing sector regulation. The ETS(s) 1&2 should be merged to ensure sufficient liquidity under the shrinking cap. In Fortum's view, the EU should target to link its emission trading system with similar ETSs around the world, starting with the UK.

The need for renewable targets and energy efficiency targets should be reconsidered in the 2030-2040 policy framework. 2040 target framework should mainly be delivered via emission reduction policies rather than specific energy efficiency targets or renewable targets.

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