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Reform of the EU Renewables Directive – what's at stake?

To meet EU climate goals, we must move faster to switch from fossil to renewable and CO2 free energy. That's why the EU is about to reform its Renewable Energy Directive. Fortum supports the initiative, which is part of a larger overhaul of EU climate and energy policy. Together, we should agree on the most cost-efficient pathway for reaching the 2030 climate target, based on a combination of different measures and encompassing not only renewables but all decarbonised sources of energy.

The EU is striving to become climate neutral by 2050 and has agreed to reduce emissions by 55% by 2030. To make this happen, the EU Commission proposes to change the EU directive on the promotion of the use of energy from renewable sources – the Renewable Energy Directive. The goal is to speed up the move from fossil to renewable energy. Fortum is deeply committed to driving the change towards climate neutrality and securing a fast and reliable transition to a carbon-neutral economy. This requires a combination of different measures at EU-level, while also ensuring coherence and complementarity between the different goals and actions. From Fortum's point of view, the following issues are of particular importance:

1. **Coherence is essential:** As the EU is currently revising or updating most of the key legislative instruments in the field of climate and energy, it is important to take the interlinkages into account and ensure, that we do not create unintended consequences. For example, the EU's renewable energy and energy efficiency targets are connected to national climate targets in the EU ETS sector. And ssetting a target for renewable energy on its own will most likely be as effective as setting higher targets on end-use sector. That is why a proper impact assessment is needed to evaluate the interlinkage of various targets and to find the most cost-efficient pathway to reach the 2030 climate target.

2. **Climate neutrality is not only about renewables:** Renewable energy plays an important role in reaching climate neutrality, but it is not the only tool that we have. Decarbonized power production and other technologies like clean hydrogen, energy storage, CCS/CCU and utilization of waste heat should also be considered. All of these contribute to emission reductions and we should ensure that we do not create barriers or prefer one clean technology over the other.

3. **We must keep everyone on board.** Member States have not yet implemented all the goals of the existing Renewable Energy Directive, and we lack a comprehensive picture of where the challenges are. That's why a profound revision of the directive would be premature –only necessary changes for implementing the Green Deal framework should be addressed.

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4. **Sustainable Hydrogen should have its own regulatory framework.** The existing Renewable Energy Directive is dealing only with how to produce hydrogen from renewable electricity for transport. Sustainable hydrogen, however, encompasses other forms than just renewables. It should a thus be embedded in a separate regulation focused on a sound CO2 threshold and EU-wide certification mechanism. As a minimum, the Renewable Energy Directive should allow for other forms of sustainable hydrogen production.

5. **Focus on the inefficient District Heating and cooling systems.** The Renewable Energy Directive set the first regulatory rules for the heat markets and district heating and cooling, and these are only just being implemented. Any changes to these should therefore be carefully considered. Our overall goal should be to incentivize the low-emission solutions, and focus should be on upgrading inefficient district heating systems, where the potential for decarbonization is naturally higher. This is much more efficient than setting general targets for renewables and waste heat for all, as the differences between Member States are big and for many Member States, a further increase will not be cost-efficient or lead into significant results.

6. **We need new incentives – but also support.** To promote the use of renewables, carbon pricing is the key. That's why the ETS reform is also an important part of the puzzle. Other measures may also be needed to promote renewable, such as market-based incentives to create a demand for CO2-free energy - for example, power purchase agreements and corporate sourcing of renewable energy. Carbon contracts for difference would be helpful to guarantee a demand for CO2-free energy and set the basis for a market for clean gases. Supply-side measures are well-suited to allow for a cost-effective decarbonisation. However, support will be needed for bridging the production costs of carbon-intense and carbon-free hydrogen, as well as to replace fossil alternatives with carbon-free hydrogen in mobility or industrial applications. National tax and levies systems should also support the development of a carbon-free hydrogen economy instead of adding to the cost burden. Our goal should be to create the basis from which hydrogen production can, over time, become competitive.

7. **Electrification is the most cost-efficient way to decarbonize mobility**, whether private vehicles, passenger transport or freight and bulk. But electric mobility can also contribute positively to the introduction of renewables in other sectors. For example, electric vehicle batteries can be used as distributed storage to accommodate the variability of renewables, circular economy and second life batteries can be used in a wide array of applications (such as off-grid solutions, large scale power storage, to power charging stations or as part of a Local Energy Community system), and the technological development of batteries driven by electric vehicle demand will support their uptake in other sectors and uses. Establishing a specific date for the vehicle emissions standards to be zero would give long-term visibility to automakers and consumers.

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8. **We should not change the current sustainability criteria for biomass.** Biomass will continue to play an important role in the energy transition and is particularly valuable for reducing emissions from district heating and cooling. It is important to provide predictable and stable conditions for investments in this sector. Focus should therefore be on the implementation of the existing sustainability criteria for biomass under the current directive and related guidelines. This will ensure that the biomass used for efficient heat production is sustainably produced and meets a high standard of environmental protection.

9. **Certification and verification create trust and enable investment. C**omprehensive certification measures and verification processes are a great tool for empowering the consumer and making sustainable procurement strategies available for all. At EU-level, these measures should be largely based on 'book and claim' principles, where sustainability claim is not tied to the physical product or service but to a separately purchased certificate, and gradually widened to cover all end-use sectors. To facilitate the emergence of EU-wide markets for clean hydrogen, the certification systems should not be linked to a direct connection between the power plant and the hydrogen installations, as this could restrict the creation of new business models and have a negative impact on the affordability of sustainable hydrogen.

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