



Fortum messages to the EU institutions (2019-2024)

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**Fortum's messages to the
next EU institutions**

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General

In the face of irreversible climate change, setting Europe on a path towards implementation of the Paris Agreement should be the number one priority of the next legislature of EU institutions.

An important task of the next Commission, together with the member states and European Parliament, will be to lay down an action plan with the aim of reaching **economy-wide carbon neutrality by 2050** whilst ensuring that all sectors contribute evenly. Fortum believes that **negative emission technologies** are a key complement to EU climate policies.

Carbon pricing combined with increased cross-sectoral flexibility allows for the decarbonisation of the European economy in a most cost-efficient way.¹ A decarbonised and flexible power sector with the support of a highly reinforced grid infrastructure will serve as an essential enabler to the **direct and indirect electrification of key contributing sectors** (industry, transport, heating and cooling). Carbon-neutral hydrogen will play a key role in decarbonising parts of the industry and facilitate the integration of renewables in the electricity system.

EU climate policy should also focus on the demand-side and growing climate-orientation amongst EU citizens and businesses and lay the foundation of **a market for low-carbon and recycled products** (transparent information about carbon footprint and recyclability).

Mobilising private financing is crucial in leveraging the massive investment needs involved in the new European green deal. Likewise, **maintaining a competitive business environment**, where companies are able to choose between available technologies based on economics and climate-related incentives, remains key.

1: Cross-sectoral flexibility refers to the idea of integrating the energy-consuming sectors - buildings (heating and cooling), transport, and industry - with the power-producing sector.

Carbon pricing

President Ursula von der Leyen's stated preference for making Europe the first climate-neutral continent and extending the ETS represent a much welcomed step to base the future EU climate actions on. In doing so, we believe that greater attention should be paid to:

1. Reaching an agreement amongst all EU member states towards **carbon neutrality** by 2050 so as to empower the European Union to show leadership and to set the path for ambitious climate commitments at the Chile COP 25 (2-13 December), at the latest;
2. Taking early actions towards **reinforcing the ETS** on the basis of a higher LRF, at the latest from the beginning of the next trading period corresponding with the target of reaching carbon neutrality by 2050 and continuing the current MSR intake rate (24%);
3. Considering similar actions aimed at **extending the EU ETS** to level the playing field for carbon-neutral solutions in sectors such as heating and cooling and road transport;
4. Agreeing on additional measures aimed at **stimulating negative emissions** during this institutional cycle. Focus should be placed on harmonising the definition for verified captured and stored tonne of CO₂ to ensure technology neutrality and positive climate impact based on the permanence of the stored CO₂;
5. Ensuring **policy coherence** with the ETS by assessing the impacts of overlapping policies and cancelling the corresponding number of allowances. Inclusion of new sectors in the ETS will have to be done bearing in mind the significant EU and national policy overlaps and by adjusting the target of the effort-sharing sector accordingly.





Decarbonisation of heating, transport and industry

Providing decarbonised electricity to Europeans will decrease our emissions and facilitate the decarbonisation of the most emitting sectors in the EU via direct and indirect electrification. Transport, buildings and industrial processes can and should electrify to cut emissions, improve air quality and reduce noise levels.

To accelerate **the decarbonisation of industrial processes** the Commission should:

1. Develop a regulatory roadmap with the help from key contributing sectors and relevant carbon-intensive industries to decarbonise their processes and increase the use of recycled materials through the setting up of a **Commission-led, carbon neutrality industry committee**.
2. Create a dedicated **New Green Deal funding mechanism to finance the decarbonisation of energy-intensive industries and enabling sectors**. All cohesion and regional funding should take a long-term approach and aim to decarbonise the whole value chain of products.
3. Review the **EU's green Public Procurement by making it binding and including the whole resource chain**. Obliging public authorities to include environmental considerations in their purchasing decisions, e.g. using decarbonised steel in construction.

To accelerate the **decarbonisation of transport and heating and cooling sector**:

1. **Proper carbon pricing for all heating and cooling and transport options** is needed to level the playing field with electrical solutions that are subject to carbon pricing via ETS.
2. Electromobility development is delivering a large share in the decarbonisation of transport. However, **funds and policy instruments are crucial** for the sector to deploy infrastructure, both public and private, and increase the number of EVs purchased.
3. **Efficient district heating and cross-sectoral system flexibility** between power and heat are key enablers for the decarbonisation of the heating sector and require well-aligned policy measures.
4. The national circumstances vary substantially in the heating sector; the EU should be able to pinpoint the **primary steering mechanisms in both the building and heating sectors**, and monitor the national decarbonisation policies.

Circular economy


The European Commission should focus its action as a priority on the uptake in demand for recycled products by increasing recyclability and the use of recycled materials. Recyclability should be taken into account already at the design phase of the products and should increasingly become the norm.

1. **Competitiveness of recyclable materials**, e.g. plastics and metals in batteries, compared with virgin materials should be promoted through different policy actions including separate collection, strengthening the role of producer responsibility organisations, improved eco-labelling and eco-design measures with emphasis placed on high EU recycling target and recyclability requirements.
2. **In order to step up circular economy for plastics in the EU and increase recycling capacities**, sufficiently ambitious targets for commercial and industrial waste should be adopted. Waste exports to non-EU countries, where safe treatment cannot be guaranteed, should be abandoned. Decontamination of waste is key to create confidence in recycled materials and circular economy alike.
3. Moving forward, linking the circular economy with the bio economy by **favouring the usage of bio-based and recycled materials over fossil or otherwise unsustainable raw materials** will help transition towards more sustainable businesses (e.g. in the textile industry). Transitioning to a bio-based economy will require risk capital financing to start the multiproduct biorefineries and specific requirements on the recyclability and labelling of recycled materials.
4. Although effective circularity must be the goal, it should be acknowledged that there will always be some fractions of waste that can't be recycled and that should be removed from circulation, such as unwanted hazardous substances or rejects from recycling processes. Therefore, **energy recovery of waste (WtE) should have a place in the EU Circular Economy policy**.

Competitive environment

Decarbonisation will be best achieved in a dynamic business environment through competition of mature technologies and support for research, development and first commercialisation of innovative solutions.

1. The current low interest rates will help unleash huge private financing possibilities if the European Commission and the member states are able to mobilise large amounts of underutilised savings to power the European green deal. **The definition of a sustainable investment should be aligned with the EU's long-term climate strategy**, recognising all carbon-neutral or carbon-negative technologies as sustainable investments.
2. **Cross-sectoral flexibility** will be reached through dedicated and well-targeted EU legislative measures aimed at increasing synergy between sectors. **Ownership and operation of power-to-gas plants** by network operators should not be used as a hidden support to piloting and commercialising projects. Revising the energy taxation directive to allow a shift from a kWh-based system to a price-based system is a key enabling step that creates the conditions for dynamic taxation in the long term.
3. Achieving a more **efficient power market with more flexible generation/demand and a stronger grid** to keep pace with the fast development of variable renewables remains a 'no regret'. Hydropower, with its flexible energy that contributes to system stability as well as combating climate change, is a most suited partner to variable renewables.
4. To facilitate the energy transition, a predictable and transparent tax environment is crucial for capital-intensive companies. **Transparent and basic EU taxation principles will increase predictability**. Profit, including financial income/cost, should be taxed once within the EU.
5. Digitalisation is a key trend affecting also parts of taxation requiring careful adjustment of taxation rules, especially rules on how to allocate new digital business profits between countries. Equally, **improving the predictability of taxation in the EU is crucial to create a strong platform for business to grow**.

A close-up photograph of several pine branches. The needles are a vibrant green, and the branches are illuminated by bright sunlight, creating a strong lens flare effect and highlighting the texture of the needles. The background is a soft, out-of-focus green and yellow, suggesting a forest setting.

Fortum is a leading clean-energy company that provides its customers with electricity, heating and cooling as well as smart solutions to improve resource efficiency. We want to engage our customers and society to join the change for a cleaner world. We employ some 8,000 professionals in the Nordic and Baltic countries, Russia, Poland and India. In 2018, our sales were EUR 5.2 billion and 57% of our electricity generation was CO₂ free. Fortum's share is listed on Nasdaq Helsinki. www.fortum.com