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FORTUM'S POSITION ON SUSTAINABLE FINANCE

Taxonomy Regulation and TEG Report

1 INTRODUCTION

The Technical Experts Group (TEG), acting as an advisory body to the European Commission on sustainable finance, issued its final report on 9 March. The report and annexes form a body of proposals aimed at supporting the European Commission's work in defining the screening criteria for almost seventy economic activities that can substantially contribute to climate change mitigation or adaptation.

Fortum firmly supports the objective of transitioning the European economy towards carbon neutrality by mid-century and sees renewables and decarbonised power generation as an essential enabler in decarbonising key sectors, such as industry, heating and transport.

We have called for an EU sustainable finance framework that is well-designed to **channel private financing towards the investments needed to implement the Paris agreement**. We believe that it is key to provide investors with reliable, EU-harmonised and science-based information on the range of technologies needed to keep the temperature rise preferably below 1.5 °C.

Fortum highlights that reaching carbon neutrality by 2050 in a cost-efficient manner requires underpinning EU and national decarbonisation plans with **an approach in the energy sector that relies on complementing technologies**, ranging from RES, nuclear, storage, clean gases to carbon-negative technologies.

We thus very much welcome the greater **holistic view** reflected in the final TEG report and the growing reliance on a close interaction of solutions, ranging from electrification/sector integration (carbon-negative technologies, hydrogen, storage, infrastructure for district heating and waste heat) to circular economy (recycling and the treatment of hazardous waste).

2 FORTUM'S COMMENTS ON TECHNOLOGY ASSESMENT

In accordance with TEG-stated taxonomy agnostic principle, we believe that specific attention should be paid to the contributions of all CO₂-free technologies to climate adaptation and that they should be subject to a sound and non-discriminatory methodology, duly taking into account the level of requirements set by EU legislation in the field of energy, environment and atomic matters.

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In the renewables category, we support a life cycle evaluation (LCE) that is applied to technologies, rather than being project-based, and we support the exemption from LCE for technologies that are undisputedly below a suitable threshold. Furthermore, the impacts on the environment pertaining to **hydro** plants should be assessed in accordance with the provisions of the Water Framework Directive, not setting requirements that are below or above this Directive or setting other limits.

The status of **biomass** should echo the consensus reflected in the adoption of the latest RES Directive, i.e. 70% for installations starting operation after 2021 and 80% for installations starting operation after 2026. We thus call for the relevant alignment of the TEG proposal with the RED II.

This also goes for an essential form of decarbonised electricity generation, such as **nuclear**. To date, 54.1 % of electricity generated in the EU is CO₂-free, and more than half of it is produced from nuclear sources. A CO₂-free power supply is a key enabler to electrify and thereby decarbonise the essential parts of our European economy. The magnitude and scale of Europe's decarbonisation is achievable if the European Union is able to rely on all non-GHG-emitting forms of electricity production. In its Communication "*A Clean Planet for All*", the Commission acknowledged this synergy by highlighting the backbone position of renewables and nuclear in a carbon-free European power system by 2050. Decarbonised electricity from non-RES sources will be delivered mostly through the operation of existing nuclear power plants and the approval of their long-term operation by the relevant nuclear safety authority. The Commission in its PINC report from 2017 wrote that "*without LTO programmes, around 90% of the existing reactors would be shut down by 2030, resulting in the need to replace large amounts of capacity*". So we believe that this reality needs to be better reflected in the Commission's legislative framework on sustainable finance.

In addition, existing national and Euratom legislations as well as close supervision by national nuclear safety regulators have ensured the safe and responsible operation of nuclear power plants and handling of nuclear waste. Geological disposal facilities fully compliant with the highest safety standards are in place in Finland and Sweden for intermediate-level of radioactive waste for more than 30 years and well-advanced or close to operation for high-level waste.

Fortum thus calls on the European Commission to **swiftly appoint a process** with the aim to provide **a timely and in-depth assessment on nuclear's environmental impact** and thereby assist the European Commission with the preparation of the related delegated act on transitional activities due by the end of 2020. We favour in this respect the involvement of JRC experts and the Art 31 Committee (Euratom Treaty).

We welcome that the final TEG report includes a more wide-encompassing analysis of the contribution of different technologies in not only avoiding, but also removing, GHG emissions from the atmosphere and that further consideration has been given to the **circular economy**. TEG appreciation of Waste-to-Energy (WtE) is a welcome step and good anticipation of the changes to occur in the field of the circular economy. The new circular economy action plan of the European Commission is intended to introduce more stringent sorting measures and separate waste streams so that residual waste will consist mostly of either hazardous, contaminated or otherwise non-recyclable. It thus matters that residues from recycling processes are used for energy recovery by WtE plants. Regardless of the robustness and effectiveness of circular processes that are put in place, there will always be

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a certain amount of waste that cannot be re-used or recycled. If organic and combustible residues are landfilled, this will cause significant harm to the environment and methane leakage will contribute to global warming.

Furthermore, decontamination is key to allow clean material cycles. The absolute necessity of removing hazardous waste and waste with substances of concern in order to ensure a clean circular economy requires high-temperature treatment. The proposed threshold of 100g CO₂e/kWh is irrelevant as the production of heat or electricity is not the primary purpose of such high-temperature incineration. The treatment of hazardous waste aims at guaranteeing that recycled products do not contain hazardous substances and are thus safe.

Moreover, these installations have to abide by the emission limits as set out under the EU's Industrial Emissions Directive and waste incineration BREF.

To conclude, the **waste-to-energy contribution to EU sustainability** needs to be properly assessed by the sustainable finance platform so that it is well-reflected under the final EU taxonomy. Fortum also welcomes that the treatment of hazardous waste has been acknowledged as a sustainable activity under the EU Taxonomy Regulation and believes that the conclusions of the TEG report require some adaptation to take account of the specificities of high-temperature treatment associated with removing hazardous waste so that this activity is well-captured in the screening criteria on the circular economy.

3 ADDITIONAL COMMENTS

A future-proofed energy system that is fit to climate neutrality will look significantly different than today and will rely on a much higher share of CO₂-free electricity generation, greater demand response, stronger integration with gas, heat, mobility and industrial sectors, and a more reinforced network. We support a taxonomy framework that provides for clear incentives towards the necessary reinforcement in the power transmission network that should double in size moving towards 2050. We thus favour applying a suitable emission performance standard that is similar to power plants. However, we believe that any new grid projects should be regarded as sustainable, provided that member states have readied a clear trajectory and implementation path to be carbon-neutral by 2050 or even before.

The taxonomy should, in our view, provide a harmonised regulatory framework to transparently reflect the volume of taxonomy-aligned activities within a given company. Moreover, this should also create the necessary awareness and positive conditions for companies to **gradually transition towards climate neutrality**. It thus matters to make it a stimulating exercise so that more and more companies take positive actions towards reducing their carbon footprint. In this respect, we support the idea of extending EU taxonomy compliance to companies engaged in the necessary transformation of their activities along the lines of the taxonomy criteria, but this should not be made dependent on an implementation plan of a maximum of five years. Such a short time span is indeed too prescriptive and does not fit with investment cycles applicable in industrial sectors.

Fortum warns against the creation of a **brown category of assets** that could lead to an environment where companies see themselves black-listed and exposed to unnecessary blame and misperception. This approach was debated during the decision-making process on the Taxonomy Regulation but, ultimately, not taken on board by decision makers.

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Including this in the delegated acts would represent a missed opportunity and contradict the spirit of this legislation, not to mention raising legal challenges.

Disclosure is an important element of this new sustainable finance model, as it guarantees that information on the level of taxonomy-aligned activities is sound and verifiable. We recommend that such information intended for widespread disclosure is derived from a materiality analysis and is included in companies' sustainability report. However, Fortum warns against making reporting and disclosure requirements too prescriptive and in doing so create a disproportionate burden. Furthermore, mainly Capex rather than Opex should be used for the sustainability rating of financial products, as this is the only way to ensure a reliable allocation of capital to the companies and investments that promote energy system transformation and reduce emissions.

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