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What's next for EU Climate and Energy Policy

The energy sector is under a major transition driven by climate change mitigation, digitalisation, decentralisation, rise of prosumers, urbanisation, electrification and market integration on both regional and European levels. These developments are taking us fast to a future of integrated, flexible and automated energy systems where electricity and district heat are major carbon-free energy carriers. Customers and the environment will be the main benefactors.

EU climate and energy policy during the period of 2019-2023 should continue enabling the energy transition consistently, while considering that rapid development in the sector also makes it necessary for policy to evolve. The future should be embraced by complying with the Paris agreement, securing the EU energy supply while empowering customers and supporting competitiveness.

The **2020 framework** of targets and policies was a kick-off for a wide transition. It successfully created momentum and a base for future policies. However, it also left room to improve in terms of cost-efficiency and emission reductions. It caused an imbalance in the energy market where we now see overproduction combined with inadequate capacity. The current framework has also been a period of very low carbon price.

The **2030 framework** of targets and policies is nearly finalized. It is based on thorough impact assessments as well as experiences from the previous phase. Built to be more market-oriented and more balanced in terms of all emitting sectors, it will be a significant improvement on the 2020 framework. Unfortunately, some good intention of developing the common energy market are watered down in the process. Detailed policies for each sub-target are not giving the market much room to operate and can even hinder some emission reduction potential from being realised. Alignment of national policies will have a crucial impact on the internal energy market and future carbon price. Regional cooperation, a new area of development in the 2030 framework, will be a defining characteristic when evaluating the success of this framework.

Finalisation of the Clean Energy Package, a new EU climate strategy towards 2050 and the working programme of the 2019-2023 commission are the **next steps** which should prepare the EU for serious decarbonization required in the coming three decades. The next effort should not be to reopen all the work recently done with the Clean Energy Package, EU ETS, LULUCF and effort sharing. It is time for a new focus and approach for a prosperous and sustainable future.

Please see page 2 for **our five recommendations** as a basis for future work. We look forward to engaging in further discussions on our common future.

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Five recommendations to EU Climate and Energy policy going beyond 2030

New energy services can be at the core of circular economy, green mobility and smart cities.

1. Clarify the long-term ambition for emission reductions

The energy sector needs more clarity than the current long-term target of 80 – 95% is giving.

- Set a 2050 target as required by the 1.5 degrees pathway agreed in Paris.
- Define an intermediate emissions reduction target for 2040 and adjust the EU Emissions Trading System (ETS) linear reduction factor accordingly.

2. Use carbon price to speed up emission reductions

Continue the positive development now seen in the EU ETS:

- Avoid the type of national policies that undermine carbon price - encourage member states to focus on non-ETS sectors. Strengthen regional coordination with governance of the Energy Union.
- Make sure the Market Stability Reserve can mitigate oversupply of allowances even after the temporary boost is set to end in 2023.
- Extend the scope of the EU ETS to new sectors.

3. Decarbonise heating and transport

The decarbonisation of electricity is well under way. Next, a vision for the heating sector and accelerated efforts for the transport sector are needed.

- Extend the scope of the EU ETS to all heating to cap emissions and spur market-based decarbonisation (see [study by Finnish Energy and GreenStream*](#)).
- Speed up electrification of the transport sector as in study by [Eurelectric and McKinsey**](#).
- Couple the electricity and district heating and cooling sectors to develop smarter energy systems with flexible heat storage, recycled heat, renewable fuels, large-scale heat pumps and combined heat and power with carbon capture.

4. Use markets to promote renewables and energy efficiency

Sub-targets for renewables and energy efficiency are not needed after 2030, as demand will drive their development. Policy should focus on making new solutions available to customers:

- Public support for research, development and commercialization of new solutions is needed. New generation subsidies or fixed price auctions are to be avoided because they undermine the market.
- Remove market failures and non-market barriers such as subsidies, difficult permitting procedures, price regulation or taxation overlapping with the EU ETS.

5. Level playing field and data regulation to foster new services

Regulation should enable existing companies and newcomers, active customers and other new actors to develop new services and benefit of digitalisation. Customer empowerment is the freedom to elicit values in energy choices.

- Provide a level playing field, a functioning market place and cyber security. Enable access to data. Internet of things and blockchains open completely new opportunities.
- Develop the market and energy networks side by side to become the platform for self-generation and storage, building automation, energy management services and smart flow of energy.

* <http://bit.ly/2puCePw> (quicklink to Finnish Energy webpage)

** <http://bit.ly/2JOHHqf> (quicklink to Eurelectric webpage)

About Finnish Energy

Finnish Energy represents 260 companies that produce, acquire, transmit and sell electricity, district heating and cooling, and offer related services.

Our vision is to make Finland carbon neutral. Finland's energy system is already on top of many sustainability indicators, with a high share of renewables, low emissions, affordable prices for the customers and a good level of security of supply. With our advocacy, we aim to speed up the shift to a fully sustainable energy future.

Principles for market-based EU climate and energy policy

