

Ambitious policies needed to boost green growth towards 2040 (Energy – Climate – Competitiveness)



After the European Parliament elections in June 2024, the new Commission will prepare a significant energy and climate framework with targets and either revised or completely new regulation to be decided for the next decade 2030–2040. A minor amount of legislation will also be needed to complement the ‘Fit for 55’ package.

CONFEDERATION OF FINNISH INDUSTRIES' MESSAGES TO DECISION-MAKERS

The Confederation of Finnish Industries (EK) supports the EU's ambitious climate policy, where the 2030 and 2040 climate targets are important steps towards a climate-neutral Europe 2050. The EU climate targets can only be achieved with thriving companies that use and offer green products and solutions.

- It is essential for the EU to concentrate on the smooth finalization and implementation of the ‘Fit for 55’ legislation during the next 5-year period. At the same time, the EU will face another huge legislative effort when it creates a well-functioning 2040 energy and climate framework with its targets and measures. Thus, our companies have an important request: We need a new broadly comprehensive green growth strategy with precise focus and less regulation as volume.
- We must rely on technology neutrality, cost-efficiency, market-based approaches like the emissions trading schemes and flexibility in measures.
- It is necessary to take care of coherency, competitiveness, sustainability, and security. Partial optimization and overlapping measures will only make achieving the climate target more expensive.

FURTHER ASPECTS OF THE 2040 ENERGY AND CLIMATE FRAMEWORK, TARGETS, AND MEASURES

European industry should become the leading solution provider in the global green transition. There will be great demand for clean technologies, service models and smart solutions globally. By tapping the market opportunity, Europe can multiply the emission reductions achieved.

While promoting ambitious climate policy targets, it is essential to address the needs of the companies facing international competition inside and outside the EU. Companies, who operate on the global market, may not be able to pass on the demanded investment costs and operational costs to the customers. That's why carbon leakage protection measures are needed, such as free allocation of carbon allowances and a carbon border adjustment mechanism.

Considering the long timeframe to 2040 and the extremely high level of emission reductions and sinks required, sufficient financing for research, development and innovation must be secured. Equally important are support schemes for green investments, which do not distort competition inside the EU.

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Finnish industries' detailed suggestions for the EU2040 legislative framework

The Confederation of Finnish Industries supports a **single net emissions reduction target** for 2040. This would give flexibility compared to separate targets for GHG reductions and sinks. The net reduction target 2040 could follow the average trajectory between 2030 and climate neutrality in 2050, or even higher depending on the functionality of the whole framework and measures.

The overall structure of the EU's energy and climate policy is to be reformed for 2030–2040:

- Only the targets for reducing greenhouse gases should be binding. Other targets, such as the use of renewable energy, should be indicative.
- Emissions trading systems will cover about 80% of the EU's emissions by 2030. This means the current structure (divided between ETS sector, effort sharing and land use sector) should be revised. Overlapping regulation to control GHG emissions, like carbon taxation and ETS's, should not be in place simultaneously.
- By around 2040, emission caps of both ETSs will hit zero, if the coverage agreed in the Fit for 55 package is maintained after 2030. To ensure a stable ending, legislative adjustments need to be done early enough to avoid liquidity problems and extreme price pressure.

The hydrogen economy and further electrification of industry and transport inevitably lead to the increasing use of clean energy, both renewable and nuclear energy. The efficient use of energy obviously plays a significant role. However, **the absolute energy consumption target needs to be changed** into e.g., an indicative energy consumption target for fossil fuels to allow societies to create welfare from clean energy. Voluntary energy efficiency agreements are a good tool and will be necessary also in the future.

New innovations and technologies such as carbon capture and storage/usage (CCS/U) are essential to reach the climate goals. Carbon removal credits are needed to cover the remaining emissions in industry, and these credits should be accepted in ETSs. New legislation for technical sinks, negative emissions, and acceptance of carbon removal credits acquired in Europe and outside is therefore needed. Both ETSs and other legislation need to be revised to enable, support, and promote such development.

The EU's energy policy and regulation, together with national measures, must guarantee low emissions, as well as **the availability of energy at a reasonable price**. The best and most efficient way to achieve this is through market-based measures, both in the electricity and heating markets

International emission reduction units (agreed in COP26 in Glasgow) should be accepted in the EU energy and climate framework, like in ETSs. This would enable cost-efficient emissions reduction, which is necessary for the EU to reach its 2040 target and the climate neutrality target by 2050. Some Member States are already using offsets to reach their high national climate targets.

The Carbon Border Adjustment Mechanism should be supplemented with carbon leakage protection for the export part of European production. Otherwise, the carbon leakage protection will start to phase out after 2026. The mechanism should only be expanded with the approval of the sectors and based on proper impact assessments.

Finally, while being committed to ambitious climate targets, better regulation should be the guiding principle covering all legislative work in the EU in 2024–2029. A pragmatic approach is needed to achieve the results, without micromanaging of the measures needed to reach them. For that end, thorough and systematic impact assessments should be applied, analyzing the alternative paths and their effects and consequences. They should contain both Member States' specific and sectoral parts and calculations.

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