

7 November 2019

Nordic energy CEOs call for an ambitious European Green Deal

European Green Deal should align the EU climate ambitions with the Paris Agreement

Fortum, Statkraft and Vattenfall are fully committed to contributing to the European Union becoming the world's first climate-neutral continent by 2050. High ambitions enshrined in a European Climate Law are essential to addressing climate change and to aligning the EU's joint climate policies with the Paris Agreement. We support the European Green Deal putting forth proposals on how to reach this long-term target whilst enabling industry solutions. In this context we look forward to constructively contributing to the design of appropriate policies, instruments and solutions in the whole energy system.

The EU's current 2030 climate target was adopted before the Paris Agreement and is not in line with the 1.5 °C objective that was endorsed by world leaders in 2015. **Therefore, the EU now needs to establish a cost-efficient emissions reduction pathway with coherent intermediary targets for 2030 and 2040 to achieve climate neutrality by 2050.** The 50-55% greenhouse gas (GHG) emissions reduction target by 2030, proposed by the President-elect of the new European Commission, will provide clarity on the necessary direction and prevent more disruptive measures at a later point.

The Nordic countries have proved that climate action, competitiveness, security of supply and affordability of low-carbon electricity can be successfully combined. In recent decades, carbon dioxide (CO₂) emissions in the Nordic countries have been decoupled from the GDP growth, thereby reducing the CO₂ intensity of the region's economy.

Carbon pricing is key for cost-efficient emissions abatement and climate financing

Establishing well-integrated electricity markets across the EU with market-driven regulatory frameworks based on ambitious GHG emission reduction targets, carbon pricing and increased cross-sectoral flexibility is the best way to facilitate cost-efficiency in decarbonising the European economy. **We believe that a strong EU ETS is indispensable for driving this process** based on market forces.

We fully support extending the carbon price signal wider in the economy. It is crucial that the cost of CO₂ emissions is properly reflected in the price of all carbon-intensive products and activities. Extending the scope of the EU ETS to sectors such as heating and cooling as well as transport are interesting options and need to be further evaluated.

In addition to emissions reductions, carbon dioxide will need to be removed from the atmosphere in order to keep the temperature rise to 1.5 °C, as stated by the IPCC. CO₂ removal technologies should be duly recognised in legislation and be supported to achieve market maturity.

Carbon pricing schemes are very effective in both providing incentives for investments and mobilising climate financing, in line with the goal of supporting developing countries with climate financing of \$100 billion annually by 2020. The EU ETS plays an important role in generating public revenues in the EU, which can be used to e.g. strengthen R&D activities and compensate the most affected regions and consumers. The size of the Modernisation and Innovation Funds has increased with higher carbon prices in the EU ETS market, making more financial resources available for the support of certain Member States and projects.

In the upcoming international climate negotiations, we call for the EU's full engagement in promoting market mechanisms to deploy effective carbon pricing. Effective market solutions and tradable emission allowances could motivate other countries to also step up their climate ambitions.

Electrification as a key enabler for decarbonising other sectors

The **European electricity industry is committed to carbon neutrality well before 2050** and to a **significant increase in the electrification of sectors with high CO₂ emissions** (industry, transport, heating and cooling). This will be enabled and enhanced through stronger interconnectors between regions, large development of increasingly competitive low-CO₂ power generation as well as sufficient flexibility in the system through hydropower and other storage solutions. Increasing the electrification

rate in these sectors also requires clear GHG emission reduction targets, further utilisation of carbon pricing, strengthened incentives for sector coupling and removal of barriers to electrification.

Electrification is the most efficient, flexible and sustainable way to decarbonise the economy, while also bringing significant co-benefits, such as better air quality in urban areas, lower import dependency and higher energy-efficiency.

Power transmission capacity should be at the core of the political discussion on the electrification of the European economy. Investments in transmission grid infrastructure should be intensified both at the cross-border and internal level with a focus on regional network planning and policy coordination.

The Swedish HYBRIT project, aimed at developing the world's first fossil-free steel-making technology, is a great example of a cross-sectoral partnership and a win-win solution for the energy, mining and steel sectors. The model could be scaled up and transferred also to the other countries, especially if it is properly covered by the EU's innovation and climate policy frameworks.

Heating represents significant emissions in most EU countries, and the reductions so far have been relatively limited compared to the electricity sector. The increased use of electricity and heat pumps, decarbonisation of district heating, energy-efficiency measures and demand side flexibility could decrease emissions from this sector significantly. In addition, indirect electrification of heating through green hydrogen and green methane will be a cost-efficient solution particularly in areas with an existing gas infrastructure. Decarbonisation of district heating is an important avenue in densely populated areas whilst contributing to reinforcing the stability of the electricity system.

In the **transport sector, electrification is one of the most promising paths to replacing fossil fuels**. A combination of instruments can increase the market share of electric vehicles: a carbon price that makes fossil fuels more expensive than clean electricity, a differentiated tax structure for vehicles reflecting their emissions, advanced battery technology, and rapid development of charging infrastructure. This is also important for the electrification of short- and medium-distance ferries, as examples in Norway show.

Mastering the financial and social challenge of the transition is crucial for success

A **socially fair transition and distribution of costs is vital for getting the necessary support for decarbonising the EU economy**. In fact, the transition to a climate-neutral EU economy will entail both costs and benefits. In order to be successful, the development of well-balanced policies that enhance the societal acceptance and involvement of citizens in this major task will be critical.

Greater transparency of the total costs of the energy transition and its distributional effects is vital both on the EU and national levels. The perception of minimal total costs, as well as of the societal distribution of these costs, is decisive in whether the policies can be implemented and how. All stakeholders need to feel the short- and long-term values of forcefully tackling climate change. Therefore, the transition needs to be cost-neutral to consumers in the sense that higher costs for carbon-intensive consumption are balanced with reduced costs for other goods. Using more electricity will, for example, be offset by lower consumption of fossil fuels. Industry exposed to global competition needs protection against carbon leakage. Different types of measures can be used, but, above all, a more global carbon pricing is key to preventing carbon leakage.

We call on European policy makers to establish inclusive measures that **ensure broad social acceptance of the energy transition**. We can succeed with this unprecedented task only if the costs and benefits are fairly distributed and no Member State, consumer or citizen is left behind.

We call for an ambitious European Green Deal. We are ready for the challenge.



Pekka Lundmark
President and CEO Fortum

Christian Rynning-Tønnesen
President and CEO Statkraft

Magnus Hall
President and CEO Vattenfall

Contact persons:

Anne-Malorie Geron (Fortum): anne-malorie.geron@fortum.com; 0032 478 65 28 01

Anne Bolle (Statkraft): anne.bolle@statkraft.com; 0047 913 53 270

Claire Sandevair (Vattenfall): claire.sandevair@vattenfall.com; 0032 472 25 01 64