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REVISION OF RELEVANT EU LEGISLATION TO ACHIEVE THE AT LEAST 55% CLIMATE TARGET BY 2030

This paper presents preliminary views of Finland on the revision and design of the EU's climate and energy legislation, based on information available on the various options so far. Final, more detailed positions will be formulated when the proposals and accompanying impact assessments are presented.

This paper also serves as Finland's general contribution to the present public consultations on the Fit for 55 package. In addition, Finland submits separate responses to the public consultations on the ETS for aviation and emission performance standards for cars and vans.

Finland welcomes the endorsement of the EU climate target of at least 55% by 2030. The target should primarily be achieved by emission reductions. Finland stresses that the transition to climate neutrality should primarily happen by reducing fossil and other emissions. In addition, maintenance and enhancement of land use sector sinks must be pursued.

It is important that the Commission carefully analyzes the options for the achievement of the at least 55% target and presents the proposals foreseen for June 2021 in time.

Revision of the climate and energy legislation to achieve the increased 2030 target

In addition to the effectiveness of policy measures, cost-efficiency must be another key principle in guiding the choice of policy measures at the EU level. Achieving the at least 55% target requires further measures both at the EU level and at national level by Member States.

In the impact assessments for the legislative proposals, the Commission should assess impacts at both EU and Member State level, as well as consider how the legislative revisions would impact the ongoing implementation of the climate and energy legislation.

Revision of the ETS and the ESR

The EU Emission Trading Sector (ETS) should be the primary instrument to reach the at least 55% target, and the target should principally be implemented through increasing the ETS target. To that end, the share of the ETS target should be increased in relation to the effort sharing sector. The steering effect of the emissions trading system needs to be in line with the goals of the Paris Agreement and the IPCC Special Report on 1.5 degrees. In determining targets for the ESR, the cost-effectiveness of emission reductions should have a stronger emphasis than currently is the case.

The revision of the ETS should ensure that the price of allowances is sufficiently high to lead to effective and fast emission reductions. At the same time, it is important to ensure the competitiveness of European industries.

The ETS can be strengthened in different ways: i.a. by lowering the emissions cap (re-basing), by tightening the linear reduction factor as well as by strengthening the Market Stability Reserve, including by keeping its intake rate at a higher level also after 2023. Finland is prepared to assess different combinations of and timetables for the above measures, as well as other potential measures to strengthen the EU ETS.

Finland is also open to the introduction of a carbon floor price at the EU level, and believes that this would be more effective than regional or Member State level arrangements.

Decreasing the free allocation of allowances should proceed swiftly especially for those sectors which have a small risk for carbon leakage. Free allocation of allowances must not jeopardize the competitive status of producers of zero-emission hydrogen.

The more emphasis is put on the emission trading sector, the less need there is to tighten Member States' binding targets in the effort sharing sector. As a general point, carbon pricing should be further promoted at the EU level. However, the effort sharing regulation (ESR) needs to be maintained in the EU's climate and energy policy framework at least up until 2030, taking into account the role the ESR targets have played in driving emission reductions in Member States.

The Commission should carefully analyze different options for further reducing emissions from buildings, including expanding the scope of the ETS or the creation of a supplementary EU-level scheme. Possible extension of emission trading to buildings should not lead to neglecting energy efficiency or other actions reducing emissions from buildings. Buildings should remain in the ESR scope at least up until 2030. In Finland, the majority of the emissions deriving from the buildings' heating is already included in the ETS.

When analyzing options for inclusion of road transport emissions into the ETS, the Commission should carefully assess the effectiveness of the emission trading system in reducing emissions, as well as its price impact along other existing policy measures, taking into account their joint impact both at national and at EU level. At this stage, Finland is not in favor of extending the current ETS to include road transport. Most likely, the extension of the current EU ETS to road transport would not lead to adequate level of emission reductions in this sector. It could also have negative consequences for the functioning of the ETS in the short term.

If emissions trading is extended to road transport, it should be done by creating a separate scheme targeted at fuel refineries or suppliers. Alternatively, Finland can support assessing the creation of a joint EU-level supplementary emissions trading scheme for buildings and road transport. However, in addition to carbon pricing there are other important policies that contribute to emission reductions in road transport. Thus, we believe that road transport should remain in the scope of the ESR at least up until 2030 or, at minimum, until the creation of an ambitious emissions trading scheme. The ambitious emissions trading scheme should reduce emissions effectively and not weaken the current level of ambition. In all options, incentives for other policy measures in these sectors, such as CO_2 emission performance standards for car manufacturers and national measures, must be maintained.

If road transport and buildings remain in the scope of the ESR in the 2030 perspective, the flexibility between ESR and ETS should be increased to ensure cost-effectiveness. It will also be important to keep the possibility of using the currently available flexibilities within the period as well as the flexibility between sectors, based on robust and well-defined criteria.

Concerning the future architecture, in a longer term, Finland is ready to assess the creation of a separate AFOLU-sector covering the emissions and reductions from agriculture, forests and land use sectors. It is important to ensure that EU-level incentives for effective national emission reductions are maintained.

In order to achieve EU-level climate neutrality by 2050, all Member States need to pursue ambitious emission reduction policies. When assessing the effort sharing regulation and its binding targets for Member States, cost-effectiveness should have a more predominant role than currently is the case, which would also lead to a reduction of the range of Member States' targets.

LULUCF

Finland thinks that when reducing emissions and enhancing sinks, the exploitation of the possibilities of sustainable circular bioeconomy should be further enhanced. With bio- and circular economy, the substitution effect of renewable products and their carbon sequestration and storage should be increased alongside with sinks. Finland considers appropriate the current ETS accounting principles in which the emissions from the energy use of biomass that fulfill the sustainability criteria are accounted for in LULUCF sector and not counted a second time in energy sector.

The potential revision of the LULUCF regulation in 2021 should incentivise preserving and strengthening of storages and sinks and their sustainable use. To achieve the climate targets, the carbon sinks and storages from land use sector and especially from forests should be allowed to be used in a more flexible way at the national level. The aim of Finland in the revision of the regulation is that the cap on managed forest land will be removed, or at least increased to point where forest sinks could cover emissions from other land use categories under the regulation. This might require assessing also other elements of the regulation, in order to safeguard the achievement of the EU climate targets in the regulation.

Finland considers that in the future, the LULUCF sector model should be based on reported GHG emissions and removals instead of projections. This approach would also be in line with the climate neutrality target of the European Climate Law and Finland's own 2035 target. This approach would differ significantly from the current approach in the LULUCF regulation.

Finland emphasises that to achieve the EU's 2050 climate neutrality target, the carbon sinks and storages from the land use sector and especially from forests should be allowed to be used in a more flexible way at Member State level.

In the longer term, a possible wider AFOLU-sector, including agriculture, forests and land use, should be based on the annual review of national emissions and removals reported by Member States.

The EU level LULUCF regulation should not create a situation whereby a Member State could get benefits from the forest sinks of another Member State and thus avoid measures to achieve actual emission reductions.

2030 energy legislation

The revision of the EU's energy legislation should be carefully assessed. In assessing the impacts of the policy measures, national data should be used as a starting point, and national circumstances and current situation need to be taken fully into account. The primary role of the targets on renewable energy and energy efficiency is to support the achievement of the at least 55 % climate target. In assessing these policy measures, there is a need to take into account the emission reduction potential at Member State level and cost-effectiveness EUR/CO_2. When deciding EU level policy measures, the costs of implementation to citizens and businesses need to be taken into account.

Increasing the energy efficiency target 2030 by tightening the targets on final and primary energy consumption should be avoided. It might even affect against achieving the 55 % climate target. EU

legislation should give Member States a choice of finding the right balance of measures for achieving the climate target. This applies also to mandatory sector specific measures, i.e. CHP, district heating and cooling, energy audits and renovation of public buildings.

Energy System Integration will be the future for the next decades. When taking into account the level of complexities of the energy system integration and the required speed for green transition, it might be impossible to set the right detailed mandatory requirements. To achieve the 55 % climate target, there is a need of flexibility to enhance market-based innovations in energy efficiency directive and EU legislation.

Finland has a preliminary positive view on the increase of the renewable energy target, while stressing that currently there are no Member State level impact assessments. For us it is important that the opening of the renewable energy directive other than for parts containing targets should be as limited as possible. Stakeholders need predictability and consistency of legislation, in order to ensure the significant investments needed. It should be noted that opening the negotiation of the directive increases uncertainty and decreases the willingness to invest.

Due to the significant role of bioenergy in Finnish energy production, it is important that possible issues of concern in the legislation should in the near future be solved primarily with other available measures than opening of the sustainability criteria. At the same time, Finland finds it positive that more emphasis than before is given to biodiversity in the EU.

In Finland, energy production based on forest biomass should also in the future be based on waste and residues from forest economy and industry, and energy wood that is created by forest management practices. According to EU and national targets, industrial roundwood should also in the future be utilized mainly for higher degree of processing, and its utilization for burning should be avoided, also taking into account biodiversity goals.

Building and renovating in a resource-efficient manner

Improving energy efficiency in buildings has a central role in achieving the increased 2030 target. Finland supports improving the energy efficiency of buildings. At this stage, Finland has however a reservation on plans for setting minimum requirements for energy efficiency in existing buildings by introducing changes in directive on the energy performance of buildings. National circumstances and specificities need to be taken into account in the context of the possible revision of the directive when it comes to minimum requirements for energy efficiency in existing buildings. New requirements for existing buildings should only be set for when these buildings are renovated.

The possible inclusion of emissions caused by residential heating to the ETS should not lead to a situation where actual energy saving measures are not carried out.

Energy efficiency of buildings should always be considered from the perspective of the full lifecycle. In planning renovations, the energy and climate impacts throughout the lifecycle should be optimized, taking into account the impacts of the production, use and recycling of construction products and equipment. In addition to renovation, also complementary and new construction should incentivise energy efficiency, low-carbon development and assessment of the whole lifecycle of buildings, in line with circular economy.

In the implementation of the target of doubling the annual renovation rate, differences between Member States as regards current situation and energy renovation potential should be taken into account.

Carbon Border Adjustment Mechanism

The Commission should in its impact assessment focus on such options for implementing the mechanism where it sees the least risk for legal countermeasures by the WTO or for the competitiveness of the European industry, taking into account that free allowances under the ETS for sectors covered by CBAM should be abandoned. The CBAM model to be piloted should form a good basis for the further development of the mechanism, taking into account the range of policy measures available.

The impact assessment for the CBAM needs to include impacts at Member State level, taking into account the differences between economies, energy systems and national climate policies.

As regards the discussion on own resources, decision making on the sources of EU finance needs to remain in the hands of the Member States also in the future.

Road transport (other than issues related to ESR/ETS)

The EU needs to continue putting emphasis on increasing the availability of low-emission and zero-emission vehicles. It is important that the Commission will assess in a comprehensive manner different options of updating the regulation on CO_2 emission performance standards for new cars and vans. The revision should lead to stricter targets for manufacturers starting from 2025 and should also set new targets beyond 2030. The automotive industry should also ensure that new internal combustion engine vehicles can also operate on a high share of some renewable fuel. It is also important to create favourable conditions for the manufacturing of gas-fuelled vehicles and in regulatory work to take into account the lower emissions of biogas compared to natural gas. The consumers need better access to information on fuel efficiency and CO2 emissions and this should be taken into account when revising the car labelling directive.

Finland supports the development of distribution infrastructure for alternative fuels (electricity, gas and renewable, synthetic and recycled fuels) and the revision of the directive on alternative fuels. It is important to ensure the convergence and regional coverage of distribution infrastructure and improve the availability of alternative fuels. The EU should have a clear vision on how renewable fuels could be directed especially for aviation and maritime transport as well as heavy duty vehicles, taking into account the limited availability of these fuels.

Aviation

The EU ETS as a measure to reduce emissions from aviation needs to be strengthened. The share of free allowances for aviation should gradually decrease. Finland encourages the Commission to assess what would be an appropriate timeline for phasing out free allowances in aviation completely.

The Commission needs to ensure by legislation that the EU can participate in the pilot phase of CORSIA. The EU's participation is essential to ensure that CORSIA is launched successfully.

Finland supports the Commission's plans to boost the production and use of sustainable aviation fuels**.** Finland considers a union-wide blending mandate for sustainable aviation fuels an effective means to reduce emissions from aviation.

Shipping/maritime transport

The EU needs to effectively play its role in the IMO to swiftly reach an agreement on ambitious emission reduction measures. Those measures should be in line with the IMO's preliminary GHG strategy. Global measures would be the most effective and meaningful in reducing emissions from maritime transport. In addition to global measures, carefully targeted, ambitious EU measures are also needed to incentivize emission reductions from the maritime transport and to achieve the enhanced 2030 climate target. All sectors need to contribute to the achievement of the enhanced 2030 target.

The introduction of the EU ETS or other emissions trading system to maritime transport will require a thorough analysis of the effectiveness of such instrument in reducing emissions and its impacts on competitiveness. In addition, the impact assessment should take into account the potential risk of carbon leakage, impacts on short sea shipping and foreign trade as well as winter navigation.

Maritime transport is crucial for Finnish foreign trade, both within the EU and with third countries. Winter navigation and relatively long distance from the main markets increase Finland'stransport costs. The varying role of maritime transport as for the member states as well as the difference in impacts of the ETS on to different member states should be taken into account when preparing the legislative proposal.

Therefore, Finland underlines that the Commission's proposal should effectively contribute to reducing emissions and include elements that ensure competitiveness and take into account the special circumstances of winter navigation. Negative effects to competitiveness could be reduced, for example, by the introduction of free allowances or earmarking of possible revenues from auctioning of allowances to funding sector's emission reduction investments and new technologies. These options should be investigated in the impact assessment. It is important to assess both intra-EU and extra-EU geographical scope for the scheme.

The Commission should also assess possible effects on the negotiations of global measures, on trade relations as well as the joint impact of planned international and EU emissions reduction measures. Introduction of emissions trading scheme involves a risk of transport operators trying to avoid it through, for example, modal shift and selection of new routes. This risk should be taken into account. Alternative design options assessed should include both creation of sector specific emissions reduction scheme and inclusion into the EU ETS. Specific attention should be paid to the phase when the emissions trading would be introduced in the maritime transport sector.

More information on the impacts of the emissions reduction system is needed before the Finnish position can be finalised.