PRIME MINISTER'S OFFICE
FINLAND

28 June 2013
Response to the public consultation

Response of the Government of Finland to the Public Consultation

COM (2013) 169 final
GREEN PAPER, A 2030 framework for climate and energy policies

The European Commission has published a Green Paper on 2030 framework for climate and energy policies and launched a public consultation open until 2 July 2013.

The response of the Government of Finland to this public consultation has been prepared by a network of officials, comprising representatives of the Ministry of Employment and the Economy, Ministry of Transport and Communications, Ministry of Agriculture and Forestry, Ministry of Education and Culture, Ministry for Foreign Affairs, the Prime Minister's Office, the Ministry of Finance, and the Ministry of the Environment. The answers to individual Green Paper questions are based on recent Government decisions and guidelines such as the National Energy and Climate Strategy, published in 20 March 2013.

The Ministry of Employment and the Economy, which has been responsible for coordinating the compilation of this response document, submits it to the European Commission on behalf of the Government of Finland.

4.1. General

a) Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The interaction of multiple targets needs to be carefully analyzed. Subsidies for renewable energy have reduced emissions and so affected the price of emission allowances. The current economic crisis and flow of international credits have had a similar effect. In general uncertainty related to the assumptions of the overall 2030 policy design should be taken into account in a more systematic way.

The EU and the Member States need to ensure a stable and predictable investment environment to achieve a low carbon economy.

Large share of intermittent energy production (e.g. solar and wind) creates challenges to balancing the power system as well as to the transmission infrastructure. Possible capacity mechanisms should be well coordinated between countries.

Emission reduction targets for the period after 2020 must be in line with the general objective of limiting global warming to 2 degrees Celsius.

4.2. Targets

a) Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

Setting only one target which has the planned steering effect, that is, the emission reduction target, is likely to yield the highest cost-efficiency. Targets set by the EU for renewable energy would bring predictability to investors and developers of technology. The renewable energy target, be it a common EU target or a member state-specific target, should be indicative or a moderate binding target, to allow for sufficient room for national energy policy and possible changes in national conditions. Three separate targets set at the EU level would prevent the optimization of measures. For this reason, the possible EU energy efficiency target should be indicative, and member states should be able to define their own national targets. Energy efficiency is already widely promoted in the EU. In the future, common measures, such as energy-efficiency standards for equipment, will be employed to an increasing extent.

b) Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

The interaction of multiple targets needs to be carefully analyzed. Targets should be set in a way which ensures that they do not weaken each other. Subsidies for renewable energy have affected price of emission allowances. For this reason and to ensure sufficient emission reductions in the long term, subsidies should be targeted especially to the development and deployment of new emerging technologies.

c) Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO_2 reductions for passenger cars and light commercial vehicles?

Binding targets for sub-sectors reduce flexibility and decrease the possibility of the member states to meet the overall emission reduction target cost-efficiently.

EU-wide policy measures such as Eco-labeling, Eco-design of appliances and CO_2 limits to vehicles have many positive aspects. They enable technological progress in a way no single member state could achieve with national policies. These kind of common technical requirements in a large economic area such as the EU have also a positive global effect.

d) How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

Setting only one target (emission reduction target) gives flexibility to react to changing technologies.

The Comission's Environmental Aid Guidelines for state aid prohibits overcompensation. This takes into account the degree of maturity and competitiveness of different technologies. However, in many Member States the support schemes for renewables are not regarded as state aid.

Finland supports the Comission's preparation of non-binding guidance for renewable energy support schemes.

e) How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

Security of supply and affordability of energy are essential in ensuring the competitiveness of the EU and Member States and the well-being of its citizens. The development of these policy goals should be regularly monitored.

4.3. Instruments

a) Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

b) How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

Setting only one target which has the planned steering effect, that is, the <u>emission reduction target</u>, is likely to yield the highest cost-efficiency. Targets set by the EU for renewable energy would bring predictability to investors and developers of technology. The <u>renewable energy target</u>, be it a common EU target or a member state-specific target, should be indicative or a moderate binding target, to allow for

sufficient room for national energy policy and possible changes in national conditions. Three separate targets set at the EU level would prevent the optimization of measures. For this reason, the possible EU energy efficiency target should be indicative, and member states should be able to define their own national targets. Energy efficiency is already widely promoted in the EU. In the future, common measures, such as energy-efficiency standards for equipment, will be employed to an increasing extent.

c) How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

Possible capacity mechanisms should be well coordinated between countries and designed in a way that their market distortion is minimized.

d) Which measures could be envisaged to make further energy savings most cost-effectively?

National circumstances vary from country to country (e.g. the structure of energy consumption). For this reason national energy saving policies are likely to be most cost-efficient.

EU-wide policy measures such as Eco-labeling, Eco-design of appliances and CO_2 limits to vehicles have many positive aspects. They enable technological progress in a way no single member state could achieve with national policies. These kind of common technical requirements in a large economic area such as the EU have also a positive global effect.

e) How can EU research and innovation policies best support the achievement of the 2030 framework?

Especially large scale and yet immature technologies, such as CCS and 2nd generation biofuels, will need EU-wide research and innovation policies. This applies also to new emerging technologies that are needed as longer term solutions. In many cases these new technologies would require EU based funding schemes to ensure a rapid development and deployment process.

4.4. Competitiveness and security of supply

a) Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

The framework should be simplified and its long-term predictability strengthened. Global agreement on emission reductions is also essential to curb the carbon leakage issue.

A dual emission reduction target for 2030 should be considered in the context of global negotiations, where the lower level is unilateral and the higher comes into effect if and when the binding global agreement is reached. Also in this case the

unilateral emission reduction target should be ambitious enough in line with climate science and the development of a low carbon economy.

b) What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

Carbon leakage depends on the carbon price (and indirectly through higher electricity price), and how it is compensated to the energy intensive industry operating in a global market. Free of charge allocation of allowances and the present low carbon price are probably limiting carbon leakage today. However, in the 2030 framework the risk of carbon leakage will be higher, because emission reduction targets will be tightened. Free of charge allocation to the energy intensive industry and a compensation mechanism for the electricity intensive industry are options to tackle carbon leakage. Other options could be developed. The risk of carbon leakage is also to a large extent dependent on the achievement of a global agreement on emissions reductions and on a general level how climate change policies develop outside EU.

c) What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

The demand and price of energy depends on global economic situation. The emerging production of unconventional gas (and oil) especially in the United States has led to a switch from coal to gas. This has decreased the price of coal in Europe.

The ambitious goals for renewable energy production have led to a situation where a growing share of electricity producers' revenues is covered by national support schemes.

d) How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

Emission reduction targets for the period after 2020 must be in line with the general objective of limiting global warming to two degrees Celsius. However, it must be noted that emissions by countries that have joined the second commitment period of the Kyoto Protocol account for less than 15% of global greenhouse gas emissions. For this reason a global agreement that includes both developed countries and the economically important developing countries is needed.

e) How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?

A dual emission reduction target for 2030 should be considered in the context of global negotiations, where the lower level is unilateral and the higher comes into

effect if and when the binding global agreement is reached. Also in this case the unilateral emission reduction target should be ambitious enough in line with climate science and the development of a low carbon economy. Some kind of supply adjustment mechanism for the ETS allowances to be auctioned should be considered to stabilize the cumulative supply/demand balance of allowances. This mechanism could prevent excessive over- or undersupply of the allowances and thus build confidence on the ETS. Such a mechanism could provide a relevant option when analyzing possibilities for a structural reform of the EU ETS.

f) How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

Especially large scale and yet immature technologies, such as CCS and 2nd generation biofuels, will need EU-wide research and innovation policies. This applies also to new emerging technologies that are needed as longer term solutions.

Under the Emissions Trading Directive, a share of the revenues from auctioning emission allowances should be spent on developing and introducing low-carbon technologies. Member states decide nationally on the use of the revenues without an obligation to earmark them.

g) How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?

Reducing the import dependency and affordable energy prices are an important part of EU and national policies. Indigenous conventional and unconventional energy sources contribute to both of these targets. National decisions to exploit these sources should be respected based on the principle of subsidiarity. It is also important to assess the environmental and other impacts in the possible deployment of unconventional energy sources.

h) How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?

Increase of the renewable energy production requires investments in the network infrastructure. This promotes also the functioning of the internal energy market.

Infrastructure investments should primarily be market based. EU has also a role to co-finance projects of common interest (PCI). Special focus should be in the connection of the energy islands to the interconnected European network (e.g. LNG-terminal on the coast of the Gulf of Finland and the Balticconnector gas line).

4.5. Capacity and distributional aspects

a) How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

Finland recognizes that Member States' different capacities to invest and adapt must be taken into account in the construction of the new framework for 2030. It is important that the Member States' efforts to reduce emissions, increase renewable energy and to enhance energy efficiency since 2005 should be taken into account when deciding on the new possible burden sharing. Solidarity between Member States should be primarily promoted by other means than climate and energy policy. The possibilities to apply EU-level funding mechanisms should be thoroughly evaluated in this context.

b) What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?

c) Are new financing instruments or arrangements required to support the new 2030 framework?