

## **Finnish Energy on the EU (European Union) Commission draft of rules for Climate, Energy and Environmental State Aid Guidelines (CEEAG)**

Finnish Energy strongly supports the EU target of carbon neutrality by 2050 as well as the redefined target of 55% net emissions reduction by 2030. Revision of EU State aid guidelines plays an important role in achieving these targets. While the importance of reaching the objectives of the European Green Deal is indisputable, the revision of the State aid guidelines should not be made at the expense of the development of the EU internal market for energy. In addition of electricity market, it must be ensured that State aid will cause distortion neither to emissions market nor fuel market.

### **The importance of EU ETS**

When it comes to EU climate policy, there are more efficient instruments to reduce emissions than State aid guidelines. The most important is the EU ETS system. Due to the expansion of the EU ETS, the revision of State aid guidelines should be carefully designed and take into account the proposed revision of the EU ETS.

Finnish Energy agrees that merely displacing the emissions from one sector to another is not sufficient for delivering positive environmental effects in relation to decarbonization. As mentioned in the guidelines, overall greenhouse gas emissions reductions should be delivered. Specifically mentioning the EU ETS as a policy to be considered when reviewing short- and long-term interactions emphasizes its importance. Finnish Energy also agrees the principle that mere existence of market failures is not sufficient to prove the necessity of State aid when there are already other policies (such as the EU ETS) in place. It is important that the additional measures will be directed only to market failures that remain unaddressed by other policies and measures.

### **Market-based approach is welcomed**

All kinds of subsidies or State aid for production are harmful for electricity market. Subsidies disturb the balance between supply and demand. When there is more supply than demand, the market is unbalanced, and the prices will drop. Low prices will decrease the motivation to invest production on market basis.

For that reason, it is excellent that the revision of CEEAG acknowledges that beneficiaries should remain exposed to price variation and market risk. Particularly welcomed is preventing incentives to offer below marginal cost and prohibiting aid for production for the periods where the market value of the production is negative. Incentives to maintain unnecessary capacity create market disruption and the additional cost will eventually fall on consumers.

## **Promoting electrification as the cross-cutting principle**

Reduction of emissions requires an increase in the use of electricity, especially in industry and transport. Clean electricity is the key factor in reducing emissions and therefore no source of clean energy should be discriminated. Unfortunately, it is suggested in the guidelines that the design of competitive bidding processed should be preferring renewable energy or renewable hydrogen. For example, in paragraph 179. this is mentioned concerning recharging or refuelling infrastructure. In such cases all carbon neutral energy, for instance nuclear energy, should be applicable. This should not be considered as aid for nuclear energy as such but rather aid for electrification. It is not widely known that Finland has developed reliable and sustainable means to dispose nuclear waste. Considering that a) CO2 emissions b) land use and c) material use of nuclear power are exceptionally low, nuclear power should be considered as a source of clean energy.

## **Cross-border measures to be encouraged**

It is mentioned in the draft that Member States should give reasons for measures which do not include all technologies and projects that are in competition. It is very good that justification is needed for those support schemes that are not including all technologies which are technically capable of contributing efficiently to greenhouse gas emissions reductions and that the reasoning behind this decision must be based on objective considerations.

However, to create support schemes that would truly decrease market distortion, the same approach should be extended for support schemes to be opened across borders. While it is acknowledged in the draft that opening support measures across borders can help alleviate competition concerns, the Commission is not generally requiring it. It would be worthwhile to consider if reasons behind the limitations should be given in these cases as well.

## **EU taxonomy should not be used as the benchmark**

At present, the EU Commission is in the process to adopt the first set of taxonomy delegated act which defines what kinds of investments or activities should be considered as sustainable and contributing to the EU 2050 decarbonisation targets. Even though the proposed taxonomy is still in the process, several definitions as well as the 'do not significant harm' principle (paragraph 69.) have been included in the CEEAG draft directly from EU taxonomy regulation. The delegated act has met a lot of criticism for favouring certain technologies, whereas reaching the EU 2030 and 2050 targets will need all carbon-neutral technologies to be included. Therefore, Finnish Energy believes that EU taxonomy should not be used as a reference point when the revision of the State aid rules is made.

For additional information

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