

June 22, 2021

The European Commission's proposal on the taxonomy delegated regulation for sustainable finance should be rejected

In Valmet's opinion, the European Commission's proposal for the sustainable finance taxonomy criteria, should be rejected.

The Commission's proposal acts against bioenergy as it excludes bioenergy generated through multifuel combustion, as well as installation, maintenance and repair activities for bioenergy from sustainable economic activities. The proposal is thus significant for countries, where the majority of the renewable energy generation of energy producers and industry consists of bioenergy. Finland is one of these countries¹.

There are no technical or scientific grounds for the proposals in question, but they would give a signal to the market that would place bioenergy in a weaker position than other renewable energy technologies and create uncertainty regarding investments. This signal could also make the achievement of the EU's climate targets more difficult.

In particular, concerning multifuel combustion, or the co-firing of biomass and other fuels, it should be noted that there is a rapid transition in progress in many countries to decarbonize the production of heat and steam, as well as combined heat and power generation (CHP). Fossil fuels and peat are being replaced with renewable fuels, and in addition to forest biomass, waste derived fuels are used as complementary fuel, improving delivery reliability and the security of supply, and decreasing costs.

Which economic activities are considered sustainable and on what basis is a central part of the sustainable finance taxonomy. The criteria for economic activities should be decided through the ordinary legislative procedure in which the Council and the European Parliament can change the Commission's proposal, rather than by conferring regulatory powers to the Commission. The Commission's delegated regulation adopted with conferred powers is thus not the correct tool for the criteria.

Valmet supports the principal idea of sustainable finance, where the goal is to direct financing to sustainable economic activities. The European Union needs clear, technologically neutral and scientifically justified rules for decreasing emissions so that investments would properly start. The current proposal by the Commission does not respond to this need.

¹ In 2019, the share of bioenergy in renewable energy in Finland was 82%.
<https://mmm.fi/biotalous/bioenergia>

June 22, 2021

On April 21, 2021, the European Commission published a package of measures for sustainable finance², which includes a proposal on a delegated regulation for the sustainability criteria for economic activities. Formally the proposal was adopted on June 4, 2021. The delegated regulation would supplement the Taxonomy Regulation³ enacted in the summer of 2020.

The proposal includes criteria for climate change mitigation and climate change adaptation. The goal of sustainable finance and the proposals is to direct investments to more sustainable technologies and companies and thus advance the climate neutrality of Europe by 2050.

Valmet supports the principal idea of sustainable finance, where the goal is to direct financing to sustainable economic activities. Climate actions require significant investments, and the finance sector plays a major role in enabling them.

However, the Commission's proposal is problematic in many respects:

- A delegated regulation should be used to supplement or amend specific non-central parts of a legislative act. In Valmet's opinion, **which economic activities are considered sustainable and on what basis is a central part of the sustainable finance taxonomy**, through which a significant impact on the internal market is sought. The Commission's delegated regulation adopted with conferred powers is thus not the correct tool for deciding on the criteria; instead, this should be done in the ordinary **legislative procedure** in which the Council and the European Parliament can change the Commission's proposal if they so choose.
- **The sustainability criteria should be based on science.** However, the Commission's proposal excludes certain sustainable solutions from sustainable finance in a way that is not justified scientifically or in light of other Union legislation. Considering that the sustainability criteria are intended to give a powerful signal to the market on where to focus investments, such exclusions based on political judgement that create uncertainty concerning investments should not be implemented.
- **The Union legislation should be based on technological neutrality and ensuring a level playing field** so that all solutions would have the same chance to compete on the market. However, the Commission's proposal includes several elements that do not treat bioenergy as equal to other forms and technologies of renewable energy.

The end does not justify the means and creating the sustainability criteria is no more important than ensuring a market that operates transparently and according to fair principles. The European Union needs clear, technologically neutral and scientifically justified rules for decreasing emissions so that investments would accelerate. Companies' investments in product development also requires predictable guidelines.

A poor proposal, on the other hand, will lead to uncertainty on the market, the unnecessary rejection of good solutions that would decrease emissions, and unreasonable costs to companies. Valmet hopes that the Member States will take a bold stance and move to reject the proposal in the Council.

Valmet raises the following points as particular problems in the proposal:

² https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en

³ (EU) 2020/852

June 22, 2021

1. Multifuel combustion of biomass with other fuels

Sections 4.8, 4.20, and 4.24 of Annex I of the Commission's proposal define in practice the criteria for power and heat generation as well as combined heat and power generation (CHP) from solid biomass. The criteria included in the Commission's proposal require that this energy be generated exclusively from biomass, which would categorically exclude all multifuel combustion from sustainable economic activities. Multifuel combustion or co-firing means that other fuels are combusted together with biomass.

It is difficult to understand the grounds for this exclusion because, for example, sorted waste for which there is no other use than energy recovery has traditionally been combusted in a resource efficient manner together with biomass. According to the waste hierarchy, energy recovery is a better solution for such waste than landfilling⁴. According to the Renewable Energy Directive (RED II), bioenergy classified as sustainable can also be generated from waste and waste-derived fuels⁵. Waste sorting promotes the circular economy, which is also one of the six environmental objectives set for the taxonomy⁶. The exclusion proposed by the Commission is thus quite contradictory. In practice, the signal given to the market is that investments should be made in a separate waste processing plant outside sustainable finance for waste and waste-derived fuels, or the waste should be transported elsewhere for combustion. From the perspectives of legislation, science or technology, this is impossible to understand.

AFRY's report on waste co-incineration plants in Finland and the potential impact of the EU taxonomy⁷ states:

"The heat and steam production and related CHP electricity production in Finland is quickly decarbonizing. Fossil fuels and peat are replaced with renewable fuels, largely with forest biomass. As a result, the demand for biomass from energy sector increases substantially. The development towards more sustainable energy production causes new challenges for the fuel sourcing to the heat producers, who need to ensure the availability of biomass with reasonable price. When peat and fossil fuels are no longer viable alternatives for energy production, waste-based fuels are seen as interesting complementary fuel, making the fuel sourcing more flexible and reducing the risks related to fuel availability and prices."

Multifuel combustion or co-firing thus has an important role in the production of carbon neutral and sustainable renewable energy. According to AFRY's estimate, in Finland, replacing peat and coal could mean fuel use of approximately 3.7 TWh, for which the most likely replacements would be biomass and waste-derived fuels. If the multifuel combustion of waste is not considered a sustainable economic activity, the question is raised, how would this fuel use be replaced? Relying on biomass alone would be a considerable risk for operators from the perspectives of energy generation costs, delivery reliability, and the security of supply. In

⁴ 2008/98/EC, Art. 4(1)

⁵ (EU) 2018/2001, Art. 29(1)

⁶ (EU) 2020/852, Art. 9

⁷ AFRY's report

June 22, 2021

addition, without the possibility of multifuel combustion, the threshold for investing in bioenergy will not necessary be exceeded.

Leaving multifuel combustion outside the sustainable economic activities would affect the Finnish bioenergy sector in a significant way. According to AFRY's report, there were 24 co-incineration plants in Finland in 2019 that used waste as one fuel alongside other fuels.

- The co-incineration plants used approximately 5.8 TWh of biomass, 2.6 TWh of peat, and 2.3 TWh of waste.
- The co-incineration plants generated a total of approximately 5.4 TWh of renewable energy.
- The use of biomass in co-incineration plants corresponded to nearly 15% of the total use of solid wood fuels in Finland in 2019, and approximately 6% of the total use of bioenergy in the same year.
- The average share of waste in fuels used in multifuel combustion was approximately 20%, but the environmental permits would allow this to be increased to approximately 50%.
- In addition to the co-incineration plants mentioned above, several new plants have been completed or will soon be completed in Finland that have permits for waste fuels, in addition to biomass. Based on the permits, these plants could use waste-derived fuels for approximately 1.5 TWh, and nearly 5 TWh of biomass.

The taxonomy's requirement for using exclusively biomass for electricity and heat generation and their cogeneration would therefore in practice effectively act against bioenergy and the circular economy. If the market acted according to the signal provided, the amount of adjustable renewable energy generation that supplements solar and wind power generation would decrease. It would also be clear that the achievement of the EU's climate targets for 2030 would become considerably harder, because a large role has been planned for bioenergy in these efforts.

Excluding multifuel combustion from the sustainable economic activities specified by the taxonomy would additionally work against Finnish technology suppliers in particular. According to McCoy's statistics, they have supplied 78% of the new fluidized bed boiler capacity delivered to the EU-27 area within the past ten years. Fluidized bed boilers are specifically a type of boilers where waste-based fuels can be used in addition to the biomass used as the main fuel. According to McCoy, a third of these boilers have been manufactured for multifuel combustion.

2. Bioenergy technology and installation, maintenance and repair activities for renewable energy technologies

Section 7.6 of Annex I of the Commission's proposal defines the criteria for installation, maintenance, and repair activities for renewable energy technologies. Even though bioenergy has been defined as renewable energy in the Renewable Energy Directive and this definition has been followed, for example, in section 3.1, Manufacture of renewable energy technologies, bioenergy technologies are not included in the installation, maintenance and repair activities for renewable energy technologies. There are no grounds for this exclusion, and it discriminates against bioenergy relative to, for example, solar and wind energy.

June 22, 2021

For the annual reporting of companies generating bioenergy, the exclusion is problematic because the turnover of installation, maintenance, and repair activities in the industry typically accounts for roughly 40% of the amount of capital investments in the industry. The exclusion thus leaves a considerable amount of the turnover of operators in the bioenergy field outside the taxonomy when these activities are not considered financially sustainable.

For more information, please contact:

Carita Ollikainen, Director, Corporate Relations, Valmet, tel. +358 46 921 2437

Bertel Karlstedt, Business Line President, Pulp and Energy, Valmet, tel. +358 10 672 0000

Valmet is the leading global developer and supplier of process technologies, automation and services for the pulp, paper and energy industries. We aim to become the global champion in serving our customers.

Valmet's strong technology offering includes pulp mills, tissue, board and paper production lines, as well as power plants for bioenergy production. Our advanced services and automation solutions improve the reliability and performance of our customers' processes and enhance the effective utilization of raw materials and energy.

Valmet's net sales in 2020 were approximately EUR 3.7 billion. Our 14,000 professionals around the world work close to our customers and are committed to moving our customers' performance forward - every day. Valmet's head office is in Espoo, Finland and its shares are listed on the Nasdaq Helsinki.

Read more www.valmet.com, www.twitter.com/valmetglobal

[Processing of personal data](#)