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CLG Europe

Fit for 55 Package:

Initial analysis against the 10 principles of the business letter

The publication of the Fit for 55 Package by the European Commission on 14 July 2021 comes during a **make-or-break moment** for delivering on the Paris Agreement. The purpose of this package of legislative proposals is to provide the policy framework for the EU to 'deliver the transformational change needed across our economy, society and industry' to achieve at least 55% net reduction in greenhouse gas emissions by 2030 and climate neutrality by 2050 with the Green Deal at its core.

On the day of publication Eliot Whittington, Director of the European Corporate Leaders Group said:

"Today is an historic moment. The Commission should be congratulated for unveiling a major package of significant new initiatives and amendments. Today's announcements come with the explicit recognition that what is good for climate is good for the economy. However, the question remains whether these changes will enable the pace of ambition required and deliver a positive Green Deal and social and economic transformation. Business and government must work together to ensure that the EU seizes the opportunities to advance on the race to zero and modernise our economies while maximising economic and social benefits including job creation."

The European Commission's Communication on the package underlines the **economic benefits** of **increased climate action**, demonstrating that climate ambition, economic prosperity and sustainable growth can go hand in hand and stressing that the Green Deal is the EU's growth strategy. The package also aims to support a green economic recovery, increase the EU's competitiveness, create jobs, increase investor certainty and solidify the EU's global leadership through action and leading by example. Within the EU, it sends a strong signal that Europe's **economic recovery will be achieved through climate action**.

One of the key challenges for the package is to ensure coherence across European policy – from finance to industrial, circular, digital, employment and nature – and to align fiscal levers to support the net zero transition across all sectors of the economy. The proposals that have been revealed so far include in-depth revisions to 12 different policy areas.

In this short briefing, we provide an initial assessment as to how well the proposed revisions to the 12 Regulations and Directives align with the principles in the open letter that CLG Europe convened with more than 70 leading businesses and business networks prior to the release of the package. The most notable revisions to each policy area are outlined in Annex 1. Over the next few months, CLG Europe will continue to analyse the implications of the Package and the debate at EU level as the proposals are negotiated by the European Council and Parliament.

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1. Provide policy certainty for business

The Package aims to bring business policy certainty in light of the deep transformations needed to deliver the climate targets, creating a context in which businesses and society stand to gain from a successful implementation of the package. The increased targets across the proposed legislation set a clear direction of travel for the necessary economy wide changes. The comprehensive nature of the package, detailed timelines, the links between the various policy elements and the identification of intermediary benchmarks all provide direction for businesses. However, there is substantial complexity and there will be a major task in the coming years to ensure that the agreed policy frameworks are rolled out effectively and indeed a major need for communications and technical support for businesses, local authorities and citizens on the requirements and the possible funding opportunities.

The Package also aims to set out a framework to increase investor certainty and reduce the risk of locking in investments in carbon intensive industries by earmarking financial resources for climate action. NextGenerationEU will allocate at least 37% to the green transition while 30% of programmes under the 2021-2027 Multiannual Financial Framework are dedicated to support climate action, for example through cohesion policy, agriculture, and the LIFE programme for climate and environment. The Innovation Fund will support business and SMEs' investment in clean energy with specific attention to projects in sectors covered by the Carbon Border Adjustment Mechanism (CBAM).

The size and scope of the Innovation Fund is extended to provide more support to projects in the form of carbon contracts for difference to trigger emission reductions in industry. The Modernisation Fund is also increased in size and extended to two additional Member States (Greece and Portugal), with all fossil fuels excluded from its scope. The European Social Fund Plus (ESF+), InvestEU and other EU funding programmes can be used to support re- and upskilling measures. 35% of research and innovation funding under Horizon Europe are allocated to green investments as well as various partnerships and missions. The Fit for 55 package has also come just after the presentation of the renewed Sustainable Finance Strategy, which has outlined another substantial set of measures to help improve the flow of money towards financing the transition to a sustainable economy from the private sector.

2. Send a strong signal that Europe's economic recovery will be achieved through climate action.

The EC's Communication on the Package states: 'Investments in a low carbon economy can spur economic growth and jobs, accelerate the clean energy transition, increase long-term competitiveness and play a role in the green recovery'. We strongly support the Commission's assertion that increased climate action will bring about significant economic benefits and that this will improve the competitiveness of the EU's industries and scale up innovation. Swift action is not only needed to urgently face the climate challenge but also to accelerate the transition to a net zero economy in a way that will contribute to Europe's recovery in line with ambitious climate objectives. For example, we welcome the revisions to the Energy Efficiency Directive (EED) that align well with the renovation wave strategy and provide certainty over future demand for businesses that are active in this sector, creating new sustainable jobs.

It is strategically valuable that the Green Deal has been placed at the heart of the package as a blueprint for transformational change across the economy and society. The package has the potential to provide the engine for Europe's growth strategy as well as green recovery from the Covid-19 pandemic. The

European Commission has made it clear that 'what is good for climate is good for the economy'. A substantial share of public sector investment to boost economic recovery from the pandemic has been pledged towards climate goals to make the economic recovery a green recovery. Some public sector recovery funds have also been designed specifically to leverage in private sector investment to green technologies but it there is a case that many Member States need to go further with the climate investments envisaged in their Recovery and Resilience Plans.

The allocation of funds to deliver a successful package and a green economic recovery include NextGenerationEU, the next Multiannual Financial Framework (MFF), the Modernisation Fund and the scaling up of the Innovation Fund and Horizon Europe. Member States now have a clear role to play to maintain a high level of ambition and successful delivery of the package. As such, the implementation of National Energy and Climate plans and Recovery and Resilience plans need to be focused on achieving climate ambition and the Green Deal. It will be important to continue to scrutinise Member State Recovery Plans in the coming months to ensure that key opportunities to drive the transition are being taken and lock-in of fossil fuels are avoided.

3. Plan for potential ambition increases beyond 55%

Additional clarity should be given on how the proposals to strengthen the level of ambition for reductions across all sectors - combined with other elements of the package such as the contribution of carbon removals from land use, agriculture and forestry, as well as technology-based solutions such as Carbon Capture and Storage (CCS) and the extension of the Emissions Trading System (ETS) to the maritime sector - could effectively enable the EU to go beyond the net 55%. Opportunities to drive further ambition in the renewables and energy efficiency sectors should also be grasped, as shifts in technology allow in the coming years.

Removals should come on top of increased climate action across the economy as the measures in the Land Use Land Use Change and Forestry (LULUCF) regulation will not be able to make up for the lack of action in other sectors including agriculture. In addition, policies which are not part of the package, such as the Common Agricultural Policy (CAP) and the Farm to Fork Strategy, should also play a role in delivering the net 55% target and increased climate ambition in the coming years.

4. Ensure coherence across European policy

The breadth of the package and focus across the different sectors, as well as the additional proposal on a forest strategy, demonstrates a major effort to ensure coherence and balance the overall package. This will be tested in the coming year as the Parliament and Council debate the final outcome, and it will be key that the negotiations do not lead to misaligned policies.

We note that there are now clear guidelines on the allocation of funds, to avoid investing in fossil fuels, to support the overall outcomes of the package, but that some mechanisms remain that may lead to the lock-in of fossil fuels, for example in terms of incentives foreseen in the Maritime Fuels proposal. These need to be carefully addressed.

When it comes to employment, the impact assessments highlight the net employment gain linked to the green transition. We welcome that the Renewable Energy Directive (RED) and the Energy Efficiency Directive (EED) are being geared to create quality jobs and incentivise innovation and investment by both the public and the private sector. The revisions to these two directives will also enable growing demand for new digital technologies, create markets for new products, and incentivise innovation for energy efficient technologies across all sectors. We also welcome the support for initiatives that ensure that the workforce develops skills in line with the green economy, including, but not limited to, the green strand in Eramus+ and the Education for Climate Coalition, the European Skills Agenda.

However, we note the need to address regional inequalities as well as of the disbursement of social funds to mitigate such inequalities and urge Member States to ensure equitable access to new digital technologies and the skills required to benefit from them. We also acknowledge that some of the proposed changes to the coverage of the ETS are potentially problematic. In particular, several Members States and other stakeholders have expressed concerns over potential negative distributional impacts that the establishment of a new ETS for buildings and transport may have. We therefore emphasise the need to ensure that the implementation of this new proposition is carefully managed, and that the new Social Climate Fund will be adequately resourced and set up in a way that enables it to advance just transition and deliver support for adversely affected households and communities.

Moreover, the transformations required will likely have an impact on employment, for example in the automotive sector the shift to electric cars will reduce jobs in the combustion engine supply chain although potentially lead to other opportunities such as around batteries. It is necessary to make sure such sectors do not stop at re and up-skilling their workforce, but also cooperate with other key stakeholders at regional level to ensure adequate provisions to help reconversions of the workforce into other sectors. A comprehensive vision must be developed to scale up skills and adaptability. Social partners have a clear role to play in the development of such agenda.

We encourage further synergies to be sought out between biodiversity goals and social goals to create a nature positive and socially just economy and achieve the objectives of the Green Deal in an integrated manner

5. Accelerate the transition of our energy systems

The new Union-wide target of 40% for the Renewable Energy Directive (RED) is a major step towards accelerating the transition of the EU's energy system towards zero emissions power. In conjunction with the stimulus to the supply of green technologies and the expected demand emanating from the revised Alternative Fuels Infrastructure Regulation, this revision should accelerate the transition of our energy systems and reduce dependence on energy imports. The revised Alternative Fuels Infrastructure Regulation could also diminish non-cost barriers to greater uptake of electric vehicles (EVs) driven by the amendments to the CO2 emission performance standards for new passenger cars and light commercial vehicles. We are, on this note, pleased to see that the Commission has proposed that only zero-emissions vehicles should be sold in 2035.

New renewable energy targets for specific uses, such as buildings, have the potential to provide a long-term signal to investors and complement obligations related to energy efficiency and the energy performance of buildings. Similarly, the new labelling for products and services produced from renewable energy in industry could help to drive a market demand for such products, in line with the recommendations in the report *Tomorrow's Markets Today*. The push to ensure that hydrogen used in industry is renewable is particularly relevant for products using large quantities of materials that will likely be decarbonised primarily through the adoption of hydrogen-based production technologies. As mentioned in the open letter, renewable and fossil free hydrogen should be focused on the hard to abate sectors.

However, some potentially complex questions remain around the new sustainability criteria for biomass, the risk of double-counting, potential incentives for unsustainable application of Carbon Capture and Use (CCU), and the adequacy of the overall level of ambition in the revision to the renewable energy directive. A brief analysis in the impact assessment suggests that an increased level of ambition could have substantial positive impacts on GDP and jobs, in addition to emissions reduction. This view is supported by our recent analysis of potential recovery plans.

It will also be important to ensure that the proposals in the Renewables Directive are backed up by finance through the Recovery Plans, governance in the National Energy and Climate Plans – given that the target remains an EU wide target - and technical and financial support from the Commission if it is to succeed.

6. Deliver on energy efficiency and the decarbonization of sectors

The amended energy efficiency directive (EED) introduces a new energy efficiency first principle alongside more ambitious overall targets for energy consumption and energy savings and the extension of the renovation obligation to all public buildings. These revisions could help create the market demand that is needed to scale up the supply of energy efficient solutions and the training programmes needed to address the skills gap that currently presents a barrier to effective delivery of the Renovation Wave strategy. A demand driven policy approach is welcome in a sector that has proven notoriously difficult to decarbonise, with previous attempts in various Member States failing to achieve substantial improvements to the existing building stock.

The strong synergies between the revisions in the EED and a number of other proposals published on 14 July, notably the revised RED, ETS and Effort Sharing Regulation, deliver a strong message that climate neutrality cannot be achieved without improved energy efficiency. However, multiple levers will need to be utilised in conjunction with each other to support faster decarbonisation especially in the buildings and transport sectors.

The proposal on the review of the Energy Performance of Buildings Directive due in December will be critical to complement the actions proposed here.

The strengthening of the EU ETS, extensions to its scope and timetable for the phasing out of free allowances for the aviation and sectors that will be subject to the new Carbon Border Adjustment Mechanisms (CBAM) could incentivise improved energy efficiency and drive investment in the development and uptake of low-carbon solutions in these sectors. As much of the innovation in breakthrough technologies will need to be public sector funded, we welcome the increased resourcing of the Innovation Fund and the amendments to its scope, which will support decarbonisation efforts especially in heavy industry.

7. Balance increasing carbon pricing signals with focussed regulatory action

The move towards strengthening carbon pricing through the ETS and complementary regulations is a particular strength of the overall Fit for 55 package. The proposed revisions across many policy packages are mutually supportive, in particular across the Energy Efficiency Directive, the ETS, the Effort Sharing

Regulation (ESR), the FuelEU Maritime proposal, the Renewable Energy Directive, and the amendments to the CO2 emission performance standards for new passenger cars and light commercial vehicles. However, further analysis may be needed to explore the impacts of the proposed timetable for the phase out of free allowances under the ETS, and encourage an assessment of the possibilities for a faster phase out of free allocation for certain sectors.

Increasing the ESR target to 40% and preserving its current scope are essential elements to ensure that Member States retain the responsibility of lowering emissions from the sectors covered by the ESR, including transport and buildings. As the proposed extension of the ETS to these sectors and the subsequent carbon pricing will not be sufficient to decarbonise these sectors in line with climate neutrality by 2050, Member States need to take the necessary regulatory measures to support this through investing in charging infrastructure, energy efficiency and building renovation, as outlined in the Alternative Fuels Infrastructure Regulation (AFIR) and the EED. These measures have the potential to create a significant number of new jobs, aligning with the EU's green recovery plans.

In conjunction with the National Energy and Climate Plans and the Resilience and Recovery plans, the Fit for 55 Package can serve as an opportunity to reinforce synergies between the pieces of legislation related to the sectors covered under the ESR. Especially strong synergies exist between the Energy Efficiency Directive, the Energy Performance of Buildings Directive and CO2 standards for cars and vans. Taken together these policy packages can put these sectors on track to deliver a green and inclusive economic recovery in line with the transition towards climate neutrality by 2050.

However, we encourage further work to ensure Member State accountability, so that potential synergies are also reached in practice. Careful consideration should be given to flexibilities which aim to help Member States achieve their targets in a cost-effective manner. These flexibilities should not be used to dilute the ambition or delay the regulatory measures which need to be urgently developed and implemented to accelerate the decarbonisation of these sectors.

8. Align fiscal levers to support the net zero transition.

The revisions to the energy taxation system published as part of the Fit for 55 Package were long overdue and work well to support the fiscal levers under the ETS. The new energy taxation system, and their increased regulatory stringency, send strong signals to consumers and businesses alike, providing incentives to improve energy efficiency and to switch to cleaner energy sources where possible.

It is also positive to see the introduction of fiscal incentives and quotas for the decarbonisation of aviation fuels, extension of the ETS to cover some maritime emissions, and goals for the greenhouse gas intensity of maritime fuels. In particular, with the Energy Taxation Directive we note the higher minimum tax rates for fossil fuels and lower minimum tax rates for renewables, and the removal of fossil fuel exemptions. This could speed up the transition and reduce the risk of future stranded assets in carbon-intensive energy infrastructure and fuel use. The reduced possibilities for Member States to level down ambition through lenient taxation on carbon intense products is a step in the right direction. However, we would encourage further revisions to avoid any remaining carbon-intensive lock ins such as around natural gas. It is essential that fiscal levers encourage the stranding of assets sooner rather than later. We call on Member States to advance the discussion on the Energy Taxation Directive noting the need for unanimity.

9. Develop and deliver an effective strategy to ensure competitiveness for current and future industries in a net zero world.

Various policy proposals in the Fit for 55 Package are designed to put EU industries on track to climate neutrality by 2050 and increase the EU's competitive sustainability. The package represents in effect an important element of the new updated industrial strategy for Europe, all of which must be implemented in a way that is fully aligned with the new emissions reduction targets, including measures to further develop the circular economy and market for climate neutral materials. The package represents an opportunity for the EU to drive investment into the innovations and industries which will serve not just EU but global growth markets for climate neutral products and services in transport, buildings and energy in particular, enabling first mover advantages for its economy and society as a result. It is important that these strategic benefits remain the central goal of the EU's approach, even whilst it also ensures some mitigation for specific industries where the challenge of securing investments for transformational innovation is impacted by international trading conditions and competition, which the EU must rightly seek to ensure is fair in practice as well as in theory.

One specific policy proposal that is directly and exclusively aimed at supporting the decarbonisation of energy and material intensive EU industries is the Carbon Border Adjustment Mechanism (CBAM), which would be applied in the event that the EU's trading partners do not apply broadly equivalent measures themselves. This proposal has attracted much attention among the EU's trade partners. Although some EU industries are strongly supportive of CBAM, some remain neutral or even actively oppose it. At present, big questions remain unanswered regarding CBAM's compatibility with the World Trade Organisation (WTO) rules, potentially adverse impacts on diplomatic relations, potentially negative effects on developing countries, effectiveness in mitigating CO2 emissions at global scale, and the compatibility of the CBAM with the proposed phasing out of free allowances under the ETS. The content of the current proposal does not seem to adequately reflect the European Commission's cooperation driven rhetoric, particularly in relation to trade relationships with the Least Developed Countries (LDCs).

We would like to see robust efforts from the European Commission to engage in further dialogue with main trade partners to devise ways of accounting for non-price based green policy packages. Revisions to the proposal to address the concerns prevalent among developing country trade partners could benefit all concerned parties. Currently, there is a risk that CBAM may be used or perceived as being used as a punitive or coercive mechanism, especially (but not exclusively) for LDCs. The ability of the EU to consider and manage the effects of the CBAM proposal on international relations is likely to be a key concern in strengthening the EU's leadership position and credibility. A careful balance needs to be found to enable international collaboration that does not threaten the integrity of the global emissions reduction goals of the proposal.

Concerning CBAM, we invite further impact assessments on the administrative burden on importers, and its repercussions further down the value chain (and the consumer) so as best to manage the implementation of the CBAM. Provided the negative impacts of the proposal on international climate diplomacy can be successfully managed, the proposal could be broadened to include indirect emissions, and its phase in (and the phase out of free allowances) could be sped up.

10. Support demand as well as supply

Many of the specific revisions to several different policy areas, from energy efficiency and renewable energy directives to the alternative fuels infrastructure regulation (AFIR), the function to create demand for renewable energy as referenced above, solutions that improve energy efficiency, low-carbon technologies, and low-carbon products and materials. This is to be welcomed, as per our report *Tomorrow's Markets Today,* as an important complement to more supply-side focused measures, and as a central plank of the EU's ability to build its competitive sustainability through setting world-leading standards and regulations in its Single Market, stimulating European industries to be pioneers in meeting them and being as competitive as possible in their associated evolving global markets. We look forward to seeing how this will be complemented by the upcoming Sustainable Products Initiative and review of the Ecodesign Directive in December.

The reporting requirements for embedded emissions through CBAM and some specific provisions in RED will accelerate the design and adoption of standardised carbon accounting methodologies and reporting, supporting the development of global markets for climate friendly materials, goods and services. The reduction of non-cost barriers to electric vehicles under AFIR, together with revised and much more ambitious CO2 limits for cars and vans, will speed up the uptake on clean mobility solutions.

Annex 1: Summary of policy revisions

Emissions Trading System (ETS):

The EU ETS cap-and-trade system governs the EU's emissions from power and heat generation, energy-intensive industrial sectors and aviation within the European Economic Area (EEA) by putting a cap on emissions to ensure that these sectors reduce their emissions by 43%, compared to 2005, by 2030. The key revisions to the ETS proposed by the European Commission (EC) include:

- An increase to EU ETS's overall environmental contribution through the strengthening of the cap and the overall target to 61 percent by 2030, an increase of the linear reduction factor (LRF) to 4.2 percent per annum, a one-off downward adjustment of the cap, and an upward revision of the maximum update rate;
- A timetable for the gradual removal of free allocation for aviation and sectors covered in the new Carbon Border Adjustment Mechanism (CBAM) and a plan to phase out all free allowances by 2036;
- An extension of the EU ETS to the maritime sector, covering all intra-EU voyages and 50 percent of the emissions from extra-EU voyages;
- A new, separate ETS for road transport and buildings, and a new Climate Social Fund to mitigate any adverse distributional effects of this. However, buildings and transport will also continue to be covered by the Effort Sharing Regulation (ESR);
- Plans to direct a growing share of the auctioned allowances to Innovation Fund and Modernisation Fund, alongside a requirement to align all spending from the Modernisation Fund with the European

Green Deal and the European Climate Law, and eliminating support to investments related to any fossil fuels.

Carbon Border Adjustment Mechanism (CBAM)

CBAM is a new policy designed to mitigate the potentially negative impacts of increasingly stringent domestic climate policies, such as carbon leakage (i.e. carbon intensive industries relocating to less stringent regulatory environments) or domestic producers becoming less competitive against cheaper, more carbon-intensive, imports. The proposal on CBAM includes the following elements:

- CBAM is to commence with a pilot-phase from 2023-2025, after which CBAM will gradually replace the system of free allowances to sectors that are included in its scope;

- Expected to cover direct emissions of aluminium, iron and steel, fertilisers, and cement. Electricity will also be included, but subject to a different pricing mechanism. Indirect emission coverage is expected to be introduced at a later stage;

- A complex institutional structure involving various stakeholders such as companies, accredited verifiers, Member States' competent authorities, and the European Commission as central administrator. The worst of the administrative burden is likely to fall on importing companies and Member States with limited bureaucratic capacity;

- Expected revenue from CBAM is described by the European Commission as "possible EU own resource". For 2030 this revenue is estimated to be around EUR 2.1 billion.

Renewable Energy Directive (RED)

RED requires each Member State to adopt a national renewable energy action plan, which sets out their national targets for the share of energy from renewable sources consumed in transport, electricity and heating and cooling, and adequate measures to achieve these targets. The key revisions to RED proposed by the EC include:

- An increased target for the EU to produce 40% of energy from renewable sources by 2030;

- Specific targets for renewable energy use in transport, heating and cooling, buildings and industry, with a particular focus on increased support for renewables in the sectors where penetration of renewables has been slower. These are accompanied by broadening of the existing support schemes;

- Plans to ensure that modern district heating and cooling systems are developed to harness local renewable energy such as geothermal, ambient and solar thermal sources and cost effectively integrate renewable electricity, renewable gases and liquids for the supply of buildings and other users, supported by an EU-wide certification system for renewable fuels (including hydrogen);

- New incentives for the deployment of the infrastructure needed by electric vehicles, including a credit mechanism to allow charging point operators to contribute towards the target;

- Additional measures to make permitting processes for new renewable energy installations more efficient and to further promote direct contracts between producers and consumers;

- Amendments to the sustainability criteria for the use of bioenergy and a prohibition of sourcing of woody biomass for energy production from primary forests, peatlands and wetlands.

Effort Sharing Regulation (ESR)

The ESR covers CO2 emissions from road transport, heating of buildings, small-scale industry and other greenhouse gas emissions (CH4, N2O, F-gases), mainly from agriculture, energy and waste. It sets binding annual reduction targets for Member States, with an overall aim to reduce EU emissions in the sectors covered by 30% compared to 2005 by 2030. In 2019, ESR covered 59% of EU-27 total greenhouse gas emissions from the sectors not covered by the EU ETS or LULUCF.

The revised ESR keeps its existing architecture and scope, covering transport and buildings sectors, alongside their inclusion in a new emissions trading system. The key revisions to the ESR proposed by the EC include:

- An increase to the EU wide ESR target to 40%. Member States are to contribute to this overall EU reduction with targets ranging from -10% to -50% below 2005 levels based on GDP;

- A recognition that the extension of ETS for road transport and heating fuels should be complemented by government action such as tackling market failures, investing in infrastructure, favouring the uptake of zero-emission cars and promoting building renovation;

- Adjustments to the flexibilities that Member States can use to 'bank and borrow' and buy and sell emission allocations. Some amendments are also made to how Member States can use a credits generated in the land sector by removals of greenhouse gases;

- A proposal to establish an additional reserve for Member States based on 'non-used' greenhouse gas removals generated in the EU, which would only become effective if the EU reaches its 2030 target of reducing net greenhouse gas emissions by at least 55%. The maximum contribution of net removals to reaching the -55% target is fixed at 225 MtCO2Eq by the European Climate Law.

Energy Efficiency Directive (EED)

The Energy Efficiency Directive (EED) establishes a set of binding measures to help the EU reach its energy efficiency targets by setting obligations for all EU countries to use energy more efficiently at all stages of the energy chain. The EED was last amended in 2018, as part of the 'Clean energy for all Europeans package'. The key revisions to the ESR proposed by the EC in July 2021 include:

- Higher binding targets at the EU level for reductions in final (36 percent) and primary (39 percent) energy consumption by 2030, in line with the Climate Target Plan. These targets are supported by a system for Member States to set their indicative national contributions based on a formula of objective criteria and benchmarks reflecting national circumstances;

- A new **Energy Efficiency First principle** to provide the legal basis for the requirement to consider energy efficiency solutions as the first option in planning and investment decisions, and when setting new rules for the supply side and other policy areas;

- A strengthened obligation on Member States to achieve annual energy savings in end-use consumption, raising the annual target from 0.8 percent to 1.5 percent from 2024 through to 2030;

- A number of modifications to existing requirements and criteria in heating and cooling to stimulate the use of waste heat and renewable energy, and to improve the efficiency of heating and cooling technologies, including district-based systems;

- A new obligation for the public sector to reduce annual energy consumption by 1.7% every year and extends the coverage of **the renovation obligation** from central government buildings (approximately 1% of EU's building stock) to all public sector buildings (approximately 10% of EU's building stock), with stricter standards requiring 3% of the public sector stock (including hospitals, government buildings, schools and social housing) in each MS to be transformed into "nearly zero-energy buildings" every year.

<u>Land Use Land Use Change and Forestry</u> (LULUCF)

The EU will need to remove a substantial amount of GHG from the atmosphere to achieve its objective of climate neutrality by 2050. Reaching this level of carbon removals needs a strengthening of the EU natural sink beyond its current level. The key revisions to the LULUCF regulation proposed by the EC in July 2021 include:

- **Binding targets for Member States** to increase their net carbon removals in the land use and forestry sector from 2026 to 2030, adding up to **310 Mt of CO2 equivalent by 2030**, a 15% increase compared to today. The Commission will propose these targets by the end of 2025;

- Revisions that prepare the ground for a move towards a **more integrated policy framework** covering activities related to agriculture, forestry, and land use (AFOLU), under one climate policy tool beyond 2030. By **2035, the land sector** is to be climate neutral, balancing all greenhouse gas emissions from land use, forestry and agriculture (fertilisers, livestock) with removals;

- Alignment of the objectives for the LULUCF sector with related policy initiatives of biodiversity to support the restoration of biodiversity and bioenergy;

- **Amendments to the flexibility rules for Member States** from 2026 to 2030. Member States can purchase removal units from Member States who have overachieved their targets; cancel a share of its annual emission allocations under the ESR if it outperforms its target, and use those allowances to meet its LULUCF target; use its legally-defined share of an overall flexibility mechanism that offers Member States flexibility up to a fixed limit, provided that the overall EU target of -310 Mt is achieved; request an additional share of the overall flexibility mechanism, provided that the Member State has exhausted all other available flexibilities and the overall Union target of -310 Mt is achieved;

- **A plan for a Carbon Farming initiative and the Certification of Carbon Removals**, which should create new business models and reward those farmers and foresters that adopt more climate-friendly practices.

Energy Taxation Directive (ETD)

The ETD lays down structural rules and minimum excise duty rates for the taxation of energy products used as motor fuel, heating fuel, and electricity. It has not been amended since 2003. The key revisions to the ETD proposed by the EC in July 2021 include:

- A strong emphasis on correcting the misalignments with EU climate and energy objectives, focussing on the need for the ETD to promote GHG emission reductions, energy efficiency and the uptake of electricity and alternative fuels (hydrogen, synthetic fuels, e-fuels, advanced biofuels, etc.).

- A new structure for minimum tax rates based on the energy content of fuels and expressed in €/GJ (rather than volume);

- A new ranking system based on the fuels' energy content and environmental performance. Member States are expected to respect this ranking in their national system, so that most polluting fuels are taxed the most;

- Enlarged scope to include energy products or uses that had previously escaped the EU's energy taxation framework, such as mineralogical processes;

- Higher minimum tax rates for fossil fuels and lower minimum tax rates for renewables, which are to be adjusted to inflation on annual basis. Together with the removal of fossil fuels exemptions, these amendments allow much less margin for Member States to set rates below the minimum, except for cleaner products;

- Energy products in the intra-EU aviation (except cargo-only flights) and maritime (including fishing) sectors are included in the Directive (kerosene taxed for the first time). Sustainable advanced fuels in these sectors will have an exemption period of ten years (zero minimum rate), to encourage uptake;

- Member States can exempt vulnerable and energy poor households from taxation on heating fuels and electricity for a period of ten years.

Alternative Fuels Infrastructure Regulation (AFIR)

AFIR requires Member States to develop national policy frameworks for the market development of alternative fuels and their infrastructure. The key revisions to the ESR proposed by the EC in July 2021 include:

- Binding national targets for alternative infrastructure, such as recharging points for electric vehicles, also laying down common technical specifications and requirements on user information, data provision and payment requirements;

- A target of 1 kW and 0.66 kW of recharging station power output for each battery electric light-duty vehicle and plug-in hybrid respectively. Along the planned The Trans-European Transport (TEN-T) Network, the maximum distance between recharging stations shall not exceed 60 km for cars and 100 km in for heavy-duty vehicles;

- A minimum power output for heavy-duty and light-duty vehicle recharging stations by 2025, 2030 and 2035;

- A requirement for Member States to ensure hydrogen refuelling stations at least every 150 km along the TEN-T network. By 2030 at least one publicly accessible hydrogen refuelling station shall be deployed in each urban node;

- Targets for shore-side electricity supply in TEN-T maritime ports, alongside targets for supply of electricity to stationary aircraft;

- A requirement for Member States to ensure an appropriate number of LNG refuelling stations along the TEN-T core network for road and maritime transport, until 2025.

CO2 Standards for cars and vans

Transport has a key role to play in achieving climate neutrality by 2050. As part of the 'Fit for 55% package' The European Commission proposes to amend Regulation (EU) 2019/631 to strengthen the CO2 emission performance standards for new passenger cars and new light commercial vehicles to provide benefits to consumers and to stimulate innovation in zero-emission technologies, strengthening the technological leadership of the automotive value chain. The key revisions to the ETD proposed by the EC in July 2021 include:

- A requirement for the fleet of new cars to reduce emissions by 55% by 2030 and by 100% by 2035 compared to 2021. The fleet of new vans has to reduce emissions by 50% 2030 and 100% by 2035;

- New limits to the derogations to the regulation, to only apply to manufacturers responsible for less than 1,000 new vehicle registration per calendar year from 2030 onwards;

- Increased powers over the verification of CO2 emissions to the European Commission, combined with an obligation for Commission to report on progress towards zero emission road mobility and assess the need for new measures;

- Design for a legal basis for future amendments to the emission calculation mode to avoid the risk of double-counting when two manufacturers work on producing one vehicle.

FuelEU maritime

FuelEU maritime sets rules to reduce greenhouse gas intensity of energy used energy used onboard by ships arriving at, within or departing from ports in Member States. The key revisions to the ETD proposed by the EC in July 2021 include:

- A technology-neutral, goal-based approach. The average greenhouse gas intensity of energy used on-board by ships during intra-EU voyages shall be reduced by a certain target every 5 years, reaching 75% in 2050, against a 2020 baseline. For voyages between the EU and non-member states, the limits apply on 50% of the energy used;

- A provision through which companies will be given compliance units for ships that overperform. Companies may create pools of ships or joint pools of ships across companies and use the units for the compliance of ships that underachieve. Without reallocation, non-compliance will result in fines, with the revenue being directed to the Innovation Fund to be used for common projects aimed at the development of renewable or low carbon fuels for maritime transport;

- A requirement, from 2030, for ships at berth in a port of call under the jurisdiction of a Member State to connect to on-shore power supply and use it for all energy needs while at berth.

ReFuelEU Aviation

The ReFuelEU Regulation mandates a growing share of Sustainable Advanced Fuels (SAF) to be used by aircraft operators. Aviation fuel suppliers shall ensure that the fuel provided to aircraft operators contains minimum share of SAFs. This share goes from 2% in 2025 to 63% in 2050 (of which at least 28% of synthetic aviation fuels, such as e-kerosene).