„Fit for 55" – What's in it for the Renewables Sector?

11 September 2021

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EREF
European Renewable Energies Federation

Agenda

I. **Overview on the „Fit for 55“ Package – COM Proposals dated 14 July**

II. Content and first assessment of legal files

III. Content and first assessment of Proposal for revised Renewable Energy Directive (= RED III)

Fit-for-55% Package
COM Proposals 14 July

- Raison d'Être:
  - Contribution to reduce the EU's GHG emissions by 55% until 2030 (reference year is 1990)
  - Revision and reinforcement of legal frameworks stemming from the *Clean Energy Package* adopted in 2018/19

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Fit-for-55% Package
COM Proposals 14 July

- Amendment to Renewable Energy Directive
- Amendment to Energy Efficiency Directive

- Revision of EU Emission Trading System (EU ETS), incl. Maritime and Aviation
- Effort Sharing Regulation
- Social Climate Fund

- Land Use, Land Use Change and Forestry Regulation (LULUCF)

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Fit-for-55% Package
COM Proposals 14 July

- Revision of Energy Taxation Directive
- Carbon Border Adjustment Mechanism (CBAM)

- Revision of the Regulation setting CO_2 emission performance standards for new passenger cars and for new light commercial vehicles
- Revision of the Directive on deployment of alternative fuels infrastructure
- Initiative „ReFuelEU Aviation"
- Initiative „FuelEU Maritime"

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Fit-for-55% Package

Further and additional files to be launched in Q3/4 2021

- Revision of the energy performance of Buildings Directive (EPBD)
- Revision of the Third Energy Package for gas (Directive 2009/73/EU and Regulation 715/2009/EU) to regulate competitive decarbonised gas markets
- Revised Climate, Energy and Environmental Aid Guidelines (CEEAG)
- Delegated Acts on Hydrogen and Taxonomy

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EU Emission Trading System (EU ETS) I

Fit-for-55% Package - COM Proposals 14 July

- **Increase of ETS objective for 2030 from current -43 % to -61 % GHG reduction (compared to 2005)**
  - Alignment of annual emission reductions
  - Lower overall treshold for emission certificates, in order to achieve a new treshold for overall amount of certificates
  - Verification of market stability reserve (as instrument to asses market liquidity)
- **Sectorial Extension of EU ETS**
  - Inclusion of the EU's internal as well as international maritime sector – issuing of certificates starting in 2026
  - Inclusion of international aviation sector from 2026 on – reduction of cost free certificates

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EU Emission Trading System (EU ETS) II

Fit-for-55% Package - COM Proposals 14 July

- **Introduction of a new & separate ETS for emissions from road transport and buildings**
  - But: road transport and buildings still covered by effort sharing regulation
  - From 2026 on full trading
    - Risk to pass on costs of fossil fuel suppliers to consumers
    - Need for regulatory measures for minimise social impact on low income households

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EU Emission Trading System (EU ETS) III
Fit-for-55% Package - COM Proposals 14 July

- **Further use of revenues generated through ETS**
  - Member States to deploy all revenues from auctioning for climate mitigation and adaption measures
  - Modernisation fund prohibits investments in fossil fuels
  - But: need to improve transparency and monitoring in the reporting on the Member States‘ use of revenues

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EU Emission Trading System (EU ETS) IV
Fit-for-55% Package - COM Proposals 14 July

- **Lack of measures that prevent free-of-charge allocation of pollution rights to the industry**
  - Heavy industry in conjunction with Carbon Border Adjustment Mechanism (CBAM) until 2035 with financial obligations
  - Lack of fairness: free-of-cost certificates for heavy industry vs. Increased costs for consumers

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Effort sharing regulation

Fit-for-55% Package - COM Proposals 14 July

- Establishing mandatory emission reduction targets for EU Member States
- Proposal to increase the EU overall emission reduction target until 2030 from 30 to 40 % (compared to 2005)
- Sectors: road transport, buildings, agriculture and waste
  - Level of ambition below Paris Agreement (50% would be needed)
  - Weakening of emission reductions through loop holes and so-called flexibilities (banking, borrowing, trading emission certificates and use of ETS and LULUCF credits as compensation for reductions in the ESR)
  - COM proposes mitigation measures: new mechanism in form of additional LULUCF reserve

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Social Climate Fund
Fit-for-55% Package - COM Proposals 14 July

- 25 % of EU ETS revenues for buildings and road transport fuels paid into the Fund
- Means for specific purpose for Member States to -
  - Provide support to low-income households to invest in energy efficiency, upgrading or replacing heating & cooling systems, environment friendly mobility solutions
  - Mitigate impacts of increased consumer cost for fuels
- Is the Fund sufficient for such a purpose?
- Necessity: more contribution from Member States, as well as mobilisation of capital

Land Use, Land Use Change and Forestry Regulation (LULUCF) I
Fit-for-55% Package - COM Proposals 14 July

- Objective of LULUCF Regulation: Increase of EU carbon sinks until 2030 up to -310 mio tons
  - LULUCF surface across EU is a net sink, absorbing every year 265 mio tons of CO_2 (Reference 2019)
  - Decrease in carbon sinks in recent years
  - Not ambitious enough: several studies consider potential for sustainable and ecological robust carbon sinks until 2030 for up to -600 mio tons
- Land sinks contribute to EU net overall target (within the limits set by the European Climate Law)

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Land Use, Land Use Change and Forestry Regulation (LULUCF) I
Fit-for-55% Package - COM Proposals 14 July

- Introduction of LULUCF from 2031 on: Land Use, Land Use Change and Forestry
  - Objective: combining non CO2 emissions from land use with LULUCF emissions, in order make the sector become net-zero until 2035, before turning net negative
- Member States must set national targets for 2026-2030 and follow a linear progression
- Emissions from wet lands will be taken into account from 2026 on

Energy Efficiency Directive I
Fit-for-55% Package - COM Proposals 14 July

- Higher and binding EU wide target of -36% for final energy consumption in 2030
- -39 % of primary energy consumption
  - no binding targets at national level
  - aligned with 55% reduction target
  - not sufficient for 1,5°C target
  - need for binding EU energy efficiency target of 45 %
- Good: in case of not achieving national contributions, new mechanisms similar to Renewables Directive can apply

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Energy Efficiency Directive II

Fit-for-55% Package - COM Proposals 14 July

- Higher annual energy savings obligation of 1,5 % from 2024 (doubling the current rate)
- Stronger provisions for public building renovation
- New obligation to reduce energy use in public sector by 1,7 % per year
- New provisions to tackle energy poverty
- New overarching provision provides better legal certainty for implmenting the energy efficiency first principle
- Updated provisions for heating & cooling generation through planning with highly efficient CHP and district heating

Revision of Energy Taxation Directive

Fit-for-55% Package - COM Proposals 14 July

- New rules for taxing electricity and energy used in transport and heating
- Removal of subsidies for fossil fuels
- Provisions to reduce risks of double taxation on electricity storage
- National taxation regimes have to rank fuels according to energy content and environmental sustainability (i.e. highest tax rate on harmful fuels)
- Revised Directive must be unanimously agreed on by Member States

Carbon Border Adjustment Mechanism I
Fit-for-55% Package - COM Proposals 14 July

- CBAM complementary to ETS
- Objectives:
  - Level-playing field for EU and imported products, to secure competitiveness
  - Preventing that production is dislocated to countries with lower CO_2 standards
  - Make sure WTO rules are respected
- Step by step establishment of Carbon Border Adjustment, first for only iron and steel, cement, fertiliser, aluminium and electricity generation (products exposed to higher risk of dislocation to outside of the EU)
  - From 2023 on new reporting system
  - From 2026 on: importors pay financial compensation

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Carbon Border Adjustment Mechanism II

Fit-for-55% Package - COM Proposals 14 July

- Functioning:

  - Importers buy certificates that correspond to the CO_2 price, which would have been paid as if the goods had been produced according to EU rules on CO_2 pricing

  - Upon proof of already having paid the CO_2 price for goods produced outside of the EU – full recognition for the importers

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Mobility sector
Fit-for-55% Package - COM Proposals 14 July

- Revision of the Regulation setting CO_2 emission performance standards for new passenger cars and for new light commercial vehicles
  - Deeper electrification of transport
  - Stricter CO2 emission standards
  - No more sales of cars running on fossil fuels from 2035 on
- Objective: Recharging points on highways every 60 km – revised Directive on deployment of alternative fuel infrastructure
  - Target level for e-charging infrastructure for light and heavy duty vehicels
  - Electrification targets for certain types of ships
  - Objective: renewable fuels of non-biological origin to represent 2,6% ov overall energy consumption in the transport sector until 2030

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Renewable Energy Directive I

Fit-for-55% Package - COM Proposals 14 July

- Increase of the EU's overall share of renewable energies from 32 to at least 40% until 2030, in terms of gross final energy consumption
  - SolarPower Europe: additional 660 GW in solar (annual instalment of 58 GW)
  - Wind Europe: additional 451 GW until 2030, compared to today's 180 GW (plus 30 GW per year)
  - EREF position: at least 45%
- No re-introduction of binding national targets
- No mandatory expansion targets for renewables at Member States level
- Verification of permitting and administrative procedures one year after the Directive enters into force (2024)

Renewable Energy Directive II
Fit-for-55% Package - COM Proposals 14 July

- Checking revised definitions, with regards to remaining loop holes for fossil fuels
- Stricter provisions of whether energy generated from using stem wood can be classified as renewable & whether it can be accounted for in climate targets
- Biomass: electricity and heat plants of higher capacity than 5 MW will have to
  - Fulfil stronger sustainability criteria
  - Provide for substantial emission reductions, as compared to fossil fuel combustion. Biomass plants with a capacity of less than 20 MW are currently exempted from such a requirement
- Mandatory frameworks for European cooperation on transnational projects, incl. specific expansion targets

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Renewable Energy Directive III
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- New incentives for system integration for electricity from renewable energy sources
  - Focus on transport sector
  - General approach to facilitate direct use of electricity made from renewables in the heating & cooling and industry sectors is missing
  - Only support to hydrogen production from electricity made from renewables
    - 50% of H_2 to be produced from renewables in 2030
    - But: current RED II provision are maintained that open door for fossil fuels (e.g. for "recycled carbon fuels")
    - Only few modifications on bio energy criteria

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Renewable Energy Directive IV
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- Strengthening procurement of renewables for industry
  - Objective: annual increase of renewables share of 1,1%
  - Improved legal framework for power purchase agreements (PPAs) for corporates
  - New EU guidelines to facilitate corporate power purchase agreements (CPPAs) in Member States planned for 2022

- Obligation of MS to issue guarantees of origins for all electricity generated from renewables – independent from support schemes

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Renewable Energy Directive V
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- New indicative targets to support the use of renewables in industry and buildings
  - Decarbonisation through commercial and industrial self-consumption
  - Negative: lack of concrete measures
    - On removal of disproportionate barriers for medium-sized renewable installations for self-consumption
    - For faster deployment of renewables in buildings (e.g. exempting rooftop solar from building construction permissions, introduction of binding requirements for the use of solar and storage facilities)

Renewable Energy Directive VI
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- Member States are required to achieve 49% of their national renewable energy target through the buildings sector.
- Negative: Lack of concrete measures
  - Negative: Proposal for a sunset clause: MS do not longer have the option to exclude on-site renewable energy from energy savings calculations as of 2024Eliminate
  - Would create incoherence between renewable energy and efficiency frameworks
    - Counterproductive for the integrated renovation approach and improving the efficiency of the energy system as well as promoting smart electrification of buildings

Renewable Energy Directive
Next steps

- Public consultation: EU renewable energy rules – review (until 1 Nov 2021)
- Council Working Group Energy: position development on EE and RED until mid-2022
- European Parliament: position development RED
  - ITRE as Lead
  - ENVI, IMCO und TRANS Committees
  - Rapporteurs not yet known

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Thank you for your attention

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