

April 20, 2021

# State of the European Green Deal

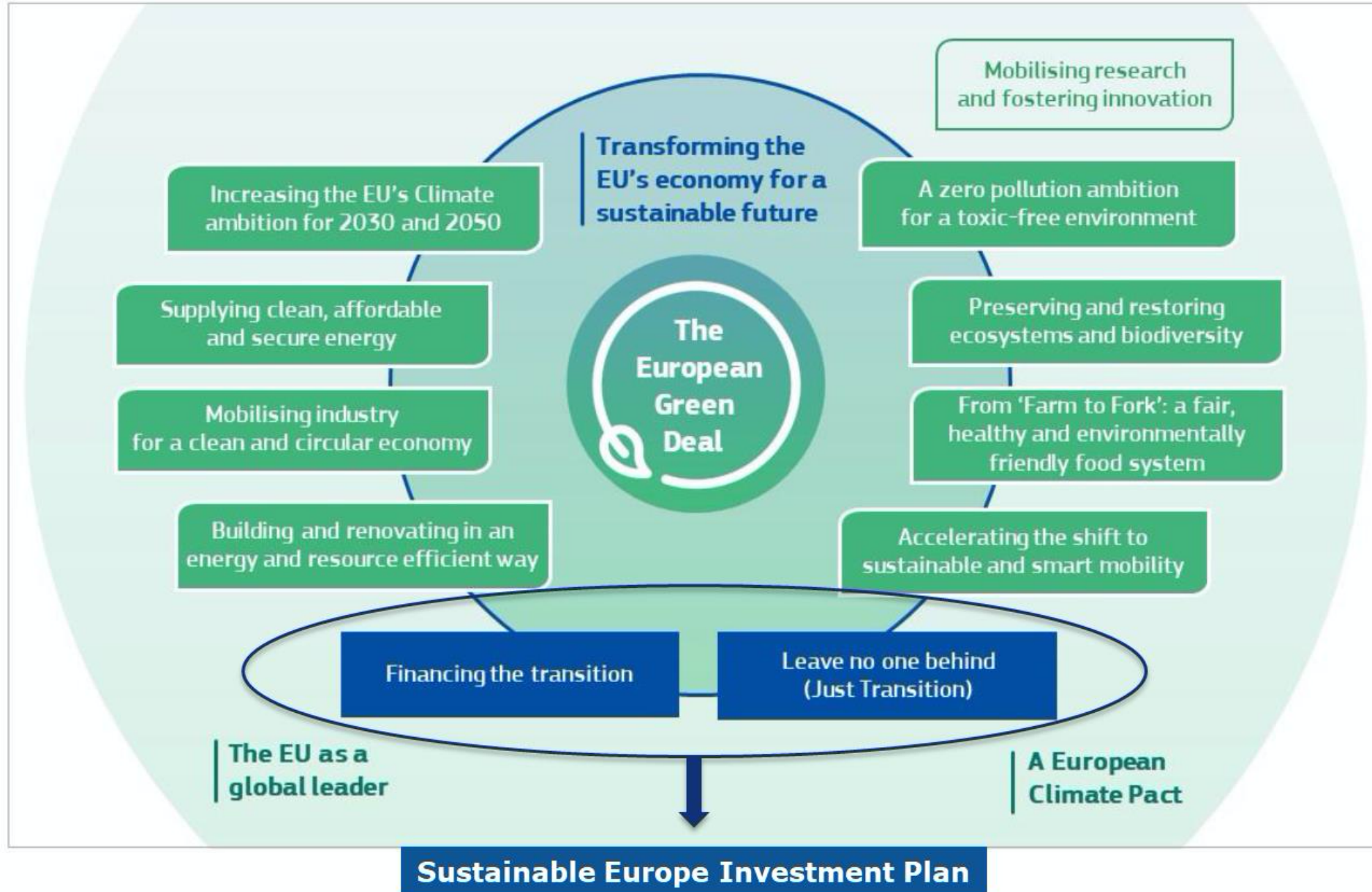
**Andrei Marcu, ERCST**  
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**ERCST**

Roundtable on  
Climate Change and  
Sustainable Transition

# The „European Green Deal“



## State of the Green Deal – ERCST workstreams:

- EGD – series of meetings started January 8, 2020
- CBAM – stakeholders’ meetings, reports, Townhalls
- ETS – breaking down elements of the upcoming review
- Energy Taxation Directive – consultation process
- Taxonomy – developments and issues
- Sustainable Finance
- Hydrogen

## Context: „Shaping the European Green Deal“

New European Commission under Ursula von der Leyen takes office in December 2019, announces ambitious **‘European Green Deal’** What have changed?

- Climate neutrality by 2050, to be enshrined in a ‘European Climate Law’ from a 40% to at least a 55% emissions’ reduction target.
- ‘Sustainable Europe Investment Plan’ of €1 trillion for 2021-2030 > Plus Recovery Funds
- ‘Carbon Border Adjustment Mechanism’ to address trade impacts > CBAM as own resource to ensure financing of Recovery Plan.
- Departure from the Energy Union to Digital and Sustainable agendas

## EGD is approaching a key point in time

- So far, stakeholders have been able to sense the course of the different policies without entering into the details.
- The process is clearly changing from exploration and preparation to delivery.
- The European Commission will present in June almost as many initiatives as during the last one and a half years combined.

EGD Tracker	
Until Today	Fit for 55 Package June 2021
<ul style="list-style-type: none"> <li>➤ <b>Presentation of the EGD</b> (11-12-2019)</li> <li>➤ <b>Presentation of the European Green Deal Investment Plan and the Just Transition Mechanism</b> (15-01-2020)</li> <li>➤ <b>Proposal for a European Climate Law</b> to ensure a climate neutral European Union by 2050 (04-03-2020)</li> <li>➤ <b>Adoption of the European Industrial Strategy</b> (10-03-2020)</li> <li>➤ <b>Proposal of a Circular Economy Action Plan</b> focusing on sustainable resource use (11-04-2020)</li> <li>➤ <b>Presentation of the “Farm to Fork Strategy”</b> (20-05-2020)</li> <li>➤ <b>Presentation of the EU Biodiversity Strategy for 2030</b> (20-05-2020)</li> <li>➤ <b>Adoption of the EU strategies for energy system integration and hydrogen</b> (08-07-2020)</li> <li>➤ <b>Presentation of the 2030 Climate Target Plan</b> (17-09-2020)</li> <li>➤ <b>Chemical strategy for sustainability</b> (14-10-2020)</li> <li>➤ <b>Methane Strategy</b> (14-10-2020)</li> <li>➤ <b>Renovation Wave</b> (14-10-2020)</li> <li>➤ <b>Offshore renewable energy</b> (19-11-2020)</li> <li>➤ <b>European Climate Pact</b> (09-12-2020)</li> <li>➤ <b>European Battery Alliance</b> (10-12-2020)</li> <li>➤ <b>New European Bauhaus</b> (18-01-2021)</li> <li>➤ <b>New EU Adaptation Strategy</b> (24-02-2021)</li> <li>➤ <b>Organic Action Plan</b> (25-03-2021)</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Revision of the EU Emissions Trading System (ETS), and ETS as own resource</b></li> <li>➤ <b>Carbon Border Adjustment Mechanism (CBAM) and a proposal for CBAM as own resource</b></li> <li>➤ <b>Effort Sharing Regulation (ESR)</b></li> <li>➤ <b>Revision of the Energy Tax Directive</b></li> <li>➤ <b>Amendment to the Renewable Energy Directive</b> to implement the ambition of the new 2030 climate target (RED)</li> <li>➤ <b>Amendment of the Energy Efficiency Directive</b> to implement the ambition of the new 2030 climate target (EED)</li> <li>➤ <b>Reducing methane emissions in the energy sector</b></li> <li>➤ <b>Revision of the Regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry (LULUCF)</b></li> <li>➤ <b>Revision of the Directive on deployment of alternative fuels infrastructure</b></li> <li>➤ <b>Revision of the Regulation setting CO<sub>2</sub> emission performance standards for new passenger cars and for new light commercial vehicles</b></li> <li>➤ <b>Revision of the energy performance of Buildings Directive (EPBD)</b> (Q4 2021)</li> <li>➤ <b>Revision of the Third Energy Package for gas</b></li> </ul>



# The EU Climate an update

- **Trilogues:** 6<sup>th</sup> round of negotiations taking place this week.
- **Fit for 55:** One and a half months ahead of June a consensus has not been reached yet.
- **Nature of the discussions:** It is not clear if the remaining discussion points are factual or political.
- **Key discussion points remain open** such as:
  - 2030 level of ambition;
  - The establishment of a carbon budget;
  - Inclusion of carbon sinks for the accounting of the 2030 emissions reduction target;
  - The establishment of a Climate Change Council with a science-based vs. more political mandate.
- **Question:** What would be the impact of an unlikely but still possible 60% in the "fit for 55"?

# The EU Taxonomy an update

- **Tomorrow** the EC will publish:
  - A Communication on the EU Taxonomy, framing the scope of the Taxonomy within the sustainable and transition finance framework.
  - Delegated acts on mitigation and adaptation.
- **Stakeholders** are moving from:
  - The awareness of a classification system for sustainable activities to a more detailed knowledge about the compliance of their activities with the taxonomy.
  - The role of the EU taxonomy in guiding the transition finance.
- However, this **knowledge is still incomplete**:
  - The role of natural gas for the transition
  - The role of nuclear



# CBAM an update - EP Own Initiative

- 1. Policy mechanism:** notional EU ETS, or evolving tax that mirrors dynamic evolution of EUA price
- 2. Coverage of trade flows:** imports + possible export rebates limited to EU better performers under certain caveats (WTO compatibility, environmental performance)
- 3. Geographic scope:** possible exemptions for LDCs and SIDSs (or/and use of revenues for climate finance in LDCs and SIDSs)
- 4. Sectoral scope:** pilot CBAM for power, and energy-intensive industrial sectors like cement, steel, aluminium, oil refinery, paper, glass, chemicals and fertilisers as of 2023; eventual roll-out to all products/commodities covered by ETS sectors; coverage of intermediate and final products in the value chain
- 5. Emissions scope:** Scope 1 emissions, Scope 2 emissions, and Scope 3 emissions embodied in input goods (e.g. emissions embodied in the crude steel used as a raw material for steel pipes)
- 6. Approach to determining embedded emissions:** use of installation-level carbon intensity data in exporting countries; in absence of such data, global average carbon intensities of individual products taking into account specific production methods
- 7. Crediting for foreign climate policies:** ensure crediting; open to interpretation whether crediting refers to carbon pricing policies only
- 8. Use of revenue:** EU own resources supporting domestic climate and EGD objectives (EU just transition/decarbonisation) and contributing to international climate finance in favour of LDCs and SIDSs
- 9. Treatment of existing carbon leakage measures:** principle of 'avoiding double protection' keeps continued free allocation as an option

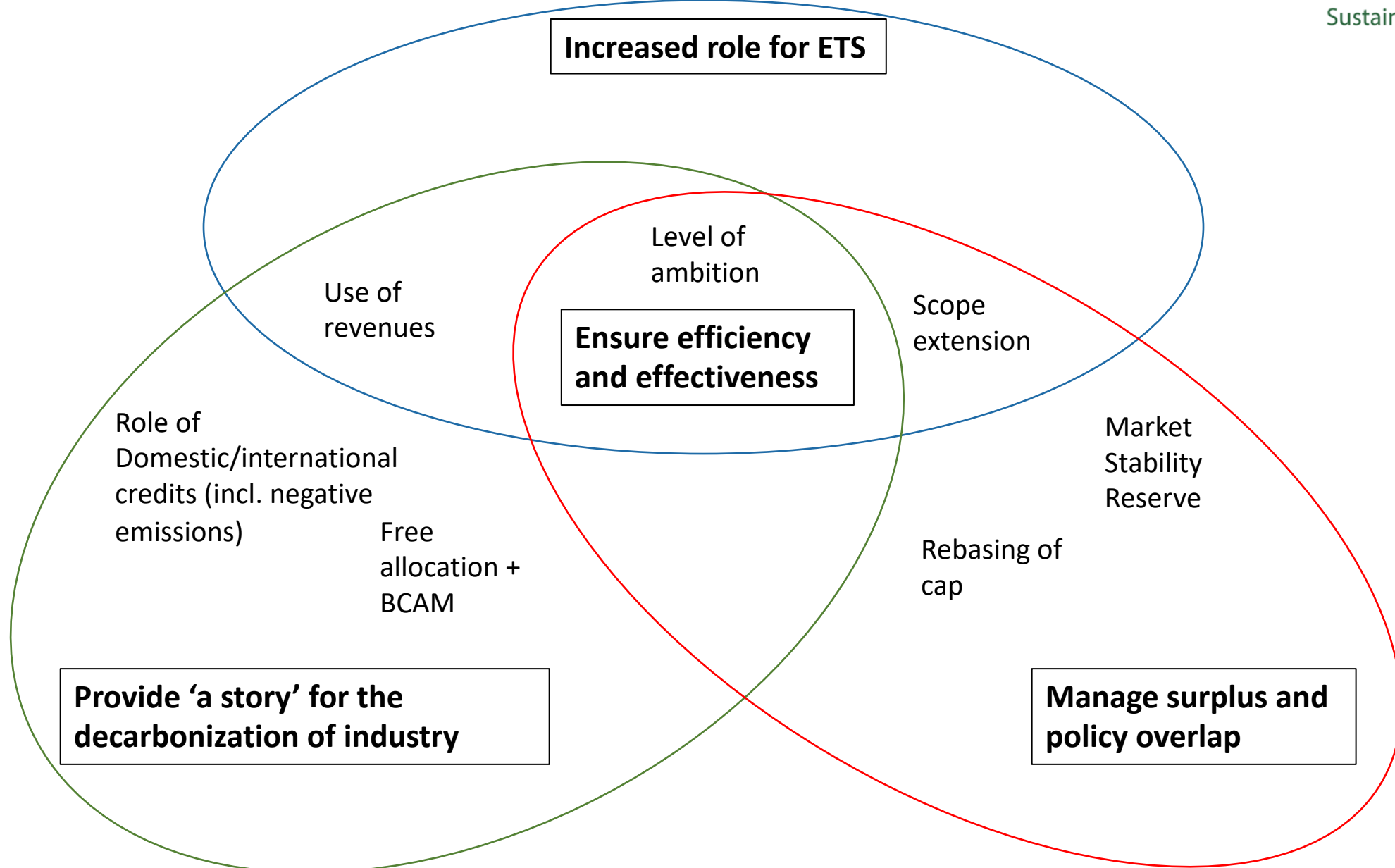
# Hydrogen an update - ITRE Report EP Own Initiative

1. **Hydrogen Production and the role of low carbon hydrogen:** In line with EC Strategy and Council Conclusions, LCH just for the transition. Renewable Hydrogen as the only long-term solution.
2. **The development of hydrogen infrastructure:** ITRE Report calls for timely need to develop infrastructure while EC foresees different paces along 3 phases of the strategy.
3. **Hydrogen demand:** ITRE Report agrees with the EC that the main markets for hydrogen demand are industry, air, maritime and heavy-duty transport.
4. **The availability of enough renewable electricity capacity:** Quantity of renewables necessary to meet green hydrogen demand and additionality issue.
5. **Next step:** Vote of the Report in the next plenary session.

# State of the ETS

- What is the role of the MSR?
- Should be extended to other sectors such as transport and heating?
- Impact assessment highlights some potential **trade-offs between the policy options**, e.g.: ETD/ETS/BCA
- Decisions will have to be made by June 2021. Are the coming 9 months meant to discuss these issues among institutions and stakeholders?
- Hot topic of the holistic vision to decarbonize industry
  - A lot of different tools are being discussed – how (and where) are they coordinated?
  - ETS, CBAM, hydrogen, consumption charges, contracts-for-difference, standards, etc.

# From objectives to policy options – the ETS galaxy



## First round of questions for discussion

1. *Is the actual debate around the climate law realistic and driven by prerogatives that need to be addressed or it is becoming more political?*
2. *To what extent have some Member States, citizens, and enterprises the human, administrative and financial capacity to assimilate, and implement the changes the fit for 55 will entail? If some stakeholders are already overwhelmed with so many opened battle fronts, what is going to happen then after June?*
3. *What are for you the most essential elements for the fit for 55 package? Do you think is possible to guarantee an overarching coordination among policies and avoid contradictions?*

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## The impact of the recovery funds in the green transition

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## MFF 2021-2027 & Next Generation EU and EGD

- **MFF 2021-2027**: establishes a 30% climate target expenditure.
- **Recover and Resilience Facility** (Main instrument of Next Generation EU): establishes a 37% climate target expenditure.
- All investments and reforms must respect the “do not significant harm principle”
- Is the EGD and its underlying policies and technologies ready to guide this investments?

<b>Grants</b>	<b>390.0</b>
<i>of which provisioning for guarantees</i>	<b>5.6</b>
<b>Loans</b>	<b>360.0</b>
<b>TOTAL</b>	<b>750.0</b>

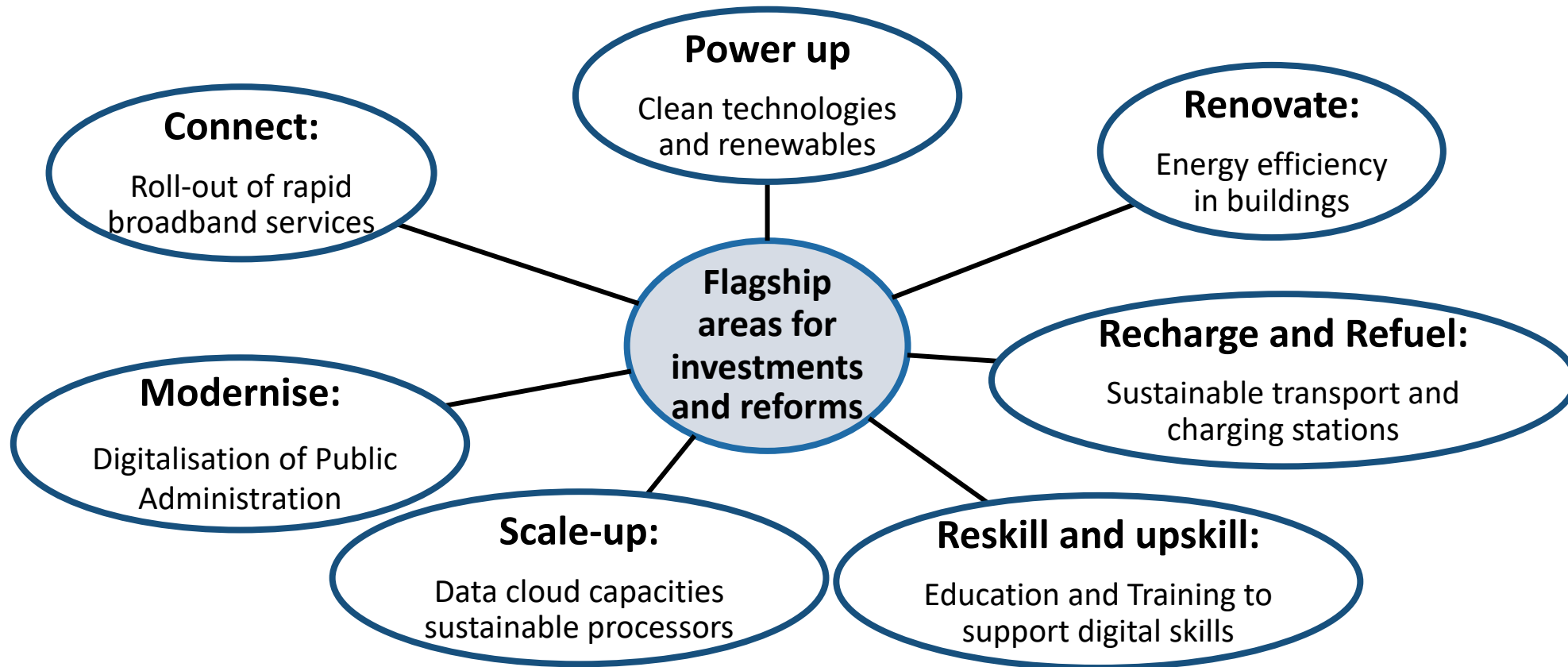
	NGEU	Total with MFF
<b>Recovery and Resilience Facility</b>	<b>672.5</b>	<b>673.3</b>
<i>Of which GRANTS</i>	312.5	313.3
<i>Of which LOANS</i>	360.0	360.0
<b>REACT-EU</b>	<b>47.5</b>	<b>47.5</b>
<b>Rural development</b>	<b>7.5</b>	<b>85.4</b>
<b>Just Transition Fund</b>	<b>10.0</b>	<b>17.5</b>
<b>InvestEU</b>	<b>5.6</b>	<b>9.4</b>
<b>rescEU</b>	<b>1.9</b>	<b>3.0</b>
<b>Horizon Europe</b>	<b>5.0</b>	<b>84.9</b>

### MFF 2021-2027 total allocations per heading

	MFF	NEXT GENERATION EU	TOTAL
<b>1. Single Market, Innovation and Digital</b>	132.8	10.6	143.4
<b>2. Cohesion, Resilience and Values</b>	377.8	721.9	1 099.7
<b>3. Natural Resources and Environment</b>	356.4	17.5	373.9
<b>4. Migration and Border Management</b>	22.7	-	22.7
<b>5. Security and Defence</b>	13.2	-	13.2
<b>6. Neighbourhood and the World</b>	98.4	-	98.4
<b>7. European Public Administration</b>	73.1	-	73.1
<b>TOTAL MFF</b>	<b>1 074.3</b>	<b>750.0</b>	<b>1 824.3</b>

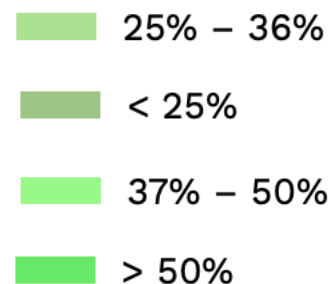
# The Recovery and Resilience Facility

- 672,5 billion around 90% of NGEU.
- Member States must submit recovery and resilience plans before the end of the month.

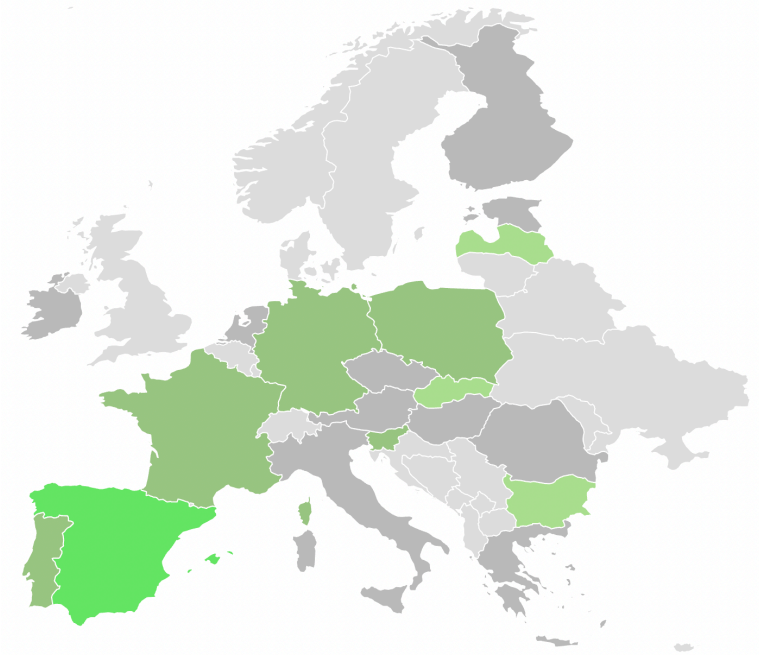


# Some obstacles still need to be overcome

- Funds are needed to deliver a successful fit for 55 but some obstacles need still to be overcome:
  - Some member states have already announced they will not respect the April deadline.
  - Most of recovery plans do not comply with the 37% climate binding expenditure target.
  - Own resources decision needs to be approved by national Parliaments.
  - Constitutional constraints (Germany)



Source: *Green Recovery Tracker*



## Next steps & Next State of the EGD Meeting May 27

- Communication on EU Taxonomy and Sustainability Reporting (21-04-2021)
- Review of the Non-Financial Reporting Directive ('Sustainable Reporting Directive') (21-04-2021)
- Updating the new Industrial Strategy for Europe (27-04-2021)
- Communication on zero-pollution for water, air and soil (18-05-2021)
- Climate Law agreement TBA
- Informal European Summit May TBA

# Presentation of the Fit for 55 Package

FIT FOR 55 PACKAGE JUNE AND JULY	
30/06/2021	<p><b>Fit for 55 package I</b></p> <ul style="list-style-type: none"> <li>- <b>Revision of the EU Emission Trading System, including revision of the EU ETS Directive concerning aviation and maritime</b></li> <li>- <b>Revision of the Regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry (LULUCF)</b></li> <li>- <b>Effort Sharing Regulation</b></li> <li>- <b>Amendment to the Renewable Energy Directive to implement the ambition of the new 2030 climate target (tbc)</b></li> <li>- <b>Amendment of the Energy Efficiency Directive to implement the ambition of the new 2030 climate target (tbc)</b></li> </ul>
06/07/2021	<p><b>Fit for 55 package II</b></p> <ul style="list-style-type: none"> <li>- <b>Carbon Border Adjustment Mechanism</b></li> <li>- <b>Proposal for own resources using the Carbon Border Adjustment Mechanism</b></li> <li>- <b>Revision of the Energy Tax Directive</b></li> <li>- <b>Revision of the EU Emission Trading System - proposal for ETS as own resource</b></li> </ul> <p><b>Digital levy</b> <b>Proposal for an own resource's decision</b></p>

## Second round of questions for discussion

1. *Are EGD policies and technologies mature enough as to drive the recovery investments? Do investor have enough certainty?*
2. *How are Recovery and Resilience Plans shapping up? Do you think the 37% climate expenditure target will be reliably fulfilled or will disguise other sort of investments?*
3. *Is the MFF-2021-2027 and Next Generation EU providing enough financial resources as to guarantee a sustainable transition all around Europe?*



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# Thank you!

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