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State of the European Green Deal EU-Turkey Climate Policy Dialogue

Dariusz Dybka, ERCST

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Agenda

- European Green Deal Structure
- Background
- Political Process
- Expected legislation
- EU Climate Law
- CBAM
- ETS
- Hydrogen
- Sustainable Finance
- The Just Transition Mechanism

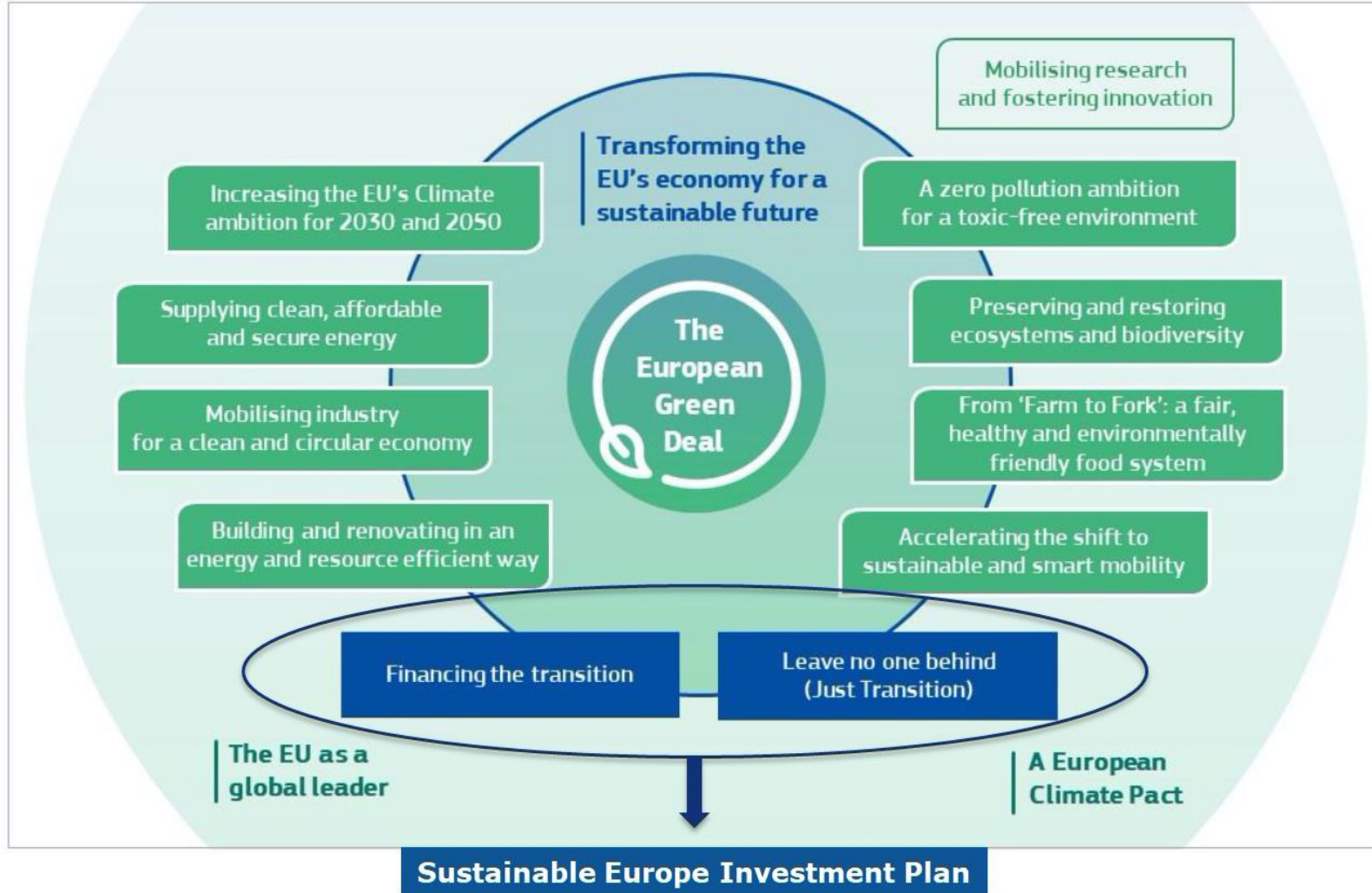


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The European Green Deal



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Background and previous experience



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The Evolution of EU Climate and Energy Policy:

1. The 2020 Package (20% emissions reductions, RES, Energy efficiency)

2. The Energy Union 2014-2019

- Energy Efficiency Directive with target of 32.5% efficiency by 2030
- RED II – agreed 32% RES by 2030
- at least 40% GHG reductions domestically

3. The European Green Deal – Fit for 55%

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Extraordinary European Council 24-25 May 2021



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- In December 2019, objective of achieving a climate-neutral EU by 2050 submitted to the UNFCCC.
- One year later, the European Council agreed on a binding EU target of a net domestic reduction of at least 55% by 2030 compared to 1990.
- **May 2021 EU Council:** EU Leaders called to the EC to put forward an in-depth examination of the environmental, economic and social **impact at Member State level of the fit for 55 package.**
- The EU welcomes the United States' renewed commitment to the Paris Agreement and calls on its international partners, to increase ambition ahead of the COP 26 in Glasgow.

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EGD Tracker	
Until Today	Fit for 55 Package 2021
<ul style="list-style-type: none"> ➤ Presentation of the EGD (11-12-2019) ➤ Presentation of the European Green Deal Investment Plan and the Just Transition Mechanism (15-01-2020) ➤ Proposal for a European Climate Law to ensure a climate neutral European Union by 2050 (04-03-2020) ➤ Adoption of the European Industrial Strategy (10-03-2020) ➤ Proposal of a Circular Economy Action Plan focusing on sustainable resource use (11-04-2020) ➤ Presentation of the “Farm to Fork Strategy” (20-05-2020) ➤ Presentation of the EU Biodiversity Strategy for 2030 (20-05-2020) ➤ Adoption of the EU strategies for energy system integration and hydrogen (08-07-2020) ➤ Presentation of the 2030 Climate Target Plan (17-09-2020) ➤ Chemical strategy for sustainability (14-10-2020) ➤ Methane Strategy (14-10-2020) ➤ Renovation Wave (14-10-2020) ➤ Offshore renewable energy (19-11-2020) ➤ European Climate Pact (09-12-2020) ➤ European Battery Alliance (10-12-2020) ➤ New European Bauhaus (18-01-2021) ➤ New EU Adaptation Strategy (24-02-2021) ➤ Organic Action Plan (25-03-2021) ➤ Zero pollution Action Plan (12-05-2021) ➤ Sustainable blue economy (17-05-2021) 	<ul style="list-style-type: none"> ➤ Revision of the EU Emissions Trading System (ETS), and ETS as own resource ➤ Carbon Border Adjustment Mechanism (CBAM) and a proposal for CBAM as own resource ➤ Effort Sharing Regulation (ESR) ➤ Revision of the Energy Tax Directive ➤ Amendment to the Renewable Energy Directive to implement the ambition of the new 2030 climate target (RED) ➤ Amendment of the Energy Efficiency Directive to implement the ambition of the new 2030 climate target (EED) ➤ Reducing methane emissions in the energy sector ➤ Revision of the Regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry (LULUCF) ➤ Revision of the Directive on deployment of alternative fuels infrastructure ➤ Revision of the Regulation setting CO₂ emission performance standards for new passenger cars and for new light commercial vehicles ➤ Revision of the energy performance of Buildings Directive (EPBD) (Q4 2021) ➤ Revision of the Third Energy Package for gas

EGD is approaching a key point in time



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- So far, stakeholders have been able to sense the course of the different policies **without entering into the details.**
- The European Commission will present in July **almost as many initiatives as during the last one and a half years combined.**
- It is arguable if EU citizens and MSs, have the capacity to **digest all the changes the fit for 55 package will entail.**
- Where will the political discussion focus?
 - CBAM expectations and development of the debate;
 - Central to the package next to ETS, etc.

The EU Climate Law agreement 21 April



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- Net GHG Reduction Target of at least 55% compared to 1990.
 - EC will propose to revise LULUCF Regulation to increase the EU Carbon sink to levels above 300 Mt of CO₂_{eq}.
- Establishment of a **European Scientific Advisory Board on Climate Change**.
- EC proposal for an intermediate climate target for 2040, at latest within six months after the first **global stocktake** carried out under the Paris Agreement.
- Indicative voluntary **sectorial roadmaps** towards achieving the Union's climate neutrality objective by 2050.

BCA Definition



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- **Border carbon adjustments (BCAs)** seek to alleviate negative effects of asymmetrical climate policies
- They can have three main **objectives**:
 - level the playing field in competitive markets
 - prevent leakage of carbon emissions to jurisdictions with weaker policies
 - incentivise trade partners to strengthen their own climate efforts

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Methodology



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Eight design elements:

- Coverage of trade flows
- Policy mechanism
- Geographic scope
- Sector/product scope
- Emissions scope
- Determination of embedded emissions
- Calculation of adjustment
- Use of revenue

Five evaluative criteria

- Environmental benefit
- Competitiveness benefit
- Technical and administrative feasibility
- Legal feasibility
- Political and diplomatic feasibility

Issue	Leaked proposal
Sectoral scope	<ul style="list-style-type: none"> • Cement, Steel, Electricity, Aluminium + fertilizers (incl. semi-manufactured / more complex goods) • EC can add to list through delegated acts
Emissions scope	<ul style="list-style-type: none"> • Scope 1 +2 emissions
Revenues	<ul style="list-style-type: none"> • EU budget
Adjustment to EU Carbon Leakage System	<ul style="list-style-type: none"> • Confusing: CBAM = alternative BUT Free allocation is maintained through a ‘transitional provision’ • CBAM only applies for those emissions above the free allocation that domestic producers receive • no language on length of ‘transitional provision’ or whether free allocation is eventually phased out or not – only makes reference to the EU ETS directive
Export rebates	<ul style="list-style-type: none"> • no export rebates, but Free allocation maintained

Compliance mechanism

- Notional ETS – importers have to surrender units each year equal to embedded emissions in their imports
- Unit price = average EU auction price of previous week

Carbon content assessment of imports

For products:

- actual emissions: formula for direct and indirect emissions at installation level + formula for embedded emissions in semi-manufactured goods ('more complex goods')
- 'default values in case actual emissions cannot be determined' : 2023-2025 average carbon intensity of comparable EU producers, starting 2026: 10% worst-performing installations in EU

For electricity:

- average CO₂ intensity of electricity produced by fossil fuels in the EU
- option to declare actual emissions

Exclusion

- only countries part of or linked to EU ETS are exempted

Crediting foreign climate policies

- Only carbon pricing policies are recognized – to be verified by authority – prices paid are deducted from CBAM

Various positions from different sectors



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- CBAM should come along with a strong support to the **green transition of the EU industries**
- Generally as a new measure should be an **improvement on CL protection**
- Recommendation to consider **benchmark applying to imports**
- **Notional ETS** for imported products with free allowances as solution
- Limiting **CBAM to scope 1**, granting free allowances for exports
- It should only apply to **voluntary sectors**, without modification of the allocation rules during the testing phase

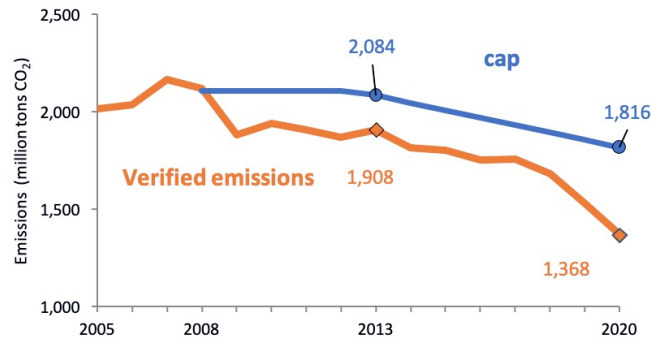
EU ETS: a success story with some caveats



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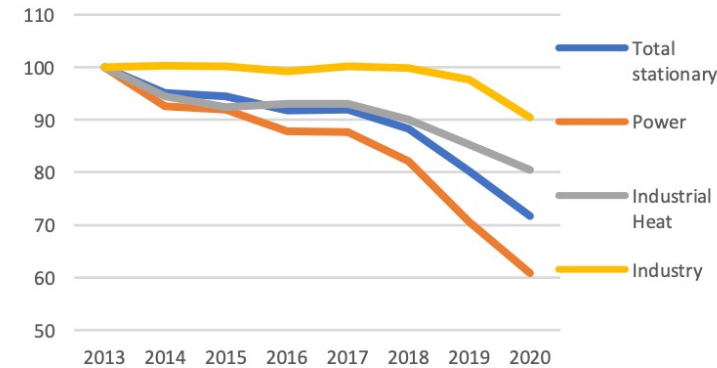
- ETS Verified emissions -42.2% vs. 2005.
- Emissions have dropped more than twice as fast as the cap.
- Industry has reduced its emissions by over 30% since 1990, and over 20% since 2004. However, emissions have mostly **stagnated since 2013** (*at least until 2018*).
- ETS: from a tool to decarbonize power to a tool to decarbonize industry?

Verified emissions and EU ETS cap



Source: Wegener Center elaborations on data from the EEA, 2021 and EUTL, 2021

Index of verified emissions per sector



The EU ETS Review



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- **Higher Ambition, 63% vs 2005:** 1.74/2.2% Linear Reduction Factor + Potential Cap Rebasing after 2023
- **CBAM – Free Allocation Relationship:** Complementary or mutual exclusive?
- **MSR Review:**
 - 25% intake rate until 2030
 - Introduction of buffer MSR intake when **total number of allowances in circulation (TNAC)** between 833 and 1096 million allowances
 - Number allowances in the MSR limited at fixed number 400 million
 - Aviation Emissions will be included in the TNAC calculation
- **New ETS for Road Transport and Buildings** with a special MSR, additional release of allowances based on increase in the average allowance price and not on the surplus of allowances in the market

Towards a hydrogen economy in the EU



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- Hydrogen is gaining tremendous momentum as an alternative to reduce emissions and contribute to reach the EU 2030 and 2050 ambition.

Policy Framework

- On **July 2020**, the **European Commission published its hydrogen strategy**. The strategy foresees a gradual development for this technology in three phases with the focus set on the hard to abate sectors.
- The Strategy focused on renewable hydrogen with a **2030 target of at least 40 GW of renewable hydrogen** electroliers and a **reduced role for low carbon hydrogen** (produced by the steam reforming of natural gas with CCS and nuclear electricity) for a transition period.
- The **Council of the EU and the European Parliament reacted to the European Commission strategy**, setting also the focus on renewable hydrogen in the long run and low-carbon hydrogen for a transition period.

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Towards a hydrogen economy in the EU (2)



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- The **current hydrogen regulation and policy is scattered over gas, electricity, fuels, emissions, industry, transport, heating etc.** The **fit for 55 package will shed some light** on key issues and missed pieces that have not been addressed anywhere yet.

Uncertainties:

- **On the production side** it is not clear yet, where regulation for low-carbon hydrogen will be found.
- **On the demand side** some Member States are considering the use of hydrogen beyond the hard to abate sectors, including for example heating or light duty transportation.
- **On the transportation side**, the blending of natural gas with hydrogen and the repurposing of current natural gas networks.
- **Incentives:** green and low carbon hydrogen are not competitive with fossil fuels hydrogen, therefore different incentives on the demand and production side will be needed (CCfD, State aid guidelines on energy and climate, EU Taxonomy, ETS revenues)

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What is in the “Fit for 55” for hydrogen



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Production

- ❖ Binding classification
- ❖ Additionality criteria
- ❖ imports v. exports

RED III for Renewable Hydrogen and Gas Package for low-carbon. Taxonomy
Delegated act on additionality & RED II
Member States, CBAM.

Demand

- ❖ Hard to abate vs. other sectors
- ❖ Hydrogen purity
- ❖ Hydrogen scarcity

- ❖ RED II, Energy Efficiency Directive, ETS Directive]
- ❖ Secondary legislation
- ❖ RED II, Gas Package, State Aid, Taxonomy.

Transportation

- ❖ Pace for infrastructure development
- ❖ Blending
- ❖ Repurposing

- ❖ TEN-E, Gas Package, Taxonomy
- ❖ TEN-E, Gas Package, Taxonomy
- ❖ TEN-E, Gas Package, State Aid, Taxonomy.

Incentives

- ❖ CCfD
- ❖ Demand mandates
- ❖ Tax rebates
- ❖ Sustainable Finance
- ❖ State AID

- ❖ MSs Level, ETS Directive
- ❖ RED II and Gas Packages
- ❖ MSs Level
- ❖ EU Taxonomy and Delegated Acts
- ❖ State Aid Guidelines and IPCIs

The new EU Sustainable Finance Strategy



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- The new EU Sustainable Finance strategy will update the previous one from 2018, with 3 strategic objectives:
 - **strengthening the foundations for sustainable finance;**
 - **increasing opportunities for *citizens, financial institutions, and corporates* to enhance sustainability;**
 - **reducing and managing climate and environmental risks.**
- There will likely be an ***international pillar***, as well as one dedicated to links with *public finance* (e.g. Recovery and Resilient Facility, Just Transition Mechanism; EU Cohesion Policy; Invest EU; etc.).
- Publication: today 6 July 2021

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EU Sustainable Finance key policies



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- **Taxonomy Regulation** entered into force in July 2020, establishing a *framework to facilitate sustainable investments*. It is and will be supplemented with various delegated acts (DA):
 - **DA on mitigation and adaptation** (published, under scrutiny)
 - Complementary **DA on agriculture, nuclear & gas** (after summer 2021)
 - **DA on the 4 remaining environmental objectives** (end of 2021)
 - **DA on Article 8** requiring undertakings to disclose their alignment with Taxonomy
- **Disclosure:** 1) the new **Corporate Sustainability Reporting Directive (CSRD)**, requiring undertakings to provide consistent and comparable sustainability information & 2) the **Sustainable Finance Disclosure Regulation (SFDR)** for the financial service sector
- An **EU** (voluntary) **Green Bond Standard** linked to Taxonomy

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Just Transition Mechanism (JTM)



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- The **JTM** is specifically targeted at regions which will be most affected by the sustainable transition.

The monetary sources will come from:

- *EU budget (MFF);*
- *Next Gen EU;*
- *MS co-financing.*

Composed by 3 Pillars:

1. Just Transition Fund (JTF): 17.5 billion of fresh money
 2. InvestEU just transition scheme, horizontal to the 4 different InvestEU windows
 3. Public sector loan facility, with the **EIB** providing low-interest loans
- Lots of related initiatives enhancing the transition, e.g. “**Coal regions in transition platform**”, an open forum gathering all relevant parties (governments, businesses & trade unions, NGOs and academia) since 2017.

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Presentation of the Fit for 55 Package – 14 July



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FIT FOR 55 PACKAGE JULY 14th ?

Fit for 55 Package

Fit for 55 package

- Revision of the EU Emissions Trading System (ETS), and ETS as own resource
- Carbon Border Adjustment Mechanism (CBAM) and a proposal for CBAM as own resource
- Effort Sharing Regulation (ESR)
- Revision of the Energy Tax Directive
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Fit for 55 package Q4 2021

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