16 September, 2022

State of the European Green Deal

Andrei Marcu, ERCST
Bartek Czyczerski, ERCST
Antonio Fernandez, ERCST

ERCST

Roundtable on
Climate Change and
Sustainable Transition

Structure of the session

State of play: Quo Vadis EGD?

An update on key “Fit for 55” files

Panel discussion

Q&A and debate

The European Green Deal

ERCST

Roundtable on Climate Change and Sustainable Transition

- **The European Green Deal (2019)**
  - A political commitment and plan to make Europe a neutral climate continent by 2050

- **Climate Law (2021)**
  - A legally binding commitment to reach net-zero by 2050 and to reduce GHG emissions by 55% in 2030

- **Fit for 55 (2021) – the main legislative package**
  - Many parallel legislative actions implementing the EGD commitments in specific areas

- **High-impact for EU citizens and businesses**
  - The estimated cost of implementation of net-zero: 300 bn+ EUR/y by 2050
  - **Direct effect** on the EU citizens (i.a. by ETS for buildings and road transport)

REPowerEU

- **Saving the energy**
  - The EU-coordinated **demand-reduction plans** in case of gas supply disruption - adopted 26 July
    - The collective commitment to reduce gas consumption by 15%
    - The possibility to declare a state of alert triggering compulsory gas consumption reductions across the EU
  - Raising **the EU-wide target on energy efficiency** for 2030 from 9% to 13% - under legislative process
- **Diversification of supply**
  - **Common purchases of gas**, LNG and hydrogen via the EU Energy Platform
    - New or deepened partnerships with Norway, US, Canada, Egypt, Israel, Azerbaijan, etc.
  - Obligatory **gas storage** - target of filling 80% of stocks was met in August
- **Faster deployment of renewables**
  - Increasing the European **renewables** legal target for 2030 from 40% to 45% - under legislative process
  - Acceleration of **permitting for wind and solar** installations (RED amendments, guidance for MS)
  - **Hydrogen:**
    - Increasing the aspirational target for renewable hydrogen to 10 mn t of EU production and 10 mn t of imports
    - Approval of **"IPCEI Hy2Tech",** the first ever IPCEI in the hydrogen sector. It involves 35 companies and 41 projects from 15 Member States

Energy market

ERCST
Roundtable on Climate Change and Sustainable Transition

- **High gas and electricity prices** - increased 7-8 times year-by-year
  - **Closures** of energy intensive industrial plants
  - Social and economic **impact on households**
- **Electricity market reform** - proposals in the State of the Union
  - Cutting demand in the peak hours
  - Price cap on non-gas power producers
  - “Solidarity contribution” of fossil fuels companies
  - Price caps on gas transactions to be further discussed
  - Flagging “a deep and comprehensive” reform of the electricity market

	File	European Commission	European Parliament			Council	Trilogues
		Proposal	Draft Report	Report	Position/nego. Mandate	General Approach	Trilogues
Pricing	EU-ETS Revision	✓	✓	✓	✓	✓	11.07.2022 Next: Oct.
	CBAM	✓	✓	✓	✓	✓	11.07.2022 Next: Oct
	ETD	✓	✓	✓	✗	✗	✗
	ETS Aviation	✓	✓	✓	✓	✓	06.09.2022
Targets	RED III	✓	✓	✓	✓	✓	✗
	EED	✓	✓	✓	✓	✓	✗
	ESR	✓	✓	✓	✓	✓	01.09.2022 08.09.2022
	LULUCF	✓	✓	✓	✓	✓	05.09.2022
Rules	CO_2 Standards for Cars and Vans	✓	✓	✓	✓	✓	05.09.2022 Next: 29.09.22
	AFIR	✓	✓	✓	✗	✓	✗
	ReFuelEU aviation	✓	✓	✓	✓	✓	08.09.2022
	FuelEU Maritime	✓	✓	✓	✗	✓	✗

Carbon pricing / EU-ETS

ERCST
Roundtable on Climate Change and Sustainable Transition

File	Topic	EC Proposal	EP Position	Council General Approach
EU-ETS Revision	**Ambition (CAP, LRF)**	• CAP -61% (vs. 2005) • LRF: from 2,2% to 4.2%	• CAP **- 63%** (vs. 2005) • LRF: **4,4 % to 4,6 %**	• **- 61%** in 2030 • LRF: from 2,2% to 4,2%
	Market & transparency	• No specific provisions	• **Only compliance entities may hold allowances.** • **Add. EUAs could be added if CO2 prices vary considerably during 6 months**	• No restriction in access for non-compliance actors. • **Add. EUAs could be added if CO2 prices vary considerably during 6 months**
	CCUS	• No surrendering obligation if GHGs chemically bound	• Same + accounting methodology by 2025 in DA	• Same
	ETS 2 Buildings and Transport	• Start date: 2026 • LRF: 5.15% from 2024 & 5,43% from 2028	• Start date: **2025** • Applies to **Commercial** transport and building and from **2029 also to private**. • LRF: 5.15% from 2024 & 5,43% from 2028	• Start date: **2027** • LRF: 5.15% from 2024 & 5,43% from 2028
	Carbon Leakage	• Max rate: From 1,6% to 2,5% as of 2026 • Min Rate: 0,2% as of 2026 • Free allocation: Conditionality on energy audits.	• Max rate: From 1,6% to 2,5% as of 2026 • Min rate: From 0,2% to **0,4%** as of 2026 • **Bonus-malus system.**	• Max rate: From 1,6% to 2,5% as of 2026 • Min Rate: 0,2% as of 2026

Carbon pricing / CBAM regulation

ERCST
Roundtable on Climate Change and Sustainable Transition

File	Topic	EC Proposal	EP Position	Council General Approach
CBAM	**Free Allocation**	• Transition phase: 2023-2025 • Free allocation phase-out: 2026-2035 • Gradual phase out of free allocation by 10% each year	• Transition phase: 2023 **- 2026** • Free allocation phase-out: **2027 – 2032** • **-7 % reduction in 2027, -9 % in 2028, -15% in 2029, -19% in 2030, -25% in 2031, 100% phase out in 2032**	• Transition phase: 2023-2025 • Free allocation phase-out: 2026 – 2035 • **-5% each year from 2026 to 2028, -7,5% each year from 2029 to 2030,and -10% each year from 2031 to 2032.**
	Covered Products	• Aluminium, cement, electricity, fertilisers, iron and steel (Annex I)	• Aluminium, cement, electricity, fertilisers, iron and steel + **hydrogen, organic chemicals, polymers.**	• **Addition of some downstream product/trade codes within these sectors (Expanded Annex I)**
	Covered Emissions	• Direct emissions only	• **Direct emissions and indirect emissions (from electricity).**	• **Direct emissions only and explicitly emissions from electricity produced within the boundaries of the installation**
	Trade flow	• Imports only	• **Imports and exports from the EU will receive an export rebate in the form of continued free allocation**	• **Imports only. Before January 2026 and every two years thereafter, the Commission will report**

REPower EU impact on proposals

ERCST
Roundtable on Climate Change and Sustainable Transition

REPower EU

RED III

> EC (original proposal): 40% of RES in the mix

> EP: 45%

> Council: 40%

> REPowerEU: Increase the target to 45%

> > Acceleration of permitting

EED

> EC (original proposal): -36% final energy consm.

> EP: - 40 %

> Council: - 36%

RFNBOs

> EC: 50% Industry 2,6% Transport

> EP: Industry: 50% by 2030 and 75% BY 2035, Transport: 2,6% by 2028 and 5,7% by 2030

> Council: Industry: 35% by 2030 and 50% by 2035, Transport: 5,2%

> REPower EU: calls upon EP and CO to increase RES H2 targets for Industry (75%) and Transport (5%)

EU-ETS

Auction of allowances from the market stability reserve to finance REPowerEU

Targets

ESR

European Commission

Reduce GHG e. by at least 40%

AEA to be set for each MS

Targets per MS: More ambitious (10% -50%)

Road transport and Buildings: Parallel application with EU-ETS

Flexibilities: Maintained

European Parliament

Reduce GHG e. by at least 40% and **negative emissions after 2050. No readjustment in 2025**

Introduce an GHG pathway and sectorial emissions limits for MS.

EU targets for non CO_2 emissions

Restrict rules on on banking, borrowing and trading AEAs

Council

Reduce GHG e. by at least 40%, conditional adjustment in 2025

Keep proposed national targets

Reinforced flexibilities: increases the amount of national emissions quotas that can be transferred. Facilitates he ETS flexibility. Arranges for a more flexible use of the additional reserve proposed by the EC.

LULUCF

European Commission

Delivering 310 Mt of CO_2 eq.

Cover the whole land sector including non-CO_2 emss. from 2031.

European Parliament

Adds a new additional target of 50 MtCO2e removals through carbon farming

Rejects merging LULUCF with non CO_2 agriculture emissions

Council

Enhance flexibilities to support some MSs provided that 2030 targets are achieved.

Rules

ERCST
Roundtable on Climate Change and Sustainable Transition

File	Rule	European Commission	European Parliament	Council
CO_2 Standards for Cars and Vans	• Sales ban of fossil fuel cars and vans	• 2030: reduction of 55% for cars and 50% for vans. • 2035: new passenger cars and vans CO2 emissions to be reduced by 100%	• Same • **New funding instrument to help car industry workers transition**	• 2030: reduction of 55% for both cars and vans. • 2035: Same
AFIR	• Electric charging infrastructure for light duty and heavy-duty road vehicles • Distance based rules • Hydrogen refuelling infrastructure	• Minimum power output requirements for battery/plug-in hybrid electric vehicles and heavy-duty vehicles. • Deployment along the TEN-T core and comprehensive network with a max. distance of 60 km for light duty and 100 km for heavy duty. • by the end of 2030 hydrogen refueling stations deployed every 150 km along the TEN-T core and the TEN-T comprehensive network. • Liquid hydrogen to be available at refuelling stations every 450 Km.	**Position not adopted yet** **TBC 03.10.2022**	• **Proposes a more gradual process for the deployment of heavy duty electric charging infrastructure** • by the end of 2030 publicly accessible hydrogen refuelling stations deployed every **200 km** along the TEN-T **core network.** • **Focus on the deployment of gaseous refuelling stations.**

Rules

REfuelEU Aviation

European Commission

SAF definition (Biofules + Synthetic fuels)

SAF targets: (2025 2%, 2030 5%, 2050 63%)

SAF subtarget: 2030 0,7%, 2035 5%, 2040 11%, 2045 11%, 2050 28%

Level playing field and tankering

European Parliament

Extended SAF definition

SAF increased targets: 2040 37%, 2050 85% taking into account H2 and electricity

Creation of a Sustainable Aviation Fund

Council

Regulation applies also to airports below a certain traffic threshold.

Aircraft operators scope extended

Eligible SAF scope extended

National flexibilities to increase sub mandate of Synthetic fules

Reinforced data collection and reporting obligations

FuelEU Maritime

European Commission

GHG energy intensity reduction targets: 2025 2% to 2050 75%

50% apply to ships arriving of departing from a third country

Full lifecycle approach

European Parliament

TBC 17.10.2022

Council

Reinforced an clarified monitoring, reporting and verification procedures

Reinforced penalties and fines to avoid circumvention

Strengthened role for RFNBOs

Fit for 55 funding mechanisms

ERCST
Roundtable on Climate Change and Sustainable Transition

Funding mechanism	European Commission Proposal	European Parliament Position	Council General approach
Social Climate Fund	• Funding from expected revenues from road building and transport. • Funding: 72.2 billion € (25 % expected ETS II revenues) ○ 2025-2027: 23.7 billion € (Art 9.1) ○ 2028-2032: 48.5 billion € (Annex II), pending MFF decision (Art 9.2) • Ms to finance 50% of the cost of their SCPs. • Targeted beneficiaries: vulnerable micro-enterprises, vulnerable households, and transport users. • Allows direct income support.	• Funding from expected revenues from commercial road building and transport. • **Funding:** ○ **2024-2027: at least 16.39 billion € =** ○ **11.14 billion € + 5.25 billion € (150 million allowances ETS2 x 35 €/t CO_2).** ○ **2028-2032: to be decided, pending MFF decision (Art 9.2)** ○ **If higher carbon price, additional funds.** • Ms to finance at least **60%** of the cost of their SCPs. (If MF MS, down to 40%). • Targeted beneficiaries: vulnerable micro-enterprises, vulnerable households, and transport users. • **Limited to 40%** • **Introduction of a new definition of mobility poverty.**	• Funding from expected revenues from road building and transport. • Funding: ○ **2027-2032: Max 59 billion € (from ETS 2 revenues)** • **No co-financing** • Targeted beneficiaries: vulnerable micro-enterprises, vulnerable households, and transport users. • **Ms. can finance max 35% for temporary direct income support.**

Fit for 55 funding mechanisms

ERCST
Roundtable on Climate Change and Sustainable Transition

Funding mechanism	European Commission	European Parliament Position	Council General approach
Innovation Fund	• Increase of the Innovation Fund from 450 to 650 million allowances, of which 150 million will come from the new ETS for the road transport and building sectors.	• **Renamed as "Climate Investment Fund"** • **Particular attention to CBAM sectors, including exports.**	• **Particular attention to CBAM sectors and decarbonizing the maritime sector (with specific dedicated calls).**
Modernization Fund	• Increase of the Modernization Fund by auctioning an additional 2.5% of the cap. • Beneficiaries: MSs GDP < 65%	• 2.5% of the total EUAs • Beneficiaries: MSs GDP < 65%	• 2.5% of the total EUAs Beneficiaries: **MSs GDP < 75%.** • **No support to fossil fuels but natural gas derogation.**
Ocean Fund		• **Ocean Fund :** ○ **75% of maritime revenue to ocean fund to make ships and ports climate friendly.**	

Questions for the panel

ERCST

Roundtable on
Climate Change and
Sustainable Transition

- **Is the proposed regulatory framework appropriate to address the new energy crisis and to deliver on the EU climate targets?**

- **Will the current direction of the proposals allow the EU to strike the right balance between reducing emissions, allowing the EU industry to remain competitive and letting vulnerable citizens to pay their bills?**

- **Are the proposed changes implementable taking into account the current situation?**

Thank you!