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State of the European Green Deal

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Roundtable on
Climate Change and
Sustainable Transition

Guiding structure

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- Where are we coming from? Short history of the package
- EGD Map & Chart
- Key files (ETS, Effort Sharing, CBAM, Hydrogen, Sustainable finance)
- Financing of the green transition
- Social and consumers impacts
- Institutional architecture and next steps (process)

Short history - EU Strategies

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- **Lisbon Strategy** (2000-2010) Innovation, sustainability, social cohesion
  - Kyoto Protocol to the UNFCCC 1997
- **Europe 2020**: smart, sustainable and inclusive growth
  - Emissions Trading System (20/20/20 target)
  - DG CLIMA est. 2009
  - INDC to Paris Agreement 2014
- **J.C. Juncker Commission** (2014 – 2019)
  - Paris Agreement 2015
  - Energy Union
  - Clean Planet for All
- **U. v. der Leyen Commission** (2019-2024) Climate neutrality enshrined in the Climate Law.
  - European Green Deal

Initial proposal evolution:

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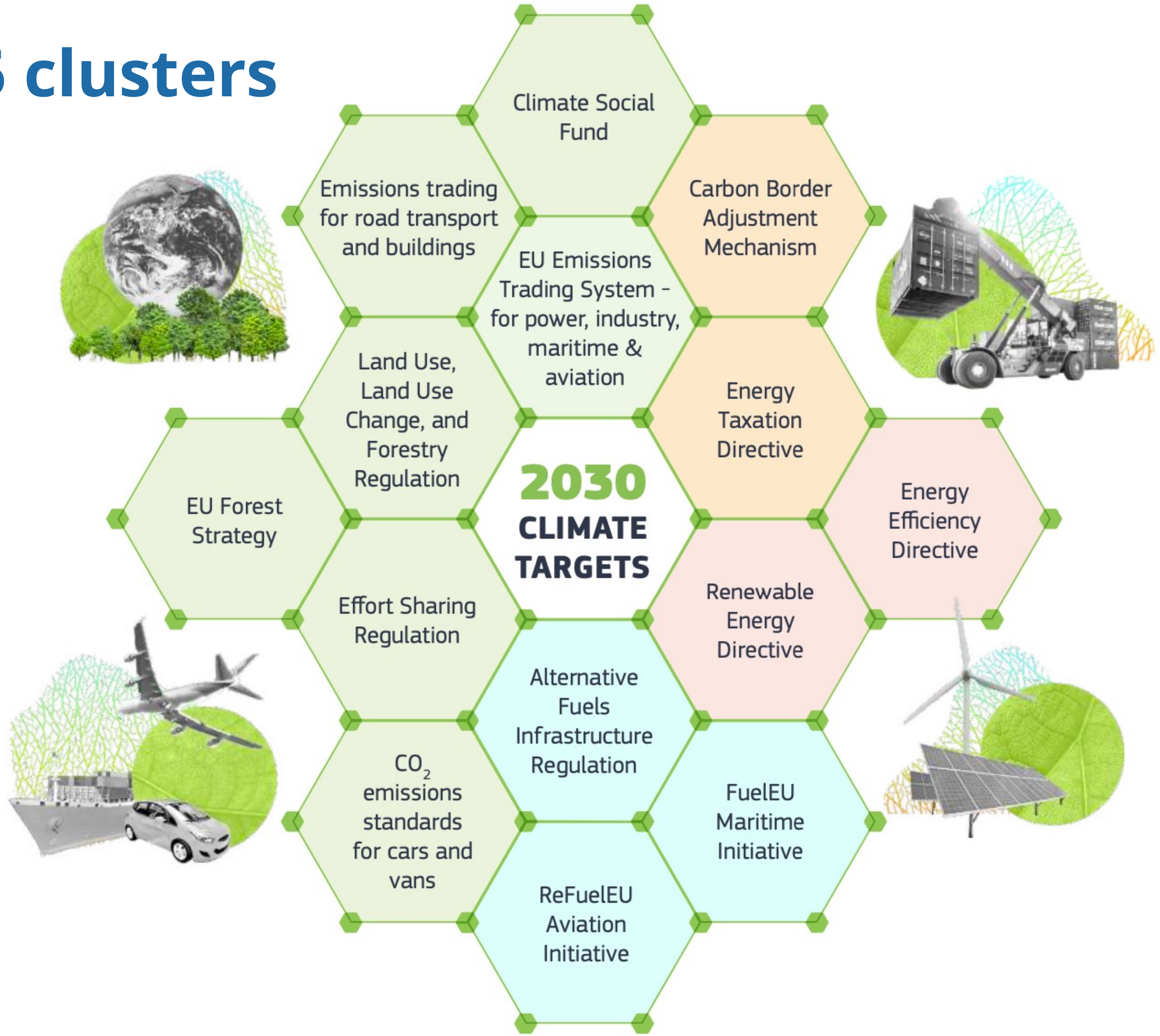
- The European Councils negotiations 2019 and 2020:

  (2050 neutrality target, recovery and 2030 target)

- 2030 climate target plan
- COVID Recovery adjustments
- Agreement on the Climate Law
- Fit for 55 package – 14 July 2021

Fit for 55 clusters



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Fit for 55 mapping of interactions

<table>
<tr><th></th><th>Electricity</th><th>Industry</th><th>Buildings</th><th>Transport</th><th>Hydrogen</th><th>Removals and Land Use</th></tr>
<tr><td rowspan="3">Pricing</td><td></td><td colspan="4">Revision of the EU Emissions Trading System and establishment of a separate ETS for buildings and road transport</td><td></td></tr>
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<tr><td rowspan="5">Rules</td><td></td><td></td><td></td><td colspan="2">Revision of CO_2 standards for cars and vans</td><td></td></tr>
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<tr><td></td><td></td><td></td><td>ReFuelEU: Aviation</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">ReFuelEU: Maritime</td><td></td></tr>
<tr><td colspan="2">Third Energy Package for Gas (Q4 2021)</td><td></td><td></td><td>Third Energy Package for Gas (Q4 2021)</td><td></td></tr>
<tr><td>Support & Financing</td><td></td><td></td><td colspan="2">Social Climate Fund</td><td></td><td></td></tr>
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ETS

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Core elements	Proposed design in EC proposal
Ambition	- 61% Emissions reduction target for ETS sectors - 4.2% LRF and rebase to ensure that “the new LRF has the same effect as if it would have applied from 2021”, no matter when the proposal enters into force
Free Allocation	- Maximum update rate of benchmarks to 2.5% as of 2026, up from current 1.6% - Conditionality on implementation of measures recommended in energy audits - Free allocation for CBAM sectors phased out by 2035
MSR	- The 24% intake rate maintained until 2030 - Buffer intake to avoid threshold effect when TNAC between 833 and 1096 million - Allowances in the MSR above the fixed level of 400 million will be cancelled - TNAC will include aviation emissions
Use of ETS Revenues	- 100% ETS revenues must be used for climate-related purposes
Modernisation Fund	- An additional 2.5% of the cap is auctioned to fund the transition in MS with below average GDP per capita in 2016-18 through the Modernisation Fund - The fund cannot finance investment in any type of fossil fuel
Innovation Fund	- 200 mln allowances are added to the Fund, 150 from the transport and buildings ETS - The scope of the fund includes support of project via carbon contracts for difference
ETS Extension to Maritime Transport	- The scope of the ETS is extended to include maritime transport - The ETS covers all emissions from intra-EU voyages, 50% from extra-EU voyages and at berth in an EU port - As of 2026 shipping companies will have to surrender 100% of their emissions
New ETS for Road Transport and Buildings	- The cap of the new ETS will be set from 2026, alongside a LRF to reach 45% emissions by 2030 compared to 2005 - A price-based cost-containment mechanism will avoid price spikes - A new and separate MSR for the two sectors will start operating in 2027

CBAM

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Design Element	Proposed design in the EU Commission proposal
Trade flow coverage	- Only imports to the EU are covered.
Free allocation	- The reduction of free allocations will be implemented gradually while CBAM is phased in. - The share of free permits for the sectors affected will still be 100 % in 2025 and will gradually decline by 10 percentage points each year to reach zero in 2035.
Geographical scope / exemptions	- Countries that are part of or linked to the EU ETS (currently Iceland, Liechtenstein, Norway and Switzerland) are exempted.
Sectoral/product scope:	- Five sectors are to be covered initially: cement, steel, electricity, aluminium, fertilizers. - Covered products within these sectors include both 'simple' goods (i.e. primary materials) and more 'complex' goods (i.e. semi-manufactured goods that use primary materials as inputs). - The European Commission can add products /sectors to the list through delegated acts.
Emissions scope	- Only direct emissions (Scope 1) are covered, including emissions attributed to covered goods and those embedded in input goods deemed to be within the system boundaries of the production process.
Level of adjustment (CO_2 price):	- The level of adjustment will mirror the average auction price of EU ETS allowances each week. - Crediting of policies in the country of origin will only recognize explicit carbon pricing policies (e.g. a carbon tax or ETS), with prices paid deducted from CBAM.
Use of revenues	- The CBAM will not generate revenue in the transitional period from 2023 to 2025. - Revenue generated as of 2026 will be collected nationally by competent authorities, and the intent is that most of it will accrue to the EU budget. - No mention of earmarking of revenues for specific purposes (e.g. for climate purposes domestically or abroad).
Implementation timeline	- 2023-2025: transitional CBAM entailing no financial adjustments - 2026: Full implementation of the CBAM

Effort Sharing Regulation

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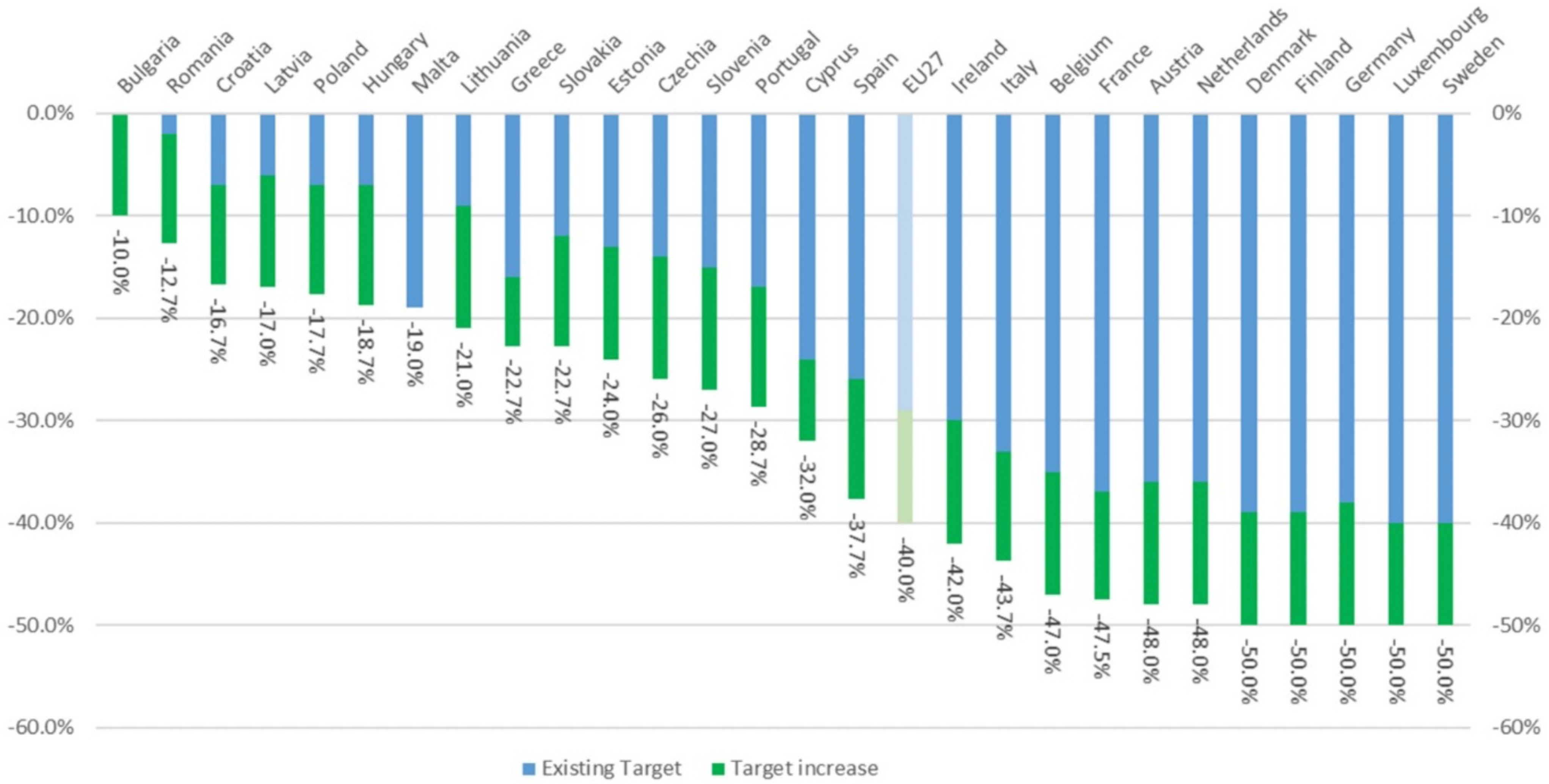
Design Element	Proposed design in the Eu Commission proposal
Emissions reduction efforts	- Current target: 29 % reduction in emissions covered by 2030 compared to 2005, coherent with a -40 % overall target for 2030. - New target: 40% reduction in emissions covered by 2030 compared to 2005, coherent with a -55% overall target for 2030. - The new targets will span from -10% to -50%. Member States with a higher GDP per capita have higher emission reduction targets.
Scope of the regulation	- The scope of the Regulation has been adjusted considering the proposed inclusion of maritime transport in Annex I of the ETS Directive. - Road transport and buildings will still be covered by the Effort Sharing Regulation, alongside their inclusion in a new emissions trading system.
Annual emissions levels	- The framework under which the Commission will set the new MS annual emission levels in the years 2023-2030 has been updated. - Given the uncertainties associated with medium term effects of the COVID-19 pandemic in the economy and the speediness of the recovery, the 2025 review will allow an adjustment of the annual emission allocations for the years of 2026 to 2030 in order to ensure that they are neither too lenient nor to stringent.
Member States updated targets	- Germany (-38%); (-50%) - France (-37 %); (-47,5%) - Italy (-33%); (-43,7 %) - Spain (-26%); (-37,7%) - Poland (-7%); (-17,7%) - Romania (-2%; (-23,7%)

Effort Sharing MS targets

Including transport and buildings (new ETS-Sectors)



Hydrogen

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Regulation	Key elements
Renewable energy Directive	- Extension of the EU certification system for renewable fuels to include hydrogen. - Concrete targets for long-distance and heavy-duty transport and Industry. o Transport: 2,6% of RFNBO o Industry: 50% of RFNBO in hydrogen consumption used in industry
CO2 Standards for cars and vans Regulation	- **Indirect:** The CO2 standards for cars and vans set technology neutral targets to reduce emissions by 2030 and by 2035. - CO2 reduction for cars: 2025 -15%, 2030 -55%, 2035 -100% for vans: 2025 -15%, 2030, -55%, 2050 -100%.
Alternative Fuel Infrastructure Regulation	- The Alternative Fuel Infrastructure regulation will support the deployment of alternative fuels infrastructure. - One hydrogen refuelling station will be available every 150 km along the TEN-T main network and in every urban node.
EU ETS Directive	- The EU ETS proposal will include the production of hydrogen with electrolysers, making renewable and low-carbon facilities eligible for free allowances.
Energy Taxation Directive	- The Energy Taxation Directive sets preferential tax rates for the use of renewable and low-carbon hydrogen for end-consumers. - Conventional fossil fuels, such as gas oil and petrol, and non-sustainable biofuels will be subject to the highest minimum rate of €10.75/GJ when used as a motor fuel and €0.9/GJ when used for heating. - The lowest minimum rate of €0.15/GJ applies to electricity - regardless of its use -, advanced sustainable biofuels and biogas, and renewable fuels of non-biological origin such as renewable hydrogen. Low-carbon hydrogen and related fuels will also benefit from that same rate for a transitional period of 10 years.

Social fund

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Design Element	Proposed design in the Eu Commission proposal
Scope	- Mitigate the costs for those most exposed to fossil fuel price increases.
Social and Climate Plans	- Each Member State shall submit to the EC a Social Climate Plan, together with the update to the integrated national energy and climate plan. Milestones and targets set out in their plans should cover in particular: o Energy Efficiency o Building renovation o Zero- and low-emission mobility and transport o Greenhouse gas emissions reductions o Reduction in the number of vulnerable households.
Funding	- 23,7 billion for the period 2025-2027 - 48,5 billion for the period 2028-2032 - € 72.2 billion in total
Support	- Support households, transport users, and micro-enterprises affected by the impact of the new emissions trading system for building and transport fuels - Support investments in energy efficiency and renovation of buildings, clean heating and cooling, and integration of renewable energy. - Provide direct income support for vulnerable households - Help finance zero-and low-emission mobility
Sources of financing	- Own resources of the EU and expected revenues from the inclusion of buildings and road transport into the scope of application of the ETS Directive. - Member States should finance at least 50% of the total costs of the Social Climate Plans.

Green transition – how much will it cost?

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- Estimations:
  - 2.8% GDP (from current 2% investments in the energy infrastructure)
  - € 520-575 billion annually (Clean Planet for All Communication)
  - 4000 EUR per capita in the EU?? (MFF and NextGen 2tn)
- Sources:
  - Financial public sources (MFF, Next Gen EU, Social Fund, ETS Revenues, CBAM)
  - Financing for private investments considering the limitations of the Sustainable Finance and Taxonomy Regulation
  - The role of EU Bank (EIB)

Just Transition in the European Green Deal (EGD)

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- **The EU's exceptional climate ambition in the context of the EGD (-55% in 2030 and Net Zero in 2050) will have social consequences.** The EU is trying to make this transition fair, leaving no one behind.
- The 2 types of social consequences caused by the green transition:
  1. **Regional**: certain energy-intensive sectors and regions in the EU will have an irreversible decline in *economic output* and *employment level*
  2. **Systemic**: increased energy and transport costs bringing to energy poverty and mobility challenges
- In order to start addressing these issues and to reconcile the transition with *social justice*, the European Commission launched a number of initiatives that aim to help workers and households with tailored financial and practical support:
  - **Just Transition Mechanism**
  - **Modernization Fund**
  - **Social Climate Fund**

Social impacts and consumers choices

- Use less the car. Walk, cycle and use public transport more often?
- Travel less by plane or replace it by less emitting alternatives, such as train travel or video conferencing
- Change your diet towards a more healthy and less carbon intensive one
- Avoid overconsumption, by changing demand for appliances, clothing and other products
- Switch to product-as-a-service business models (e.g. leasing rather than owning products) or other circular business models (e.g. sharing)
- Move to a more energy and material efficient building
- Reduce and recycle more your waste

Institutional architecture (by sectoral measure) TRACKER

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Emissions trading	ENERGY	Equity	Sinks	Transport	Own Resources
ETS	RED	ESR	LULUCF	CO2 cars	ETS
MSR	EED	Social Fund	Forest Strategy	Alternative fuel infrastructure	CBAM
ETS aviation	ETD	CO2 cars		Aviation fuels	
CBAM	EPBD			Maritime fuels	
	Gas package				
VP F. Timmermans	**K. Simson P. Gentilioni**	**VP F. Timmermans**	**J. Wojciechowski**	**A. Valean VP F. Timmermans**	**J. Hahn**
CLIMA / ENVI	ENER / ITRE / TAXUD	CLIMA / ENVI	CLIMA / AGRI	MOVE / CLIMA	BUDGET

Timeline: September – December Work program: Council, European Parliament atrributing Committees

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Next steps / Process

- Next Steps in the European Parliament:
  - Distribution of files in the Commitees
  - Appointing **Rapporteurs, shadow rap., opinions**
- Next Steps in the EU Council:
  - Presentation of the Package in the Council
  - Orientation debates among climate / environment ministers
  - Start of work on adopting the position – Slovenian Presidency
- Next Steps in the European Commission:
  - Summary of the feedback to the Fit for 55
- Where the political capital will be invested and debate focus mostly?
  - Initial support: Renew Europe, Socialists, Greens;
  - Partially: EPP and ECR, GUE
  - Sceptics: ID

Draft conclusions

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Guiding question / reflection:

- What is the balance between regulation and markets?
- What is the main instrument of the package?
- Are targets and rules overcoming the importance of carbon pricing?

Example of overlaps:

- Consequences of maintaining recently introduced ETS sectors in the ESR
- Consistency between sectors?

Interpretation of the package

- There are two main ways to present the package, focusing on each sector or type of policy measure (pricing, targets, rules, financing)

Guiding questions on the EGD package

- What will be the EU political economy landscape in the EU after the package?
- How much of a market economy will be there after the package?
- What are going to be the social impacts of the package?
- Is there an overarching coherence between the different files of the package?

Thank you!