Agora Energiewende

10 Benchmarks for a Successful July „Fit for 55“ Package

Webinar

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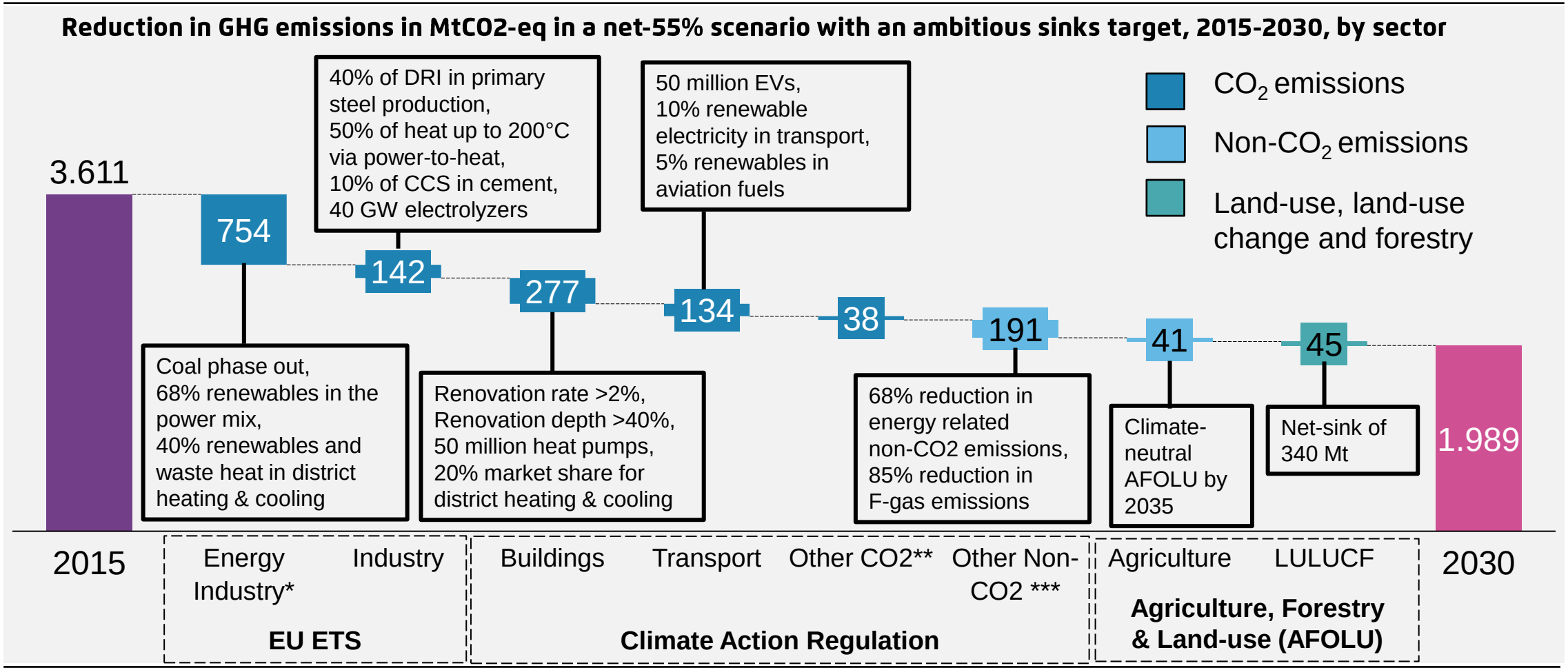
Political compromise on the EU Climate Law means, a 2030 target of at least 55% net domestic greenhouse gas reductions compared to 1990 levels will become binding in some weeks

Key elements of the provisional agreement on the EU Climate Law

- Sets a legally binding 2030 climate target of **at least 55% net domestic ghg-reductions** compared to 1990 levels as well as a binding objective to reach climate neutrality at the latest by 2050.
- Defines the 2030 target as a ***domestic*** target with regards to net-GHG reductions (emissions after deduction of removals) .
- Limits the contribution of removals towards the 2030 target to **225 million tons CO2eq**, which corresponds to a 52.8% reduction relative to 1990 levels (excluding sinks).
- The Commission will propose to revise the LULUCF Regulation to increase the EU carbon sink to levels **above 300 million tons CO2eq** by 2030, which would de facto correspond to a **net 57% target** for 2030.

55% net domestic greenhouse gas reductions by 2030 implies major changes in all sectors



Source: Agora Energiewende (2021) based on the MIX and LULUF+ Scenarios of the European Commission Impact Assessment for 2030 Climate Target Plan.
*** 340 Mt is based on the COM LULUCF+ Scenario. The net-sink in the MIX scenario is 295Mt.

The 14 July package includes at least nine proposals to reform EU climate and energy laws, as well as proposals for own resources and aviation and shipping fuels.

Legislation anticipated on 14 July

- 1) The EU ETS Directive
- 2) Revision of the LULUCF Regulation
- 3) Revision of the Climate Action Regulation
- 4) The Renewable Energy Directive (tbc)
- 5) The Energy Efficiency Directive (tbc)
- 6) the Alternative Fuels Infrastructure Directive
- 7) CO2 emission standards for cars and vans
- 8) Carbon Border Adjustment Mechanism
- 9) the Energy Taxation Directive

Other anticipated proposals

- ReFuelEU Aviation / FuelEU Maritime
- ETS and CBAM as own resources / Digital levy

About the new publication

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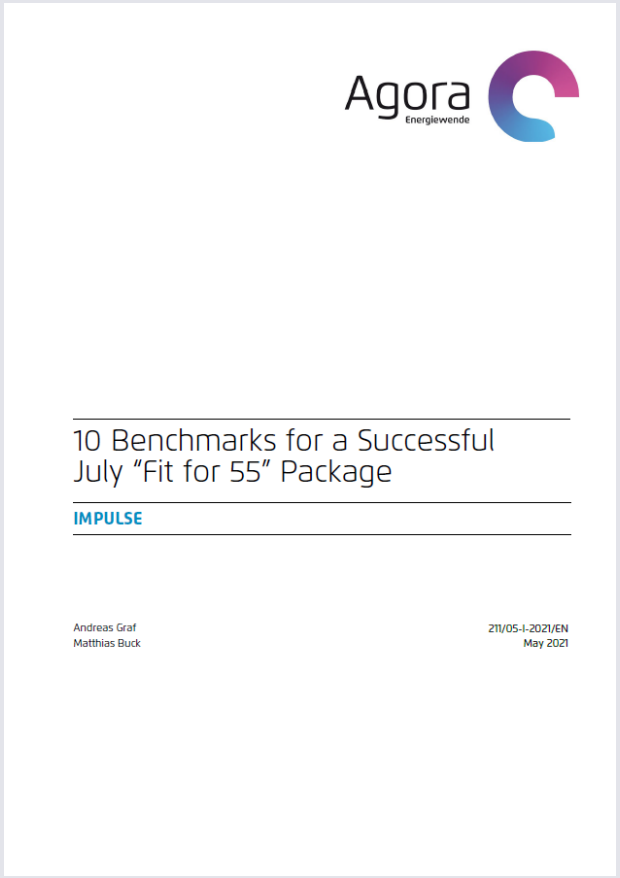

- → Aims to help seeing the forest for all the trees
- → Describes the sectoral pathways in power, buildings, industry, transport, agriculture, forestry & land-use to deliver at least 55% greenhouse gas reductions by 2030.
- → Sets out guiding principles that should underpin the “Fit for 55” package as a whole.
- → Examines all climate and energy laws in the July “Fit-for-55” package in detail.
- → Looks ahead to the Q4 2021 package and identifies important elements that seem to be missing.

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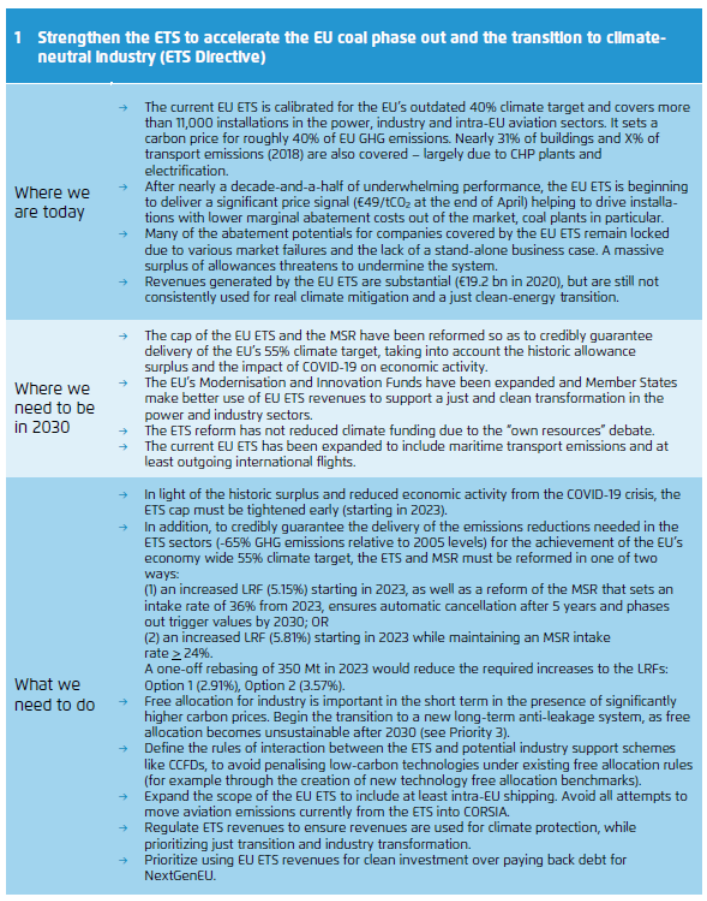


1 Strengthen the ETS to accelerate the EU coal phase out and the transition to climate-neutral industry (ETS Directive)

Where we are today

- The current EU ETS is calibrated for the EU's outdated 40% climate target and covers more than 11,000 installations in the power, industry and intra-EU aviation sectors. It sets a carbon price for roughly 40% of EU GHG emissions. Nearly 31% of buildings and X% of transport emissions (2018) are also covered – largely due to CHP plants and electrification.
- After nearly a decade-and-a-half of underwhelming performance, the EU ETS is beginning to deliver a significant price signal (€49/tCO_2 at the end of April) helping to drive installations with lower marginal abatement costs out of the market, coal plants in particular.
- Many of the abatement potentials for companies covered by the EU ETS remain locked due to various market failures and the lack of a stand-alone business case. A massive surplus of allowances threatens to undermine the system.
- Revenues generated by the EU ETS are substantial (€19.2 bn in 2020), but are still not consistently used for real climate mitigation and a just clean-energy transition.

Where we need to be in 2030

- The cap of the EU ETS and the MSR have been reformed so as to credibly guarantee delivery of the EU's 55% climate target, taking into account the historic allowance surplus and the impact of COVID-19 on economic activity.
- The EU's Modernisation and Innovation Funds have been expanded and Member States make better use of EU ETS revenues to support a just and clean transformation in the power and industry sectors.
- The ETS reform has not reduced climate funding due to the "own resources" debate.
- The current EU ETS has been expanded to include maritime transport emissions and at least outgoing international flights.

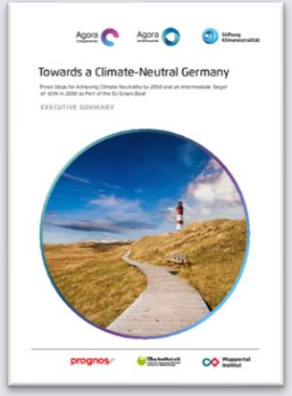
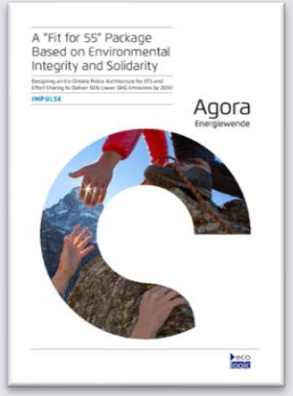
What we need to do

- In light of the historic surplus and reduced economic activity from the COVID-19 crisis, the ETS cap must be tightened early (starting in 2023).
- In addition, to credibly guarantee the delivery of the emissions reductions needed in the ETS sectors (-65% GHG emissions relative to 2005 levels) for the achievement of the EU's economy wide 55% climate target, the ETS and MSR must be reformed in one of two ways:
  (1) an increased LRF (5.15%) starting in 2023, as well as a reform of the MSR that sets an intake rate of 36% from 2023, ensures automatic cancellation after 5 years and phases out trigger values by 2030; OR
  (2) an increased LRF (5.81%) starting in 2023 while maintaining an MSR intake rate $\geq$ 24%.
  A one-off rebasing of 350 Mt in 2023 would reduce the required increases to the LRFs: Option 1 (2.91%), Option 2 (3.57%).
- Free allocation for industry is important in the short term in the presence of significantly higher carbon prices. Begin the transition to a new long-term anti-leakage system, as free allocation becomes unsustainable after 2030 (see Priority 3).
- Define the rules of interaction between the ETS and potential industry support schemes like CCFDs, to avoid penalising low-carbon technologies under existing free allocation rules (for example through the creation of new technology free allocation benchmarks).
- Expand the scope of the EU ETS to include at least intra-EU shipping. Avoid all attempts to move aviation emissions currently from the ETS into CORSIA.
- Regulate ETS revenues to ensure revenues are used for climate protection, while prioritizing just transition and industry transformation.
- Prioritize using EU ETS revenues for clean investment over paying back debt for NextGenEU.

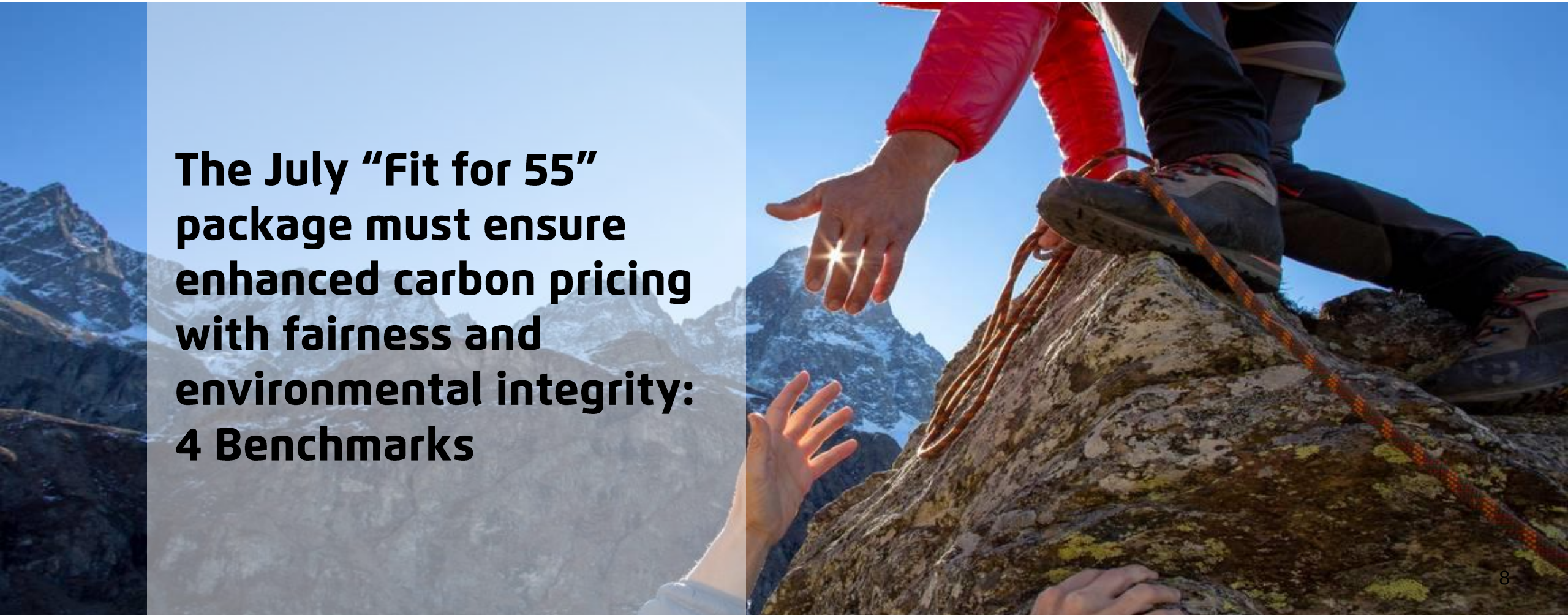
- The study identifies 10 ‘benchmarks’ for the July package to be truly “Fit for 55”.
- Each benchmark is accompanied by a textbox highlighting the key priorities for a specific issue area.
- Each textbox covers three sections.
  - Where we stand today,
  - Where we need to be in 2030, and
  - The measures needed now to successfully reduce emissions by 2030.

About the new publication

It builds on insights from numerous recent reports

How to Raise Europe's Climate Ambitions for 2030	Towards a Climate-Neutral Germany	Enabling European Industry to invest into a climate-neutral future before 2030	A "Fit for 55" Package Based on Environmental Integrity and Solidarity	CO2 Emissions Trading in Buildings and the Landlord-Tenant Dilemma: How to solve it	No-regret hydrogen: Charting early steps for H2 infrastructure in Europe
					
> Full study	> EN-Summary	> Full study	> Full study	> Full study	> Full study

The July “Fit for 55” package must ensure enhanced carbon pricing with fairness and environmental integrity: 4 Benchmarks



Benchmark 1: Strengthen emissions trading to phase-out coal use over the next decade and accelerate the transition to climate-neutral industry (ETS Directive)

- → In light of the historic surplus and reduced economic activity from the COVID-19 crisis, the ETS cap must be tightened early (starting in 2023).
- → To credibly guarantee the delivery of the emissions reductions needed in the ETS sectors (-65% GHG emissions relative to 2005 levels) for the achievement of the EU's economy wide 55% climate target, the ETS and MSR must be reformed in one of two ways:
  (1) an increased LRF (5.15%) starting in 2023, as well as a reform of the MSR that sets an intake rate of 36% from 2023, ensures automatic cancellation after 5 years and phases out trigger values by 2030; OR
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- → Free allocation for industry is important in the short term in the presence of significantly higher carbon prices. Begin the transition to a new long-term anti-leakage system, as free allocation becomes unsustainable after 2030 (see Priority 3).
- → Define the rules of interaction between the ETS and potential industry support schemes like CCFDs, to avoid penalising low-carbon technologies under existing free allocation rules (for example through the creation of new technology free allocation benchmarks).
- → Expand the scope of the EU ETS to include at least intra-EU shipping. Avoid all attempts to move aviation emissions currently from the ETS into CORSIA.
- → Regulate ETS revenues to ensure revenues are used for climate protection, while prioritizing just transition and industry transformation.

Benchmark 2: Increase binding national level targets in the Climate Action Regulation and introduce a new separate ETS for transport and buildings (Climate Action Regulation and ETS Directive)

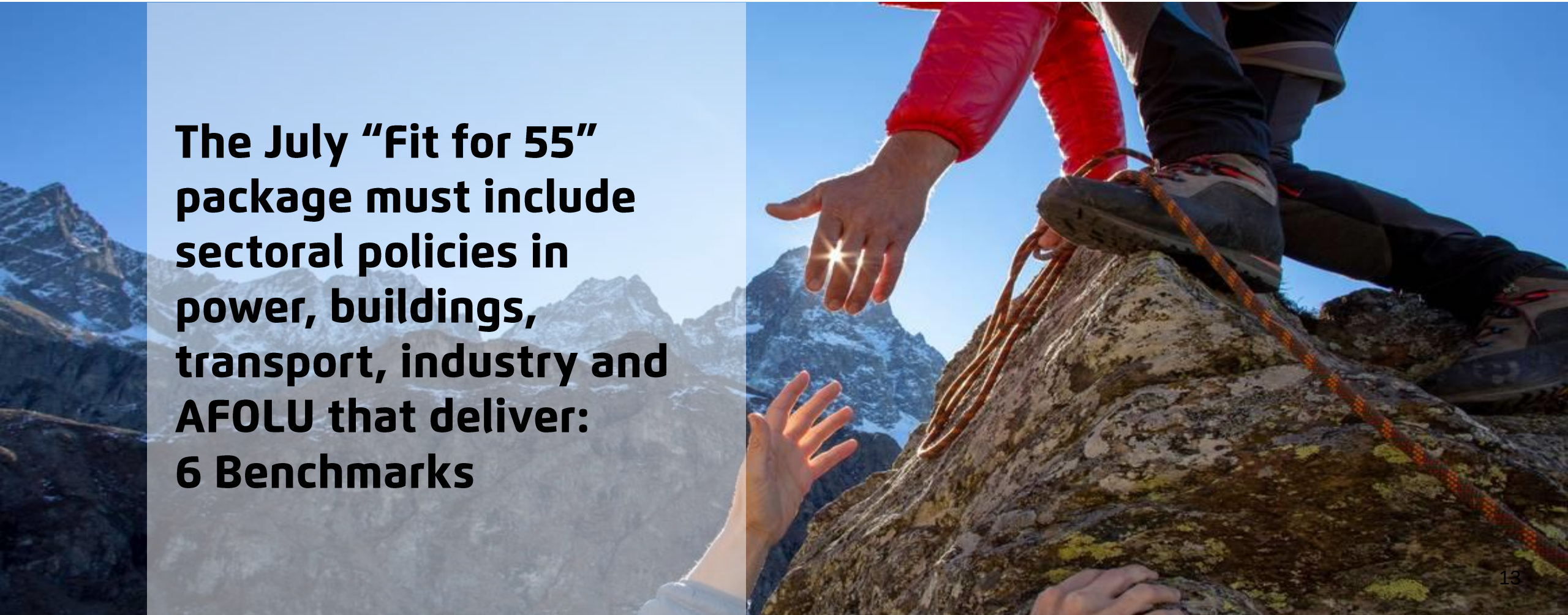
- → Reduce the scope of the Climate Action Regulation to reflect the regulation of agricultural non-CO2 emissions in a new AFOLU Regulation (see Priority 10).
- → Set an EU-level target for the remaining CAR sectors of at least -44% emission reductions relative to 2005 levels (Compared to -37% in the Commission's Baseline Scenario).
- → Increase binding national level targets in such a way as to reflect the need for both higher ambition and solidarity between wealthier and poorer Member States.
- → Propose establishing a new separate ETS starting in 2025 that:
  - encompasses all heating and road transport fuels put in circulation in the EU and not covered by the EU ETS;
  - sets a cap trajectory in line with the overall EU-level CAR reduction target of -44% relative to 2005 levels;
  - defines the regulated entities as all final suppliers of natural gas and coal and all wholesale suppliers of petroleum products (>12,000);
  - provides no exemptions for any regulated party;
  - introduces a central EU auctioning system and specifies that 85% of revenues be returned to the countries where the heating and transport fuels have been put into circulation, while 15% are collected from all Member States as a solidarity contribution and transferred to Member States with a per capita GDP below 80% of the EU average based on population;
  - specifies that 100% of carbon pricing revenues from this new system be used for accelerating climate & energy related investments or returned directly to citizens and businesses.

Benchmark 3: An effective and cooperative approach to carbon leakage protection for European industries in their transition to climate-neutrality (Carbon Border Adjustment Mechanism and ETS)

- → A new long-term anti-leakage system is not needed until after 2030. The EU can afford to proceed slowly!
- → The EU should prioritize work to improve the availability, quality and comparability of data on embedded emissions in basic materials and in intermediate products.
- → A CBAM could initially start with cement and lowly traded products with a low risk of resource shuffling or shifting imports to downstream products. Other products (steel, products from electro-intensive sectors) could follow several years later, when the EU power mix is almost fully decarbonized, and with carbon regulation on industry in key trading partners, like the US and China, mature.
- → The EU should engage with its main trading partners to explain why effective carbon leakage protection is necessary for the EU's own industrial transition, how a CBAM could work, how undesirable impacts on developing country exports could be mitigated, and how it could interact with other approaches to carbon leakage protection.
- → To ensure WTO compatibility, the EU will mitigate all perception that, via CBAM, it is imposing its own approach to climate policy or carbon pricing on other parties to the Paris Agreement.
- → The EU should commit to using all or part of the revenues from a CBAM to support climate change mitigation and adaptation as well as capacity building for monitoring, reporting and verification in developing countries.
- → While waiting for CBAM to phase in, further reforms to free allocation rules under the ETS are necessary to ensure effective protection in the short run. Key priorities are a) to adopt, (temporary) output based free allocation to avoid "operational leakage" and b) to ensure that new green technologies receive the same free allocation (or CBAM treatment) as conventional high carbon ones, to avoid distortions.

Benchmark 4: Set rules for energy taxes to regulate interaction with new separate ETS and enable energy and mobility transition (Energy Taxation Directive)

- Set clear rules under the ETD with regards to the interaction between existing excise duties on energy products and the new separate ETS on heating and transport fuels by establishing the existing energy tax rate regime on heating and transport fuels as minimum tax levels. Under no circumstances should the introduction of an emissions trading scheme or CO2-differentiated road charging under the Eurovignette Directive come at the expense of climate action through a disproportionate reduction of energy tax rates.
- Ensure a more level playing field in transport by requiring Member States to remove all tax breaks with regards to the taxation of transport fuels relative to CO2-emissions, in particular with regards to kerosene and diesel taxation.
- Introduce a roadmap for Member States to reform taxes, levies and surcharges to remove barriers to electrification, including a clear indicative political target for reducing the price ratio between electricity and gas retail prices.



The July “Fit for 55” package must include sectoral policies in power, buildings, transport, industry and AFOLU that deliver: 6 Benchmarks

Benchmark 5: Accelerate deployment of renewable energy and strengthen sustainability criteria for bioenergy (Renewable Energy Directive)

- Provide investment certainty for the renewables industry to scale up by increasing the EU's binding target under Article 3 (RED) to at least 38%.
- Revise all relevant articles of the Governance Regulation to ensure that the update of the current NECPs by 30 June 2024 reflects the higher 2030 climate target and require earlier gap filling based on revised timelines.
- Revise Article 23 (RED) to strengthen the renewable heating and cooling target, including through measures that provide a level playing field for electricity and thermal renewables alongside renewables fuels.
- Strengthen Article 19 (RED) to ensure that guarantees of origin support upscaling, market-driven investment and green public procurement through an EU wide additionality label for new, unsupported capacity and by counting private investments separately from MS targets.
- Introduce a requirement for the Member States to map their sustainable bioenergy potential until 2050 as part of the update of their NECPs by June 30 2024. In parallel, the European Commission should propose a binding legal framework capping the use of primary forest biomass and biomass in the power and heat sectors and phase out support for first-generation bioenergy by no later than 2030.

Benchmark 6: Increase end-use savings across all sectors, accelerate the decarbonization of buildings and protect tenants (Energy Efficiency Directive)

- Revise the EU's 2030 energy efficiency target under Article 1 to no more than 753 Mtoe of final energy in 2030 (11% below the current target of 846 Mtoe) and make it binding.
- Revise Article 3 to oblige Member States to adjust national energy efficiency targets to reflect the new EU energy efficiency target and make them binding.
- Strengthen obligations for governments to lead by example by requiring: (1) 3% of all public buildings per year to be renovated to a near-zero energy building standard (Article 5), and (2) the use of CO2-price projections for the new ETS (see Priority 6) for all purchasing decisions related to the management of public sector fleets and buildings.
- Increase the energy efficiency obligations under Article 7 to at least 1.6% per year starting in 2025, while strengthening social obligations, removing the accounting malus placed on renovation measures, and increasing the reliability of savings estimates.
- Revise Article 9 to explicitly allow for all-inclusive, temperature-based rents in all Member States that choose this approach to addressing the tenant-landlord dilemma.
- Revise Article 14 to introduce an obligation for all municipalities larger than 20,000 inhabitants to produce and regularly update plans for transitioning local heating and cooling systems to climate-neutrality by no later than 2050.
- Introduce an obligation for gas suppliers to install smart gas meters unless there is a gas to res switch planned.

Benchmark 7: Prioritize efficiency and electrification in industry and establish a strong “no regrets” enabling framework for renewable hydrogen (Renewable Energy Directive)

- Revise Article 8 of the EED (energy audits) to mandate the implementation of all recommendations of energy audits with a payback time of less than 3-5 years.
- The “energy efficiency first” principle must be enshrined in all hydrogen-related legislative initiatives so as to prioritize more efficient direct electrification wherever it is technically possible.
- The revised RED should establish a robust sustainability framework for hydrogen that also ensures the additionality, as well as temporal and geographic correlation of renewable electricity used for renewable hydrogen production.
- The revised RED should specifically address renewable energy use in industry and establish a “no regrets hierarchy” based on the efficiency first principle. This means that the more energy-efficient renewable energy solution must be adopted wherever it is technically and economically feasible so that scarce resources such as biomass and green hydrogen are used optimally.
- The revised RED should oblige member states to develop enabling measures for the switching to renewable and clean power in industry, especially in low-and medium temperature heating applications.
- The EU must establish a robust policy, regulatory, and investment framework for scaling renewable hydrogen production, for developing “no regret” hydrogen infrastructure, and for incentivizing the use of renewable hydrogen in those specific applications that really need it.

Benchmark 8: Tighten CO2 limit values for cars and vans by up to 75% and phase-out new combus-tion engines by latest 2035 (CO2-standards for cars & vans)

- Tighten the limits for cars starting in 2030 by up to 75% below the fleet average in 2021 and set appropriately stricter limits for vans.
- Tighten the limit value for 2025 and introduce annual values from 2025 onwards in order to smooth the transition to 2030 and avoid step-wise changes.
- Provide for the phase-out of combustion engines before 2035.
- Introduce supplementary limit values for combustion cars only, in order to avoid that their emission levels rise as a side effect of rising electrification rates.
- Ensure environmental integrity based on robust accounting for the CO2 limits by:
  - not allowing accounting for synthetic fuels or any other kind of fuel as a form of compliance;
  - dropping the so-called ZLEV factor and not reintroducing supercredits;
  - making the emission levels of plug-in hybrid vehicles more realistic in the short and medium terms.
- Prepare for the introduction of energy efficiency standards for vehicles starting in 2025.

Benchmark 9: Roll out the necessary infrastructure for zero emission vehicles, make a decision on heavy-duty transport infrastructure and end support for fossil gas (Alternative Fuels Infrastructure Directive)

- For electric light-duty vehicles, revise the established ratio of cars to public charging points of 10:1 in the light of experience and establish a continuous needs assessment for the required public urban, semi-urban and rural charging infrastructure for each member state every two years.
- Introduce an obligation for member states to expand charging infrastructure in line with the needs assessment and provide access to TEN-T funds to support the development of this infrastructure on a GDP per capita basis.
- For heavy-duty transport, establish a limited number of trans-national innovation corridors (e.g. 6) of 300 to 500km in length for three technologies in parallel: battery-electric vehicles, overhead catenary systems, and hydrogen-powered fuel cell vehicles. These corridors support the research, development and scale-up of the technologies.
- Based on the experience from the heavy-duty innovation corridors, create a decision point in 2025 for heavy-duty transport infrastructure that leads to a choice being taken on the technology (or regionally-specific technologies) needed and ensures the build-out of this infrastructure.
- For battery-electric corridors, optimise the location of high-power chargers in view of EU regulations on maximum driving times and minimum break times for drivers.
- Remove natural gas and liquefied petroleum gas (LPG) from the scope of the Directive.

Benchmark 10: Make agriculture, forestry, and land-use into a new pillar of the EU climate policy architecture with ambitious targets and a strong governance framework (new AFOLU Regulation)

- → Propose emission reductions in line with a maximum contribution of net-removals towards the climate target (-225 Mt)
- → Introduce a new AFOLU Regulation covering the LULUCF sectors and non-CO2 emissions from agriculture, currently covered by the Climate Action Regulation. The AFOLU Regulation should:
  - set a legally binding EU-wide target for increasing the EU's net-sink to -340 Mt by 2030 and doubling net carbon removals from natural sinks by 2050;
  - set legally binding national removal targets for 2030, differentiated by category, and based on the potential of each Member State to increase its net sink;
  - set a separate EU-wide goal of achieving climate-neutrality in the AFOLU sector between 2030 and 2035; emissions from agricultural non-CO2 emissions and removals from the other land-use sectors must be in balance by that date.
  - introduce differentiated national-level targets and a robust governance to ensure the achievement of the EU's climate-neutrality goal for the AFOLU sector
  - strictly limit flexibility with the CAR to enhance environmental integrity.
- → Strengthen existing LULUCF monitoring, reporting and verification rules to ensure the accuracy of estimates for GHG emissions and removals and address non-permanence and volatility in light of the growing risk of natural disturbances.

Important elements are still missing in the second part of the “Fit for 55” package (Q4/2021)!

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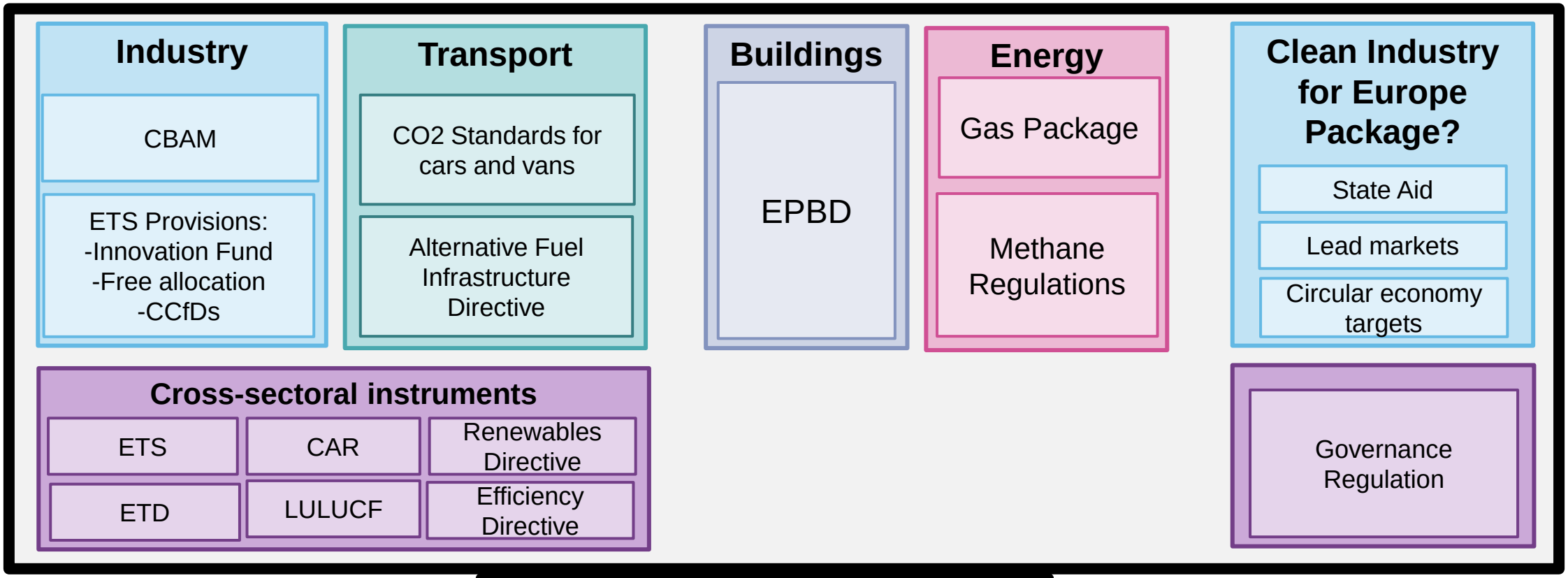
Part 1: 14 July 2021 | Part 2: Q4 2021 | Still Missing!



„Fit for 55“ Package

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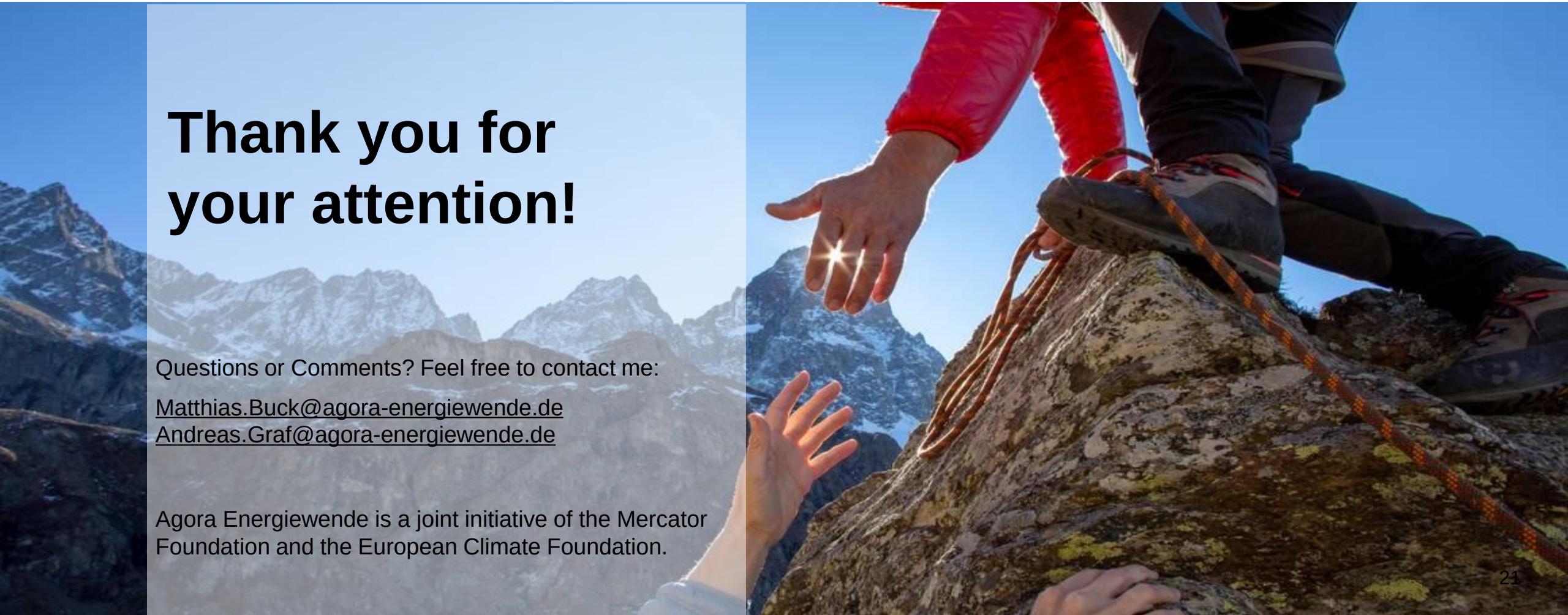

Thank you for your attention!

Questions or Comments? Feel free to contact me:

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Agora Energiewende is a joint initiative of the Mercator Foundation and the European Climate Foundation.