




## General Information

### Event:

The EVP will give a keynote speech followed by a Q&A with the   
 European Round Table for Industry (ERT) membership at the (ERT) Plenary on 21/11/2021. ERT provided a first assessment of Fit for 55, pointing out some own proposals, and requiring some clarifications on the package.

### About ERT:

ERT is a forum bringing together around 60  major multinational companies of EU parentage covering a wide range of industrial and technological sectors ERT aims to promote the competitiveness and sustainable growth of Europe's economy

## Pricing carbon emissions / Global level playing field for carbon costs

[ERT 6 (Put a price on all carbon emissions to incentivise reduction and ERT 7 (Ensure a global level playing field for carbon costs (CBAM)), pg 9-11]

### Revision of the EU Emissions Trading System (ETS)

#### Lines to take

- The Commission proposes to align the existing ETS with the more ambitious 2030 emissions reduction target, by introducing a **one-off cap reduction**, and by **increasing the linear reduction factor from 2.2% to 4.2%** applicable from the year following the revised Directive enters into force. We are already almost one year into this decade, so there is no time to waste.
- A separate proposal aims to **strengthen the Market Stability Reserve** by maintaining the **intake rate of 24%**, mitigating threshold effects and changing allowances' invalidation rules. Supply and demand from **aviation and maritime** sectors would also be included in the Market Stability Reserve. Adopting the proposal **separately from the general review of the EU ETS** is key to ensuring market predictability.
- The **61% emissions reduction target by 2030** for ETS sectors is ambitious, but it is feasible and it can be achieved in a cost effective way. The ETS revision proposal improves **free allocation rules** to reflect technological progress more accurately and incentivise low-carbon innovation, and making free allocation conditional on companies investing in implementing energy efficiency improvements. The **Innovation Fund is significantly increased in size**, and is available to fund deployment of low-carbon technologies. It will also introduce a new Carbon Contract for Difference measure.
- A new **Carbon Border Adjustment Mechanism (CBAM)** will address the risk of carbon leakage in selected sectors. This measure is an alternative to free allocation. CBAM is expected to enter into force in 2023 as a pilot phase, then be phased-in from 2026 to 2035 in a prudent, gradual and predictable way to provide businesses and countries with legal certainty and stability. Free allowances will be gradually phased out for the sectors under CBAM to avoid double carbon leakage protection. Free allowances which would have been allocated to the industry sectors covered by the CBAM (estimated as 280M allowances by 2030) are to be auctioned and added to the Innovation Fund.
- **Fairness and solidarity** remain part of the existing ETS architecture. The current **solidarity redistribution** of 10% of the auctioned allowances to 16 lower income Member States is maintained and kept exempt from the Market Stability Reserve contributions. In addition, the **Modernisation Fund** is increased to address energy transformation challenges in the 10 Member States currently benefitting from the Fund, plus Greece and Portugal.

- **A combination of carbon pricing and regulatory measures** (e.g. CO2 emission standards for cars, energy efficiency and renewable energy policies...) is proposed as the most effective approach to achieve the 2030 emissions reduction target. National measures are also key in this path towards the -55% target.
- All sectors of the economy should contribute. The Commission proposes to include the maritime sector in the existing ETS, and in parallel, set up a new emissions trading to buildings and road transport, **separate from the existing ETS**. This new system would regulate fuel suppliers rather than end users and it would deliver a clear signal on the emissions reduction ambition. The EU ETS should continue to apply to intra-European flights ('no backsliding'), while international flights should also contribute through applying ICAO's 'Corsia' scheme
- Energy poverty exists in Europe and based on latest data, it affects 31 million people. The proposed **Social Climate Fund** would ensure a structural response to address energy and mobility poverty. The Fund would specifically target social impacts arising from the new ETS on energy-poor and vulnerable households, micro-enterprises and transport users.
- With the expansion of emissions trading, the Commission proposes to commit **all auction revenues** (from the existing and the new ETS) flowing to Member States to climate- and energy-related purposes. Member States report that more than ¾ of ETS revenues are already used for tackling climate change.

### **On CBAM**

- While the EU is ready to lead on global ambitions, it cannot run this race alone. We need to make sure that our partner countries join us in our climate ambition.
- As long as differences in climate ambition around the world persist, we need to put in place measures to ensure that the price of imports reflects more accurately their carbon content.
- This is why we need a Carbon Border Adjustment Mechanism: to help ensure the integrity and effectiveness of our climate policies by addressing the risk of carbon leakage for certain industry sectors.
- The Carbon Border Adjustment Mechanism will enter into force in 2023 as a pilot phase, then it will be phased-in from 2026 to 2035 in a prudent, gradual and predictable way, to provide businesses and countries with legal certainty and stability.
- It will be non-discriminatory and even-handed towards trading partners and economic operators from third countries. The need to be compliant with WTO rules is a cornerstone of the design of the Carbon Border Adjustment Mechanism.
- The approach we have taken is balanced, proportionate and fair. CBAM will initially apply to a limited number of products – cement, iron, steel, aluminium, fertilisers and electricity – to minimise administrative burden on producers and traders. Though 63 industrial sectors are deemed at risk of carbon leakage, the selected products are identified as being at the highest risk of carbon leakage and are collectively responsible for almost half of EU and global CO2 emissions.
- Ultimately, Carbon Border Adjustment Mechanism will incentivise an industrial transformation towards greener, more sustainable production processes. The push for decarbonisation creates new opportunities for industries to increase their competitiveness.

## **Defensives**

### **On Free Allocation**

#### ***By how much will free allowances be reduced in the next years?***

- Free allowances will remain an important tool to protect against the risk of carbon leakage until at least 2030. However, with the reduction of the overall emissions cap in line with the -55% Climate Law objective, the overall number of free allowances available will also be reduced.
- At the same time, maritime is proposed to be included in the current ETS without free allocations to the shipping industry. Therefore the impact of extending the ETS to the maritime sector will mitigate the decrease in the total number of allowances in the system and therefore the total amount of allowances available for free allocation.
- To give stability to the sectors, the free allocations for the period 2021-2025 recently decided will remain stable.
- The proposal also does not change the basic rules for calculating the free allocation. The Commission's proposal, however, aims to allocate free allowances in a more targeted way, and to incentivise the uptake of innovative low-carbon technologies. The maximum annual reduction rate of the benchmark values will increase from 2026 onwards, shifting more free allocation to sectors that are harder to decarbonise.
- The scope of the ETS (in terms of the definition of activities) is broadened so that installations using low-carbon or zero-carbon technologies may in the future benefit from continued free allocation. It will mean that the incentives for innovation are maintained and not reduced from the prospect of losing free allocation when moving to low-carbon or zero-emission technologies.
- Moreover, free allocation will be made conditional on decarbonisation efforts: installations not implementing cost-efficient measures as recommended in energy audits will have their free allowances reduced by up to 25% reinforcing energy efficiency instrument and ETS.

## **Defensives**

### ***Will CBAMs offer sufficient protection for carbon leakage?***

- The EU objective of climate neutrality and the decision to raise the climate ambition for 2030 lead to a broader reconsideration of existing measures against the risk of carbon leakage.
- This is important to emphasise, as it would mean that EU's increasingly ambitious GHG emissions reduction targets would reduce the overall number of ETS allowances, while the overall free allocation will also decline over time, in line with the reduction of the emission cap.
- CBAM is an effective alternative to existing measures to address the risk of carbon leakage.

- Our analysis showed that applying CBAM on the basis of actual emissions could achieve a stronger reduction of emissions in the CBAM sectors,
- Moreover, the impact assessment showed that emissions would be reduced not only in the EU but also in the rest of the world, as CBAM can ultimately incentivise third country producers to move towards cleaner production processes.

***The combination of CBAM phasing-in and reduction of free allowances will hurt European industrial competitiveness of the covered sectors. How will you ensure that it does not ultimately lead to de-industrialisation?***

- The CBAM has been designed in such a way that its gradual implementation will give maximum predictability to investors and businesses.
- Introduction of CBAM will take place very gradually over a 10 year period, during which free allowances will be reduced each year by an additional 10% for the CBAM sectors.
- But we must bear in mind that to meet our ambitious climate targets, the emissions of the EU industry will need to decline. As part of the 'Fit for 55 Package' the EU ETS is also proposed for revision, which includes a more stringent cap on emissions.
- Further, the Innovation Fund can be a good tool to help our energy intensive industries accelerate in their decarbonisation efforts by investing in innovative low-carbon technologies and processes.

***How will indirect emissions be treated?***

- Indirect emissions, i.e., emissions from electricity consumed during the production process of goods, for the moment are not covered by the CBAM but for monitoring purposes during the transitional period (2023-2025) importers will be asked to report both direct and indirect emissions.
- The collection of data in the transitional period will form the basis of a thorough methodology -still to be developed- that would apply to indirect emissions.
- This gradual and careful approach to indirect emissions was deemed necessary especially in relation to the complexities related to indirect cost compensation. More data and further analysis will be needed to address this.
- At the end of the transitional period or later based on further assessment, the EU may extend the application of the CBAM (payment of the financial adjustment) also to indirect emissions.

***Shouldn't the CBAM also refund EU exporters for the carbon price paid in the EU?***

- CBAM is a climate measure, not an industrial one. Export rebates would risk undermining the global credibility of the EU's climate ambitions.
- Moreover, from a legal point of view, export rebates are likely to be considered prohibited subsidies, at odds with provisions of the Agreement on Subsidy and Countervailing Measures of the WTO.

- Conversely, non-specific horizontal environmental subsidies are likely to be WTO compatible insofar they are not contingent on export and only compensate exogenous environmental costs.

### ***How much money will the CBAM raise?***

- During its definitive stage, yearly CBAM revenues will depend on the degree of phase-out of free allocation and the respective phase-in of the border measure.
- Based on our estimates, in 2030, total yearly revenues are estimated at around 9 billion EUR, of which around 2.1 billion EUR are expected to be raised by the border measure and the rest from additional auctioning under the ETS.
- As agreed by the three institutions last December, a share of the CBAM revenues should be allocated to the EU Budget, with the exact amount to be defined in the Own Resources Decision.

### **Background**

#### **Carbon Border Adjustment Mechanism – main elements of the Commission’s proposals**

The Commission proposal was adopted on 14 July together with the other proposals of the Fit for 55 package.

The Carbon Border Adjustment Mechanism (CBAM) is an environmental policy tool. It will ensure that the price of imports reflects more accurately their carbon content and will support an increased global use of carbon pricing as an instrument to fight climate change successfully. CBAM will equalise the price of carbon between domestic products and imports and ensure the EU’s climate objectives are not undermined.

The main purpose of an EU CBAM is to address the risk of carbon leakage. As the EU increases its climate ambition, while less ambitious climate policies remain in third countries, there is a risk of carbon leakage i.e. an increase of global emissions due to EU companies relocating to countries with less ambitious policies or EU products being replaced by more carbon-intensive imports. The CBAM may contribute to reducing this risk by incentivising importers in third countries to adopt measures of comparable ambition to the EU, thus reducing the need for an adjustment at the border.

The CBAM is compliant with WTO rules and other international obligations. It is designed in such a way that it ensures that any level of free allowances under the EU Emissions Trading System in the sectors concerned is automatically mirrored – via a proportional discount – in the CBAM charge. Therefore, free allocation of allowances will be phased out to assure the equal treatment of imported and domestic products. Where default values are proposed to apply, the importer will still have the opportunity to demonstrate that they perform better than the default, so the CBAM obligation will be reduced. If imported goods have already been

subject to a carbon price in the third country producer, importers will be able to deduct the difference of the price already paid from the CBAM charge.

The CBAM will enter into force in 2023. There will be a transitional and preparatory period of three years, during which importers will have to report direct and indirect emissions embedded in their goods without paying a financial adjustment, giving time for the final system to be put in place. A review will be carried out during the transition phase, e.g. on whether to address indirect carbon costs in the CBAM and any CBAM charge will be levied only as of 2026. Once the full CBAM regime becomes operational in 2026, it will allow for a smooth transition where free allowances will be phased out while the CBAM will be phased in over 10 years.

## Drive demand, not only supply, to make the business case for low-carbon products

[ERT 9 (Drive demand, not only supply, to make the business case for low-carbon products), pg 14-16]

### Industry

#### Scene setter

- The European Round Table suggests to:
  - Develop **sectoral decarbonisation pathways** towards climate neutrality and create markets for low carbon solution by **stimulating demand**. Some examples they put forward are: adopting a **lifecycle approach** for systems, providing **standards and labels** for customers, enforcing **circular product design**, promoting carbon accounting standards and developing GHG standards for scope 3
  - With respect to **industry**, specific measures they are in favour to promote are: **carbon contracts for difference**, **low carbon product standards**, **system of competitiveness safeguards**, and the **CCS and CCU** as mitigation solutions
- The European Round Table is **positive** on the following measurement included in the FF55:
  - Expansion of carbon pricing and additional energy-related measures, which can promote low carbon alternatives
  - Sectoral approach: specific targets at study of the impacts at sector level
- The European Round Table asks for **improvements** on the following measurements included in the FF55:
  - More actions to stimulate demand-side
  - Better accounting of GHG emissions reductions by carbon capture
  - Increased contribution of the agri sector

### Lines to take

### ***Economic impact***

- The European Green Deal sets a clear goal of transforming the EU's economy, by putting in place a set of deeply transformative policies across all sectors. It clearly states the need for **mobilisation of all industry** sectors to achieve a clean and circular economy.
- Industry will require new technologies, equipment and solutions, with investment and innovation to match. This will entail a shift from a linear production to a **circular economy** that will also contribute to the objective of climate-neutrality by 2050.
- The Impact Assessment accompanying the 2030 Climate Target Plan found that by 2030 the investment stimulus and the use of carbon pricing revenue for the reduction of distortionary taxes or green investment **can stimulate GDP growth by up to 0.5%**, but highlighted the **asymmetric challenges** and opportunities associated with structural change.
- Fossil-fuel related sectors, such as coal and oil, will reduce their sectoral output, while others, such as the production of electric goods, will experience an increase in their revenues<sup>1</sup>.
- The EU plans specific policy interventions in order to ensure a **just transition** and support the sectors that are heavily-affected by the shift away from fossil fuel. These policies apply both on the demand side, to create market demand for low-carbon product, and on the supply side, to promote industrial competitiveness.

### ***Demand side***

- On the demand side, we have the **EU's sustainable product policy, ecodesign legislation and energy labelling**, as effective tools for improving the energy efficiency and sustainability of products.
- In addition, the **EU Ecolabel**, promotes circular economy, awarded to products and services that meet high environmental standards throughout their life-cycle.
- These instruments act on the demand side by eliminating the least performing products from the market and creating demand for lower carbon products. They support innovation by promoting the better environmental performance of products throughout the internal market.

### ***Supply side [Carbon Contract for Difference]***

- The Carbon Contract for Differences **can develop lead markets for basic materials and hydrogen**, and encourage the switch away from fossil fuels by creating contracts for difference on the CO2 price. Under the Fit for 55 we have proposed to include carbon contracts for difference under the Innovation Fund.
- Further, the package presented in July 2021 works hand in hand with other proposals supporting a fair industrial transformation in the view of the twin (digital and green) transition, such as the renewed **Industrial Strategy**, published in 2020 and updated in May 2021.
- The updated Industrial Strategy sets, together with social partners and other stakeholders, the **co-creation of transition pathways** for each industrial ecosystem.
- Such pathways will offer a better bottom-up understanding of the scale, cost, long-term benefits and conditions of the required action to accompany the transition, leading to an actionable plan in favour of sustainable competitiveness.

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<sup>1</sup> SWD(2020)176, Section 6.4.2



## Defensives

### *How will you ensure that the European industry remains competitive, following the Fit for 55?*

- A competitive European industry is a pre-requisite for the success of the transition towards a climate-neutral, circular and digital economy.
- Our increased 2030 ambitions will accelerate the climate and energy transitions, which will help to modernise the whole EU economy and allow European companies to gain a competitive advantage. Speeding up the transition will allow European companies to reap first mover benefits in low-carbon technologies. As the cost of low carbon technologies continues to fall, carbon intensive business models are becoming increasingly unsustainable economically. These sectors will need to undergo transformations in any case.
- The policy package put in place to deliver the 2030 targets of -55% GHG emission will create many new opportunities for European businesses, both large and small, for example in low carbon technologies, renewable energy, building renovation, integrated infrastructures, transport systems, batteries, and hydrogen. We want a modern European industry that will remain a key enabler for sustainable and inclusive economic growth.
- In addition, the Commission has proposed the introduction of a carbon border adjustment mechanism for certain sectors by 2021 given the different levels of ambition that persist globally and in order to ensure a level-playing field between EU and international competitors.
- At the same time, cooperation with our international partners has to be pursued to develop new affordable solutions and to increase the level of ambition of all regions in the world w.
- Overall, stronger climate ambition will accelerate our transformation into a modern, resource-efficient and competitive economy. It will be the basis for economic growth in the 21st century and for rising living standards in Europe.

## Background

### **Carbon Contract for Difference:**

- CCfDs are a policy instrument which functions in a similar way as current tendering systems for renewable power, but instead of paying the difference between the electricity strike price and the electricity market price, the public authority would **pay the difference between the CO2 strike price and the actual CO2 price in the ETS**.
- In analogy to the support for renewables, the CCfDs make projects market competitive and **would allow upscaling technologies** that have already reduced their technology risks.
- It bridges in an explicit way the **gap in costs** (linked to the GHG abatement cost of the technology) between conventional and low carbon alternative technologies in a technology neutral way.
- Specific advantages of CCfDs are:
  - **Builds on the ETS**, but guaranteeing an investable carbon price to spur early deployment

- Can be allocated through cost-effective, competitive and (if preferred) technology neutral **tendering processes** whereby different projects submit a bid reflecting the strike price they need to make their technology competitive
- **Reduces regulatory risk** for investor
- **Enhances bankability**, reduces financing cost (lower interest rate for financing)

In terms of implementation, **CCfDs involve a contract between a public entity** (e.g. national government, European institution) **and a producer of basic materials**.

#### ***Transformation of industrial ecosystems:***

- Financial support will be prioritized to the ecosystem and regions that are most impacted by the transition. The new **Just Transition Mechanism** is our pledge of solidarity and fairness to the EU regions most affected by the climate transition. It will mobilize at **least €55 billion of targeted support** in these regions as they pursue cleaner economic growth, to make sure we leave no one behind. It supports re-skilling and helps SMEs to create new economic opportunities, and to invest in the clean energy transition.
- Furthermore, companies may have to adapt their portfolio of products and services and reskill and upskill their employees accordingly. To this aim, there are several EU funding opportunities available **for securing a skilled workforce** ready for the green and digital transition.
- These include, among others, the European Social Fund Plus (ESF+), as well as funds through the Recovery and Resilience Facility, the REACT-EU, and the social investments and skills window (SISW) of Invest EU.

#### ***Industrial strategies:***

- A **range of strategies** was published in **2020** to support their green transition: the renewed Industrial Strategy (updated in May 2021) and Circular Economy Action Plan in March, the Hydrogen Strategy and the Strategy for Smart Sector Integration in July, and the Action Plan on Critical Raw Materials in September. The Circular Economy Action Plan and the European Industrial Strategy point towards **increased resource efficiency and the circular economy as indispensable pathways for the decarbonisation of European industry**
- In research and innovation, several public private partnerships are set up to support on clean hydrogen, low-carbon steel and reflect **the action of the EU to set up an ambitious framework for the decarbonisation of industry**. The Commission launched in July the **European Clean Hydrogen Alliance**, and in September, we launched the new **Raw Materials Alliance**. The first results of the Battery Alliance shows that this approach can work: A recent report (from Fitch Solutions) indicated that in 2020, more than 40% of global investments in battery manufacturing were located in Europe. This is a major change as compared to just a few years ago.

## **Road Transport**

### **Scene setter**

- The European Round Table suggests to:
  - Provide **charging points** for alternative fuels
  - Introduce ambitious vehicle emission performance **standards**

- Incentivize customers to clean vehicles through **Green Public Procurement (GPP)**
- Demand incentives for **long-lasting and cleaner products** through tolling systems
- Align the taxation of energy products and electricity through the **Energy Taxation Directive**
- The European Round Table is **positive** on the following measurement included in the FF55:
  - Concrete targets for recharging pools and H2 **refuelling stations**
  - Increased CO2 emissions performance **standards** for vehicles
  - **Extension of carbon pricing** to transport and buildings
- The European Round Table asks for **improvements** on the following measurements included in the FF55:
  - Broaden the “zero CO2” emissions not only at tailpipe, but to **complete life cycle approach**
  - More net **separation** between passenger road transport and heavy duty transport

## Lines to take

- To deliver our climate targets, all sectors need to contribute. Transport has a key role to play: by 2050, emissions from transport need to decrease by 90% compared to 1990.
- **Road transport** is responsible for around a fifth of total EU GHG emissions and holds great potential to accelerate emission reductions.
- The Commission presented a holistic approach to road transport decarbonisation with the different proposals included in Fit for 55 package, including the CO2 Standards for Cars and Vans, the Alternative Fuels Infrastructure Regulation, the Renewable Energy Directive, as well as emission trading for road transport and buildings. These interconnected initiatives tackle both the vehicle and fuel dimension of the transport sector and cover new and existing vehicle fleets, while also securing the rollout of sufficient and adequate recharging and refuelling infrastructure.
- The strengthened CO2 emission standards will require a reduction of the EU fleet-wide average emissions of new cars by 55% and of new vans by 50 % from 2030; and by 100% from 2035 for both new cars and new vans, all compared to 2021 levels. This means that all new cars and vans will be zero-emission by 2035.

- The proposal provides a clear and long-term signal to guide both the automotive sector's investments in innovative zero-emission technologies, as well as the rollout of recharging and refuelling infrastructure. Innovation in zero-emission mobility will be key for maintaining the leadership of the EU industry in automotive technology, as well as for the employment of highly-skilled workers.
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- As part of the policy package for delivering the Green Deal, the European Commission proposed a new emissions trading system on road transport and buildings: putting a price on carbon for road transport will help to make the **existing fleet drive cleaner**.
- In the same package, . Moreover,.
- Zero and low-emission vehicles are entering the mass market at a dramatically accelerating pace. While they still comprise only about 1% of the total EU car fleet, around 10% of new car sales last year were electric. Sales of battery-electric cars more than doubled between 2019 and 2020. During the same period, sales of plug-in hybrids more than tripled.
- In order to sustain and accelerate vehicle uptake, we need, among others, an easy-to-use, digitally connected, interoperable and widely spread infrastructure allowing fast and convenient charging.
- At present, recharging infrastructure remains concentrated in a few Member States. Policy action and public financial support are therefore required.
- Our proposal for the Alternative Fuels Infrastructure Regulation (AFIR), being part of the Fit for 55 Package of 14 July 2021, seeks to provide a dense, widespread network of publicly accessible alternative fuels infrastructure in the EU.
- The proposal for a new Regulation sets forth binding requirements for rollout of an infrastructure with a sufficient amount of minimum recharging and refuelling capacity to ensure full cross-border connectivity of light and heavy-duty vehicles throughout the EU.
- In the meantime, once the new rules on road pricing (Eurovignette Directive) are in force – hopefully by early next year – they will require Member States vary tolls based on CO2 emissions in a revenue neutral manner, i.e. higher tolls for the least efficient vehicles will be counterbalanced by significant, up to 75% reductions (or even zero toll until 2025) for zero-emission HDVs.
- In addition, until a more appropriate instrument, i.e. emission trading, is in place, the new road pricing rules will allow Member States to charge heavy-duty vehicles for the cost of their CO2 emissions (on top of the infrastructure charge) as early as next year.
- Furthermore, the Commission is aware of the need to rethink the whole vehicle value chain, in order to make it more sustainable. The **Sustainable and Smart Mobility Strategy**<sup>2</sup> published in December 2020 will look into enhancing synergies with the circular economic transition. And, as anticipated in the **New Circular Economy Action Plan (CEAP)** published in March 2020, The Commission will propose to revise the rules on end-of-life vehicles with a view to promoting more **circular**

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<sup>2</sup> <https://ec.europa.eu/transport/sites/default/files/2021-mobility-strategy-and-action-plan.pdf>

**business models** by linking design issues to end-of-life treatment, considering rules on **mandatory recycled content** for certain materials of components and improving recycling efficiency<sup>3</sup>.

## Defensives

***With the recent proposal on CO<sub>2</sub> standards for cars and vans, are the decarbonisation pathways for passenger road transport and heavy-duty transport sufficiently distinguished? Why are these pathways different from one another?***

- With its new proposal on CO<sub>2</sub> standards for cars and vans, the Commission is revising the CO<sub>2</sub> targets from 2030 onwards exclusively for passenger road transport.
- In an upcoming review of heavy-duty vehicle CO<sub>2</sub> standards, the Commission will consider the specificities of the HDV segments, including a different state of play in terms of market deployment of zero-emission technologies, possible different technological options and possible challenges related both to the use cases for these vehicles as well as to their larger sizes.

***How can we ensure that the roll-out of electric cars does not only benefit higher income citizens?***

- We need nearly all cars and vans on the road to be zero emission by 2050. This will require such vehicles to be supplied to the market at a price that is affordable for EU citizens and businesses.
- Over the past years, the zero-emission vehicles market has developed much faster than expected. Yet, the current purchase prices of zero-emission vehicles are still above those of comparable vehicles with internal combustion engines.
- Stronger CO<sub>2</sub> standards will help to ensure that access to individual zero-emission mobility becomes affordable for all consumers. Ambitious targets help create economies of scale. They are expected to drive down the production costs over the coming years, in particular for batteries. This will increase the number of affordable zero-emission vehicles models coming to the market,
- Also, as the market expands, manufacturers will add more smaller models to their portfolio of vehicles, and will thus make zero-emission vehicles more affordable for more consumers, including to the second hand market.
- In addition, when looking at the “total cost of ownership” of vehicles, the strengthened CO<sub>2</sub> emission standards will provide benefits both to first and second-hand users of vehicles, who will benefit from less expenditure for the energy used to propel their vehicles. This is also important for SMEs, using new vans.

***What EU financial instruments can be used to support clean and sustainable fuels and the relevant infrastructure?***

- The new Next Generation EU recovery fund and its various financial tools will play a key role in delivering on the European Green Deal and our vision set out in this Strategy.

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<sup>3</sup> COM(2020) 98 final

- Funding under the new Recovery and Resilience Facility will support more environmentally friendly approaches or digitalisation in transport.
- Under InvestEU, private investments in transport infrastructure as well as fleet renewal can be supported.
- For research and innovation, our Horizon Europe programme offers further opportunities, for instance for research on sustainable and competitive hydrogen, electricity and low carbon fuels.
- Extended support from our Connecting Europe Facility (CEF) will remain available during the 2021-2027 period for the deployment of alternative fuels infrastructure, for example.
- The Cohesion and structural funds also support our Green Deal agenda by reinforcing sustainable regional development, where public transport alternative fuels infrastructure play a crucial role.

***Are you proposing a date to ban internal combustion engine cars and vans in Europe? Is this a technology neutral approach?***

- Road transport has a vital role to play in the transition towards climate neutrality by 2050. Nearly all cars and vans on the roads will need to be zero-emission by that time.
- The Commission therefore proposes more ambitious targets for cars and vans to apply from 2030 onwards. By 2035, all new cars and vans will need to be zero-emission.
- It will be for manufacturers to decide which technologies they use to achieve this target. The legislation is technology neutral.
- Vehicle manufacturers are already actively preparing for the switch to zero-emission vehicles, as illustrated by the surge in battery electric car registrations in 2020 and their recent ambitious pledges on carbon-neutrality. Other innovation cannot be excluded. It is up to industry to respond to that and find their way to meet the target; our approach is technology-neutral, but not results-neutral.
- We realise that this transition is formidable. That's why we build in novel elements in the standards, to ensure that we track progress in the transition and possibly take any further measures to facilitate that transition, be it industrial support, support for reskilling workers or reconverting activities and of course the charging infrastructure. The sister proposal, the AFIR, is very ambitious and will ensure that in each Member State and for each zero emission car that comes to market, there is enough charging capacity.
- The proposal therefore sends a clear signal to EU industry to invest in innovative zero-emission technologies. This will be key to maintaining the EU's technological leadership and supporting the employment of highly-skilled workers. And a focus on tailpipe emissions will boost air quality that cannot be delivered by combustion engines

## **Background**

### ***CO2 standards for cars and vans***

- A combination of measures is necessary to address emissions in road transport. In addition to the introduction of carbon pricing, the Commission has proposed **strengthened CO<sub>2</sub> emission performance standards for cars and vans**
- The proposal will require a **reduction of the EU fleet-wide average emissions of new cars** by 55% and **of new vans** by 50 % from 2030; and by 100% from 2035 for both new

cars and new vans, all compared to 2021 levels – and meaning all new cars and vans being zero-emission by 2035.

### ***Energy Tax Directive***

- The new proposal on Energy Taxation aims to align the taxation of energy products with EU energy and climate policies, promote clean technologies and remove outdated exemptions and reduced rates that currently encourage the use of fossil fuels. In this way, we can **reduce the harmful effects of energy tax competition**, and help secure revenues for Member States from green taxes, which are less detrimental to growth than taxes on labour.

### ***Alternative Fuels Infrastructure Regulation***

- The Alternative Fuels Infrastructure Regulation will ensure the timely availability of the recharging and refuelling infrastructure for the zero-emission vehicles that the CO<sub>2</sub> standards will bring on the market. The goal is to install a sufficient number of points in all countries that are easy to access and use.
- This is needed to encourage people to use low- and zero-emission vehicles in much greater numbers than currently – one of the EU's climate objectives in the new European Green Deal.

### ***Green Public Procurement***

- GPP is defined as: a process whereby public authorities seek to procure goods, services and works with a **reduced environmental impact** throughout their life cycle when compared to goods, services and works **with the same primary function** that would otherwise be procured.
- Although GPP is a voluntary instrument, it has a key role to play in the EU's efforts to become a more resource-efficient economy. It can help stimulate a **critical mass of demand** for more sustainable goods and services which otherwise would be difficult to get onto the market. GPP is therefore a strong stimulus for eco-innovation.
- Also, by promoting and using GPP, public authorities can provide industry with **real incentives for developing green technologies and products**. In some sectors, public purchasers command a significant share of the market (e.g. public transport and construction, health services and education) and so their decisions have considerable impact.
- To be effective, GPP requires the inclusion of **clear and verifiable environmental criteria** for products and services in the public procurement process. The European Commission and a number of European countries have developed **guidance** in this area, in the form of national GPP criteria. The challenge of furthering take-up by more public sector bodies so that GPP becomes common practice still remains. As does the challenge of ensuring that green purchasing requirements are somewhat compatible between Member States - thus helping create a level playing field that will accelerate and help drive the single market for environmentally sound goods and services.

## **Aviation**

### **Scene setter**

- The European Round Table suggests to:

- Speed up research and development initiatives for innovative green aircraft and helicopters
- Consider an ambitious Sustainable Aviation Fuels (SAF) mandate
- The European Round Table is **positive** on the following measurement included in the FF55:
  - Blending target for sustainable aviation fuel+fuelEU maritime
  - Review of Energy taxation Directive – no longer based on volume, fewer exemptions

### Lines to take

- Air connectivity is an **essential driver of mobility** for EU citizens, of development for EU regions and of growth for the economy as a whole. However, as transport is the only sector where emissions have been increasing in the last years and air transport activity is projected to grow in the following decades, a solid EU intervention is needed to revert the emission trend while maintaining the competitiveness of the aviation industry. There should be a carbon price, and all sectors should contribute to climate action. The EU ETS-funded Innovation Fund can already support the commercial deployment of aviation technologies, and help achieve the necessary transformation, including for electric/hybrid aircraft and helicopters. The EU ETS gives a price incentive of around €200/ tonne sustainable alternative fuel, through its zero rating.
- It is for this reason that in February 2021 the Commission has launched, as part of the EU Horizon Europe Framework programme for research and innovation, the **European Partnership for Clean Aviation**.
- Clean Aviation will accelerate the development of **disrupting concepts** for aircraft design and propulsion configuration with the aim of minimising the aviation sector's environmental impact.
- Moreover, the **ReFuelEU Aviation** will promote sustainable aviation fuel by obliging fuel suppliers to blend an increasingly high level of **sustainable aviation fuels** into existing jet fuel uploaded at EU airports, as well as incentivise the uptake of **synthetic fuels**, known as e-fuels. The obligation would commence from 2025 at 2% SAF, gradually increasing to 63% in 2050. The proposal also includes a sub-obligation of 0.7% for e-kerosene from 2030, and increasing up to 28% in 2050.
- Aviation needs to reduce its emissions to contribute to newly adopted EU climate goals. The sector is considered 'hard to decarbonise', since it has very limited options to do so, compared to others. However, transitioning away from fossil fuels and moving to sustainable aviation fuels (SAF) has significant potential to reduce emissions along fleet modernisation that would allow for more resource efficient use of SAF. SAF are technologically ready, but need a strong policy push to become a reality.
- The market-based measures in the Fit for 55 package related to the increased ambition of the EU ETS and introduction of kerosene taxation under the Energy Taxation Directive, will incentivise shift to cleaner fuels and fleets.
- The objective is to launch new products and services by 2035, replace 75 % of the operating fleet by 2050 and developing an innovative, reliable, safe and cost-effective European aviation system that is able to meet the objective of climate neutrality at the latest by 2050.



- Concretely, the new partnership will invest in development and demonstration of hybrid-electric regional aircraft, small- and medium range aircraft with the capacity to fly on 100% sustainable fuels, and researching accompanying technologies for hydrogen powered aviation.
- In terms of industrial policy, the Commission has launched a public consultation to set-up an Alliance for Zero-Emission Aviation. Industry is encouraged to contribute and participate in this alliance in order to identify and improve conditions for market uptake of innovative products.

## Buildings

### Scene setter

- The European Round Table suggests to:
  - Triple the renovation rate.
  - Provide measures to phase out worst performing buildings in the next decade, for instance with the introduction of **Minimum Energy Performance Standards** on existing buildings.
  - Tap into the potential of public procurement
- The European Round Table is **positive** on the following measurement included in the FF55:
  - Renovation target public buildings
- The European Round Table asks for **improvements** on the following measurements included in the FF55:
  - Continue stimulating renovation (revision of the EPBD)
  - Address further the public procurement by assessing its potential
  - Involve local authorities to identify local opportunities
  - Look at the export dimension of low carbon solutions

### Lines to take

#### *Buildings*

- Buildings are responsible for about 40% of the EU's energy consumption, and 36% of greenhouse gas emissions from energy (\*). But only 1% of buildings undergo energy efficient renovation every year, so effective action is **crucial to making Europe climate-neutral by 2050**.
- The current measurements, i.e. the **Energy Performance of Building Directive** (EPBD) adopted in 2010 and amended in 2018, is not enough to reach the -55% target. The EU announced additional measurements with the publication of the **Renovation Wave** Communication in October 2020 and the **Energy Efficiency Directive** (EED) in July 2021 and is actively working on a further revision of the EPBD, to be adopted in December 2021, and on the revision of the **Green Public Procurement (GPP) criteria** for Office Buildings, which will be published by the end of 2022.

- Objectives of the Renovation Wave are to at least **double** the annual energy renovation rate of residential and non-residential buildings by 2030 and to foster deep energy renovations. Furthermore, to maintain the exemplary role of public sector, the EED proposal includes an obligation for annual renovation of **3% of useful floor area of public buildings** above 250m<sup>2</sup>.
- Moreover, as announced in the Renovation Wave<sup>4</sup>, the revision of the EPBD will study a stronger obligation to have **Energy Performance Certificates** alongside a possible phased introduction of **mandatory minimum energy performance standards** for existing buildings. If adopted, similarly to the introduction of the new ETS for buildings and road transport and the Social Climate Fund, these measures will need to be accompanied by ad-hoc financial buffers for low income households, in order to mitigate their different distributional impacts.
- All these current and upcoming policies will provide a comprehensive set of measurement to foster EU deep renovation of buildings and, hence, decrease their emissions in line with EU targets.

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<sup>4</sup> COM(2020) 662 final