

From: [redacted] (SG) on behalf of [WATSON John \(SG\)](#)
To: [redacted] (SG)
Subject: FW: NL non-paper Fit for 55 non-paper
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Attachments: [NL Considerations for the Fit for 55 package.pdf](#)

From: [redacted]@minbuza.nl>
Sent: Tuesday, March 2, 2021 5:47 PM
To: WATSON John (SG) [redacted]@ec.europa.eu>
Cc: [redacted]@minbuza.nl>; [redacted]
[redacted]@minbuza.nl>; [redacted]@minbuza.nl>
Subject: NL non-paper Fit for 55 non-paper

Dear Mr Watson,

It is my pleasure to share the attached Dutch non-paper with you.
It contains our considerations and priorities for the upcoming Fit for 55 package.
Of course I remain at your disposal to discuss these issues with you in more detail.

Kind regards,

[redacted]
[redacted]
Permanent representation of the Kingdom of the Netherlands to the EU
Email: [redacted]@minbuza.nl
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Considerations for the Fit for 55% package

Key principles

The Netherlands welcomes the EU agreement to reach climate neutrality by 2050 and the agreement on the enhanced 2030 target of at least 55% net GHG emission reduction by 2030. How to deliver on the 2030 and 2050 targets will be the major challenge of the European Union and all its Member States in the coming years.

The EU's climate policy architecture should focus on emission reduction through a **coherent policy mix**. The current climate policy architecture with its separate pillars of the ETS, ESR, and LULUCF constitute a solid foundation. The Netherlands considers the following to be important:

1. **Strengthening the ETS** by bringing the cap in line with the new targets and strengthening the MSR;
2. **Ensuring emission reduction in the ESR sectors** through more stringent EU regulation such as CO₂ standards for vehicles and buildings;
3. **Provide incentives for enhancing carbon sinks** while safeguarding the environmental integrity of **LULUCF** accounting.

In addition, all EU climate policies, across all sectors:

- should primarily **focus on GHG emission reduction**, meaning supporting EU targets for e.g. renewable energy and energy efficiency should be in line with cost-effectively reaching the emission targets, also taking into account sector specific needs for innovation and autonomy with regard to creating an optimal energy mix;
- should ensure a **cost-effective pathway of all Member States** towards climate neutrality by 2050;
- should stimulate **innovation and development**, while **avoiding carbon leakage** and **safeguarding the level playing field**.

The road towards climate neutrality by 2050

It is necessary to achieve climate neutrality by 2050 in order to keep the goals of the Paris agreement within reach. How to deliver on the increased 2030 target ensuring a smooth pathway towards climate neutrality by 2050 will be the major challenge of the European Union and all its member states in the coming years.

The current climate architecture with its separate pillars of the ETS, ESR and LULUCF, supported by strengthened emission standards and targets for energy efficiency and renewable energy in line with a cost-effective approach, is a good basis for this.

The transition in one sector should not slow down emission reduction efforts in another sector. All sectors should take the necessary steps in order to reach the 2050 climate neutrality target. However, some flexibility between and within the pillars, as well as between Member States, should be allowed to stimulate cost-effective measures. Flexibility options need to be carefully assessed to ensure sufficient action is taken across all sectors, and the accounting methods have to be sufficiently robust. It is also considered to be important that the specific proposals of the Commission take into account broad societal consequences, in order to generate public support.

The Netherlands has the following considerations regarding a policy architecture that is fit for 55% in 2030 and climate neutrality in 2050:

1. Strengthening the ETS

The ETS has demonstrated to be the most cost-effective instrument to deliver on the EU climate targets in the past and is considered to be essential in delivering the enhanced EU 2030 climate target on the road to climate neutrality by 2050 as well. It incentivises the development of low-carbon technologies. The Netherlands therefore thinks it is vital to further strengthen the current EU ETS pillar and encourages the Commission to consider the following:

- **Strengthening the market stability reserve** to limit the surplus of allowances;
- The **reduction of the amount of free share allowances**;
- An **increase in the linear reduction factor**, resulting in an enhanced reduction of the cap.
- If few negative effects are found by the impact assessment, **rebasings the emissions cap is considered as a possibility**.
- Strengthening **the EU ETS for the aviation sector** on top of measures aimed at in-sector emission reductions such as a European blending mandate. Free allowances in the aviation sector should be phased out.
- Making use of **opportunities under the ETS to facilitate options to reduce emissions**, or even achieve negative emissions, via facilitating CC(U)S¹, creating conducive incentives for electrification and modernizing the ETS benchmarks².

2. Ensuring emission reduction in the ESR sectors

The Netherlands underlines the importance of strengthening EU CO₂ and energy standards for all ESR sectors to reach higher climate targets as well as a level playing field. The impact assessment of the Commission's Climate Target Plan showed that the overall ESR-target needs to be raised in order to realise the increased 2030 target. Speeding up emission reductions in all the ESR sectors is necessary in order to steer the EU towards climate neutrality by 2050. The Netherlands supports the following for a strengthened ESR architecture:

- **CO₂ and energy standards** (e.g. for vehicles, buildings and installations) should be strengthened and be one of the main drivers to reduce greenhouse gas reductions in the ESR-sectors. The Netherlands urges to combine these with a clear deadline for a phase out of the sale of vehicles with an fossil fueled internal combustion engine;
- In order to safeguard climate neutrality in 2050 in the EU at member state level, the current considerable **differences between ESR-targets of member states should be reduced to all steer towards climate neutrality by 2050 and should reflect cost-effectiveness**. Sufficient flexibility needs to be guaranteed in order to allow Member States to meet their ESR target while at the same time stimulating all Member States to contribute.
- **Any changes in the current policy structure should not occur before a thorough impact assessment** has given clarity on the effectiveness of a new structure. Should the Commission consider to place sectors currently covered by the ESR under a different or new emission trading system, and should this be proven to be the best, effective way forward, a new system could be considered only parallel to the existing system. A parallel system will safeguard sufficient action is taken in all sectors and in all Member States, for only the transitional period (at least until 2030), whilst ensuring practical feasibility.

3. Provide incentives for enhancing sinks while safeguarding the environmental integrity of LULUCF accounting.

The LULUCF sector is important in EU climate policy because the sector has the capacity to sequester carbon and plays an important role in the supply of raw materials necessary to realise a bio-based economy. The Netherlands supports a strengthened LULUCF pillar and is open to further investigate the options mentioned by the Commission. In the meantime, the Netherlands will examine the implications of possible changes to the LULUCF policy to the Netherlands. The Netherlands recognises that a strengthened LULUCF sector will increase the efforts in all Member States to reduce emissions and increase sinks, while safeguarding the robustness of the monitoring and accounting system. The Netherlands encourages the Commission to consider the following:

- The notion of broad **societal consequences** in order to generate public support should be considered with regard to any changes to the LULUCF policy as well.
- In considering any changes to the regulation, the environmental **integrity and robustness** of the regulation of the LULUCF sector has to be safeguarded.
- Changing LULUCF accounting rules should only be considered (as a last resort) if this would have clear positive implications on achieving reduced emissions from/increased sinks of LULUCF.

¹ CCS, including cross-border CO₂ transport and CO₂ transport by ship and truck and investigation of integration of CCU.

² The fallback-benchmarks are less needed when product benchmarks are extended and the heat benchmark is adjusted.

- The policy architecture to achieve the common EU target of at least 55% by 2030 and climate neutrality by 2050 should take into account **specific circumstances within Member States**.
- The use of LULUCF credits for compensation for sectors in the ESR should be assessed very carefully. While it could provide an extra stimulus for carbon sinks, it is important that the incentive to reduce emissions in ESR-sectors will be maintained.

4. Considerations regarding emissions trading in new sectors.

Introducing emissions trading in new sectors, such as the built environment and road transport, requires careful consideration. The Netherlands is **not yet convinced but will critically assess** the Commission's impact assessments and concrete proposals.

If the impact assessments show the extension of the ETS to these sectors to be cost-effective and the Netherlands were to consider emissions trading in new sectors at all, we prefer gradually starting with **separate systems** (no integration with existing ETS for stationary installations), while keeping the ESR at least until 2030 as it is, so that different carbon price levels can co-exist and the pace of the transition in each sector can be safeguarded.

If the Commission considers to change the climate policy architecture, the Netherlands would like to encourage the Commission to take the following elements into account:

- The Netherlands supports the Commission in its investigation of a combination of measures to tackle GHG emissions of maritime shipping, including the option of extending the EU ETS to maritime. In case the ETS option would prove convincing, the necessary **emission reduction in the maritime sector** would likely require **the creation of a separate maritime pillar**. The impact assessment should analyse whether (i) such a maritime EU ETS would be beneficial (ii) effectiveness is guaranteed and (iii) it is in line with the global maritime strategy (i.e. consistent with IMO decision-making). Starting with intra EU would leave out big emitters, while burdening small ship owners. This would require serious efforts to ensure that small ship owners will be able to invest in greening.
- The Netherlands expects including **road transport** in the ETS will not lead to a significant amount of emission reductions in the Netherlands in comparison to strong emission standards and the RED transport target. The current road transport instruments provide the most efficient tools to achieve the 2030 emission reductions in the Netherlands. Emission trading should therefore **not replace sector-specific policies that have already proven to be effective** such as emission standards. The impact assessment should clarify whether the policy change will have complementary benefits i) to reaching a climate neutral Union by 2050 in comparison to the existing policy instruments and ii) whether it will have significant effects at EU level and for other member states.
- With regard to **the built environment**, the Netherlands is not convinced inclusion of the built environment sector to the ETS will lead to a significant amount of emission reductions at a national level. Similar requirements are set with regard to the impact assessment outcomes for the road transport sector and the built environment, namely it should clarify whether i) the policy change will have complementary benefits to reaching a climate neutral Union by 2050 in comparison to the existing policy instruments and ii) whether it will have significant effects at EU level and for other member states.
- Regarding an upstream emissions trading system for **all fossil fuels**, careful attention has to be paid to the sectoral concerns as described above. Only when these concerns are met and it is proven to present important benefits in terms of effectiveness and administrative feasibility, such a system could be considered.

Other important instruments

Detailed positions are expressed in the public consultations (ETS, ESR, RED, EED, LULUCF (non-paper), F-gas regulation) and several non-papers (CBAM, CO2 standards, CCS, State Aid Rules for Environmental Rules for environmental protection and energy, energy system integration, sustainable aviation and aviation fuels) submitted to the Commission.

Energy Efficiency Directive and Renewable Energy Directive

Focusing on CO₂ emission reductions is key to the Netherlands as this allows to achieve the EU climate goals in the most cost-effective manner. Member States should maintain the flexibility to achieve their national CO₂-emission target, both for 2030 and 2050 in the most cost-effective way. This means that each Member State should be able to choose the most optimal and cost-effective mix of measures related to energy efficiency, renewable energy and other CO₂-reducing measures to contribute to the overall target of 55%. Therefore, we are not in favor of binding targets for renewable energy and energy efficiency, especially not on a Member State level, with the exception of the transport sector where the renewable energy target and blending obligation have proven to be very cost-effective in realizing the necessary emission reductions. Furthermore, regarding the EED, the Netherlands is critical towards binding requirements for the Energy-Efficiency First Principle and energy-audits as these instruments would impose on the flexibility of Member States to achieve the climate targets.

Energy Taxation Directive

The Netherlands is in favour of increasing the minimum rates in the Energy taxation. Furthermore, the directive needs to be updated to improve the functioning of the EU internal market and to align the directive with the climate goals of the Green Deal.

Carbon Border Adjustment Mechanism

A Carbon Border Adjustment Mechanism (CBAM) could serve as an instrument for effective EU climate policy, as a properly designed CBAM can provide long term carbon leakage protection and strengthen the incentive for both EU and non-EU companies and governments to reduce GHG-emissions. There are three main conditions a CBAM should meet: WTO-conformity, assuring a gradual implementation process and the selection sectors in a step-by-step approach, and limiting the administrative burden on businesses while ensuring the operational feasibility.

F-gas regulation

There is merit in broadening the scope to regulate all F-gases, reduction of exemptions, lowering or removing thresholds, stepping up efforts in efficient leakage control and stimulating (the safe use of) alternatives. Improve the approach aimed at illegal trade and possible acceleration of the reduction scheme before 2030 and aligning it beyond 2030 the Kigali amendment.

Energy Performance of Buildings Directive

European legislation on energy performance of buildings could contribute to cost-effectively achieve GHG emission reduction in the built environment when supportive to existing national policy measures. The Netherlands is critical towards detailed binding requirements on the energy performance of buildings as this would impose on the flexibility of Member States to achieve the climate targets. Furthermore, measures with regard to renovation should be focusing on the long term to stimulate investments committed to achieve the GHG reduction goals, to enhance predictability of policy measures and to facilitate possibilities for renovation to owners.

Innovation, Development and public support measures

Alongside accelerating climate action via the ETS, ESR and LULUCF, the Commission and Member States need to stimulate innovation and development with a long term vision for reaching climate neutrality in 2050. Public and private investments, incentivizing emission reduction along value chains, the development of green circular markets, and aligned state aid guidelines are essential to develop, scale-up and deploy on a large scale innovative technologies, such as hydrogen, electrification, the full potential of offshore wind energy and CC(U)S. We must urgently create the right conditions for these technologies to develop. For that reason, we need to future proof our rules and regulations, including state aid, to ensure they are fit for an integrated decarbonized energy system, whilst allowing public support for scaling up hydrogen production.