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Unpacking ‘Fit for 55’

Cutting emissions in energy-intensive industries

July 2021

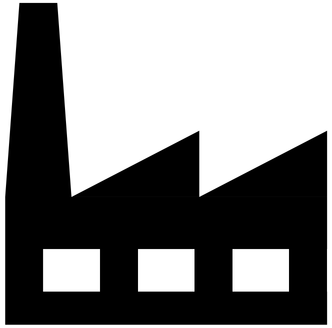
The most ambitious climate package in the EU's history

Following the adoption of the EU Climate Law in June, **the European Union's greenhouse gas emission target was increased from 40% to 55%** (compared with 1990 levels). The EU Climate Law takes the form of an emissions reduction target, making the new target directly binding in every EU Member State and is intended to help ensure that Europe becomes the first climate neutral continent by 2050.

With a higher target also comes the need to revise different pieces of sectoral climate legislation needed to reach the target for 55%, something that the European Commission began preparing soon after the European Green Deal was unveiled back in 2019. The 'Fit for 55' package, the most ambitious package of climate policy revisions in the EU's history, will have far reaching impacts across a range of energy intensive industries, such as cement, steel, aluminium and chemicals.

With the Commission's own estimates putting 25% of the EU's energy consumption down to industry, proposed changes such as a strengthened Emissions Trading System and a revised Renewable Energy Directive will have far-reaching impacts for energy-intensive sectors.

This Cicero/amo overview gives you an overview of the most important files changes for your industry.



Relevant legislative proposals and revisions	
Revision of the EU Emissions Trading System (ETS)	Revision of the Effort Sharing Regulation (ERS)
Proposal for a Carbon Border Adjustment Mechanism (CBAM)	Revision Energy Tax Directive (ETD)
Revision of the Renewable Energy Directive (RED II)	ReFuelEU Aviation and FuelEU Maritime
Revision Energy Efficiency Directive (EED)	Revision of the LULUCF Regulation

Fit for 55: reducing emissions by 55% by 2030

Cutting CO2 by 2030

EU Emission Trading System (EU ETS)

- A one-off cut in allowances within the existing ETS, followed by steeper annual reduction rate to increase the pressure on emitters to decarbonise
- The creation of a parallel ETS for emissions from combustion fuels used in the heating of buildings and road transport, existing ETS extended to maritime transport

Effort Sharing Regulation

Increased emission reductions target of 40% for ESR sectors, encouraging national government action to reduce emissions

Land Use, Land-Use Change and Forestry (LULUCF) Regulation

National targets for the removal of carbon through land use and forestry as of 2026 should lead to the removal of 310 million tonnes of CO2 in 2030

Carbon Border Adjustment Mechanism (CBAM)

Obligatory purchase of CO2 certificates for imports of steel, iron, cement, fertilisers, aluminum and electricity to protect EU industry against risk of 'carbon leakage'

Accelerate energy transition

Renewable Energy Directive (RED III)

- An increased renewable energy target for 2030 of around 40%
- Reinforced measures for individual sectors, such as a 13% greenhouse gas emissions (GHG) intensity reduction target for transport
- Stronger sustainability criteria for use of biomass, along with a broadened scope

Energy Efficiency Directive (EED)

- Introduces a higher binding target for energy savings in the EU of 39% of primary energy production, and 36% of final energy consumption.
- Increases national annual energy savings obligations of final energy consumed to 1.5%, up from 0.8%
- Obliged renovation by Member States of all public buildings

Energy Tax Directive

- Tax energy products like electricity, motor and heating fuels based sustainability and energy content
- End 'de facto' fossil fuels subsidies and promote take-up of electricity and alternative fuels
- Increase in minimum tax rates, e.g. for aviation fuels

Greening transport

CO2 emission standards for cars/vans

- Achieve a 55% emission reduction target by 2030 and 100% by 2035 (compared to 2021)
- The target for 2025 remains unchanged

Alternative Fuels Infrastructure Regulation (AFIR)

Through nationally binding targets for the roll-out of recharging infrastructure in transport, the EU aims to create a dense recharging infrastructure network to match with increased marked demand for alternatively fuelled vehicles

ReFuelEU Aviation

Scale-up green jet fuel blending mandate in five-year intervals starting with 2% in 2025, 5% in 2030, 20% in 2035, 32% in 2040, and 63% in 2050

FuelEU Maritime

Boost uptake of sustainable shipping fuels through obligatory GHG intensity limit for energy ships use onboard

Social Climate Fund

- Will operate from 2025 to 2032 and will partly rely on funding from the EU budget
- Will use 25% of expected revenues from EU ETS for buildings and road transport
- Support vulnerable households in e.g. insulating home or buying an electric car

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Revision EU Emissions Trading System (EU ETS)

One of the most prominent revisions coming out of the ‘Fit for 55’ package is the revision to the EU’s Emissions Trading System (ETS). The ETS caps emissions in certain sectors and divides these emissions up into allowances which can be traded amongst emitters, generating a market and financial incentive to decarbonise.

Under ‘Fit for 55’, the revision of the ETS envisages:

- A one-off cut in allowances within the existing ETS, followed by a steeper annual reduction rate 4.2% in available allowances to increase the pressure on emitters to adapt;

- The Commission will gradually phase out free allowances for sectors covered by the Carbon Border Adjustment Mechanism (CBAM), from 2026 until the end date of 2035;

- Given the price volatility the ETS has experienced in recent years, the Commission is also looking to strengthen the Market Stability Reserve (MSR) through the absorption of more allowances that will help drive up the prices of allowances in a more controlled manner;

- The creation of a parallel ETS for emissions from combustion fuels used in the heating of buildings and road transport. This will impact industries supplying fuel to these sectors, with the obligation to hold allowances falling on suppliers.

[Link to Commission proposal]

Proposal for a Carbon Border Adjustment Mechanism (CBAM)

The Carbon Border Adjustment Mechanism (CBAM) is designed to attribute a border levy to the carbon dioxide that was assumed to have been emitted in the production of primary materials originating from third countries. Intended to complement the ETS in preventing polluting industries relocating to less regulated jurisdictions, the CBAM will focus on the steel, iron, cement, fertilisers, aluminum and electricity sectors.

Under ‘Fit for 55’, the main highlights of the proposal include:

- The CBAM will be phased in 2023 and fully implemented from 2026, after this date the Commission will gradually phase-out free allowances for sectors covered by CBAM, from 2026 until the end date of 2035;

- The CBAM will only apply to imports of primary materials mentioned above and not to composite materials;

- Importers will have to fill out a CBAM declaration, buy certificates and have emissions verified by a third party. The price of the certificates will be calculated according to weekly average auction price of EU ETS allowances expressed in € / tonne of CO_2 emitted;

- The CBAM will apply to all non-EU countries, except those who participate in the ETS or have an emission trading system linked to the EU’s;

[Link to Commission proposal]

Revision of the Renewable Energy Directive (RED II)

The second revision of the Renewable Energy Directive currently sets a binding EU target of 32% of the EU's energy mix being made up of renewables, as well as sectoral sub-targets. It contains further provisions for different forms of energy generation, defining what is 'renewable' or 'sustainable'.

Under 'Fit for 55', the revision of the RED II envisages:

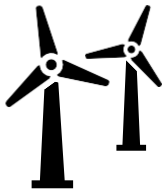
- An increased binding renewable energy target for 2030 of 40%;

- Member States required to meet a 1.1% annual increase in renewable energy sources used for industry. To promote green hydrogen, renewable fuels of non-biological origin will also be required to make up 50% of the hydrogen used in industry by 2030. Alongside this, the proposal also sets out a methodology for labelling green products, providing consumer information on CO2 footprint products;

- New provisions relating to promotion of renewable energy used in industrial heating and cooling, including a binding target for Member States who do not already have renewable shares above 50%;

- Further provisions to promote the rollout of industrial batteries and promote electrification within the EU;

- Stronger sustainability criteria for use of biomass, along with a broadened scope to include new generation biofuels.



[Link to Commission proposal]

Revision of the Energy Efficiency Directive (EED)

The Energy Efficiency Directive (EED) sets a headline energy efficiency target for the EU to reach by 2030, currently set at 32.5%. In absolute terms, this means that EU energy consumption should not exceed 1128 Mtoe (million tonnes of equivalent) of primary energy and/or no more than 846 Mtoe of final energy (post-Brexit figure). Alongside this, the EED sets out sector specific measures to improve energy efficiency.

Under ‘Fit for 55’, the revision of the EED envisages:

- Introduces a higher binding target for energy savings in the EU of 39% of primary energy production, and 36% of final energy consumption. A new “delivery gap mechanism” will be used to calculate how much each Member State must contribute to the broader EU targets. The national annual energy savings obligations of final energy consumed has also been increased to 1.5%, up from 0.8%. This now includes Malta and Cyprus;

- A reinforced ‘energy efficiency first principle’ will ensure Member States consider energy efficiency a priority in planning, policy and major investment decisions;

- Increases national annual energy savings obligations of final energy consumed to 1.5%, up from 0.8%. This now includes Malta and Cyprus;

- Broadens the scope of the renovation obligation to all public bodies, strengthens public procurement obligations, and introduces new criteria for energy audits and energy management systems.

[Link to Commission proposal]

Revision Effort Sharing Regulation (ESR)

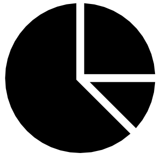
The Effort Sharing Regulation (ESR) was originally envisaged to set binding climate targets for Member States to meet in sectors not covered by the Emissions Trading System (ETS): waste, industry, agriculture, transport and buildings. The European Commission has emphasised that despite the proposed extension of the ETS to sectors covered under the ESR, the two regimes will co-exist.

Under ‘Fit for 55’, the revision of the ESR envisages:

- The EU’s overarching greenhouse gas reduction target for ESR sectors has been increased to 40% for 2030, with the Commission outlining its methodology to strengthen the individual binding targets on Member States contributing to the EU-wide goal. A review is envisaged in 2025 based on available data;

- Despite the extension of the EU ETS to buildings and transport, these sectors stay governed by Member States under the ESR, keeping pressure on governments to reduce emissions;

- To help Member States struggling to meet commitments under the ESR, governments may be able to draw on unused LULUCF credits to offset emissions. This can only be done at the end of reporting period in 2030 and if the EU’s 55% climate goal is reached.



[Link to Commission proposal]

Revision of the Energy Tax Directive (ETD)

The Energy Tax Directive sets minimum excise duty rates for Member States to be applied to energy products such as fuel, motor and heating fuels, and electricity. The Directive has not been revised since 2003 which has made minimum tax rates ineffective. Revision of the ETD should modernise minimum tax rates in line with EU climate ambitions.

Under ‘Fit for 55’, the revision of the Energy Tax Directive envisages:

- Energy products like electricity, motor and heating fuels will be taxed based on how polluting they are, with the rates determined by the energy content of the energy sources (expressed in euros per gigajoules) and coupled with the overall environmental performance of each product;

- Minimum tax rates for fossil fuels will be increased for Member States and the possibilities for exemption/lower rates than set out in the Directive reduced;

- Within the EU, kerosene used in aviation and heavy oil used in shipping will no longer be exempt;

- Member States can reduce or eliminate taxes on power produced with renewables and electricity produced with renewable hydrogen, advanced sustainable biofuels, bioliquids, biogases, e-fuels and e-gasses.

[Link to Commission proposal]

ReFuelEU Aviation and FuelEU Maritime

ReFuelEU Aviation:

ReFuelEU Aviation is set to be a Regulation which introduces new measures to tackle emissions in the aviation sector through the uptake of sustainable aviation fuels (SAFs). The Commission envisages several means of achieving this, including:

- A blending requirement to mix SAF with kerosene, increasing every five years;
- Penalties applicable to infringements of the provisions of the Regulation, including the non-compliance with the SAF supply obligation.

FuelEU Maritime:

Similar to its aviation counterpart, the FuelEU Maritime Regulation seeks to cut emissions from the maritime sector, however, takes a different approach:

- Mandates a fixed amount of sustainable alternative fuels to be used, it instead sets “greenhouse gas intensity limit” which will become higher over time to incentivise a shift to more sustainable fuel types;
- Promotes the use of liquefied natural gas (LNG) as the fossil fuel with the cleanest fossil fuel that remains economically viable for maritime transport, alongside first-generation biofuels.

[Link to RefuelEU Aviation Regulation](#)
[Link to Fuel EU Maritime Regulation](#)

Revision of the LULUCF Regulation

The Land use, land-use change and forestry (LULUCF) Regulation obliges EU Member States to account for greenhouse gas emissions from land use, land-use change or forestry, and ensure that these emissions are balanced out by measures removing an equal amount of CO_2 from the atmosphere – also known as the “no debit” rule. The Commission also presented the new Forestry Strategy alongside the revision.

Under ‘Fit for 55’, the revision of the LULUCF Regulation envisages:

- From 2026, all countries must reach the EU goal of removing 310 million tonnes of CO_2 by 2030 through national binding targets;

- Reinforces Member States’ obligation to submit integrated mitigation plans for land and increase digital monitoring;

- By 2035: include “non-CO_2-emissions from agriculture sector” into the LULUCF sector to achieve negative emissions;

- From 2036: Combined sector should generate carbon removals to balance remaining emissions in other sectors based on carbon removal certification system.

[Link to Commission proposal]

About Cicero

Cicero/amo, part of the Havas Group, designs and implements national, regional and global public affairs and communications campaigns for some of the world's largest listed businesses, new entrant challengers and technology disruptors. We provide clear and original thinking to help organisations craft their message, cut through the noise and lead by example.

Our EU team's energy and environmental policy expertise ranges from carbon market reforms, renewable energy, circular economy, and transport, to chemicals and sustainable corporate governance, alongside well-established expertise in the financial services and digital field.

Get in touch

We hope this overview piece gave you more insights into what the 'Fit for 55' legislative package means for your organisation or sector. In case you are unsure of these initiatives' implications, or if you would like to know how to be effective in contributing to the co-legislative procedure with the European Parliament and the Council of the EU as of September, feel free to reach out to helena.walsh@cicero-group.com.