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Fit for 55: the EC's legislative package to reduce emissions

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On 14 July 2021, the European Commission (EC) released its 'Fit for 55' legislative package, which consists of a set of interconnected legislative proposals aimed at bringing the European Union's (EU's) climate and energy framework in line with the goal of reducing net greenhouse gas emissions by at least 55 percent by 2030, compared to 1990 levels. 2020 to 2030 is seen as the 'make or break it decade' in the fight against the climate crises, key for current greenhouse gas emission levels to drop substantially in subsequent decades.

As part of the European Green Deal, the EU had set a target of achieving climate neutrality by 2050, which has become, with the adoption of the European Climate Law in June 2021, a binding obligation for the EU and its member states. Thus, the Fit for 55 package aims at ensuring that EU legislation and policy are 'fit for' reducing

emissions by at least 55 percent by 2030, which represents an intermediate step toward climate neutrality.

Achieving the 2030 target requires a systemic transformation across the economy. Hence, the package strengthens eight existing legislative acts and proposes five new initiatives, across a range of policy areas and economic sectors, aimed at ensuring a fair, competitive and green transition. The EC's impact assessment analysis underlines that an overreliance on strengthened regulatory policies would lead to high economic burdens, while carbon pricing alone would not overcome persistent market failures and non-market barriers. As a result, the EC's legislative proposals are a mix of pricing, targets, standards and support measures designed to strike an overall balance between fairness, emission reductions and competitiveness.

The following sections provide an overview of the main policy measures affected by the package.

EU Emission Trading System (ETS)

The EC proposes to revise the EU Emission Trading System (ETS), lowering the overall emission cap, increasing its annual rate of reduction, and extending it to sectors not yet covered, such as maritime transport. The EC is proposing that emissions from the current ETS sectors, including the maritime sector, should be reduced by 61 percent by 2030, compared to 2005 levels. The proposal also provides for phasing out free emission allowances for aviation and aligning with the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSI). Furthermore, the proposal provides for the development of a new separate emissions trading system for fuel distribution and for road transport and

buildings to address the lack of emissions reductions in these sectors.

Effort Sharing Regulation (ESR)

The Effort Sharing Regulation (ESR) establishes binding annual greenhouse gas emission targets for member states, addressing emissions from most sectors not included in the ETS, such as transport, heating of buildings, agriculture and waste management. These targets are based on member state GDP per capita, with adjustments to take cost efficiency into account. The EC's proposal maintains the existing architecture and scope of the regulation but proposes to reduce emissions by at least 40 percent compared to 2005 levels.

The proposal sets updated targets to further reduce the range of member states' emissions per capita in 2030 compared to the current targets and includes limited adjustments on how member states can use existing flexibilities to meet their targets. The proposal creates an additional safety reserve to help member states comply with their targets. The ESR will continue to cover the road transport and buildings sectors, alongside their inclusion in a new emissions trading system.

Renewable Energy Directive (RED II)

The EC's proposal to amend the Renewable Energy Directive (RED II) increases the EU target to produce energy from renewable sources to at least 40 percent by 2030, introducing specific targets for renewable energy use in transport, heating, cooling, buildings and industry. The proposal also introduces, in alignment with the EU Hydrogen Strategy, targets for renewable hydrogen and hydrogen-based synthetic fuels. In addition, the proposal sets more stringent sustainability criteria for the use of bioenergy, providing that member states when developing support schemes for bioenergy respect the cascading principle of uses for woody biomass.

Energy Efficiency Directive (EED)

The revision of the Energy Efficiency Directive (EED) sets a higher target for reducing primary and final energy consumption by 2030. The proposal

introduces a system for member states to set their national indicative contributions to the binding EU target and almost doubles member state annual energy savings obligations in end use. The proposal focuses on sectors with high energy-savings potential as heating and cooling, industry and energy services.

It also introduces specific energy saving measures for the public sector. These include the new obligation for the public sector to reduce annual energy consumption by 1.7 percent every year, the enhanced obligation to renovate 3 percent of public building floor area, and the requirement to include more systematically energy efficiency requirements in public procurement procedures.

Regulation on the inclusion of greenhouse gas emissions and removals from the land sector

The Regulation on the Inclusion of Greenhouse Gas Emissions and Removals From Land Use, Land Use Change and Forestry (LULUCF) sets a binding commitment for member states to ensure that accounted emissions from land use are entirely compensated by an equivalent accounted removal of CO₂ from the atmosphere through action in the sector. The EC's proposal sets out the overall EU target of net greenhouse gas removals in the LULUCF sector to 310 million tonnes of CO₂ equivalent in 2030. The proposal also: (i) reinforces the obligation for member states to submit integrated mitigation plans for the land sector and enhances monitoring requirements using digital technologies; (ii) aligns the objectives with related policy initiatives of biodiversity and bioenergy; (iii) determines the EU target of climate neutrality for 2035 in the land sector; and (iv) commits the EC to make proposals for national contributions to the 2035 target by 2025.

Regulation Setting CO₂ Emission Standards for Cars and Vans

The revision of the Regulation Setting CO₂ Emission Standards for Cars and Vans aims at tackling rising emissions in road transport to complement emissions trading by imposing stronger CO₂ emissions

standards for cars and vans to accelerate the transition to zero-emission mobility. Indeed, the average emissions of new cars are required to come down by 55 percent from 2030 and 100 percent from 2035 compared to 2021 levels. As a result, all new cars registered as of 2035 will be zero-emission.

Revision of the Alternative Fuels Infrastructure Directive (AFID)

The revised Alternative Fuels Infrastructure Regulation (AFID) will notably require member states to expand charging capacity in line with zero-emission car sales and to install charging and fuelling points at regular intervals on major highways, every 60 kilometres for electric charging and every 150 kilometres for hydrogen refuelling.

A new carbon border adjustment mechanism to prevent carbon leakage

The EU wants to prevent so-called 'carbon leakage'. As the EU introduces stringent environmental and climate policies, companies based in the EU could move carbon-intensive production in non-EU countries to take advantage of lax standards, or EU products could be replaced by more carbon-intensive imports. Such carbon leakage can shift emissions outside of Europe and undermine EU and global efforts, and it is currently prevented by the issuance of free allowances under the ETS.

To ensure that decarbonisation gains in the EU do not simply push carbon emissions outside EU borders, the EC has proposed the introduction of a new carbon border adjustment mechanism (CBAM), which will introduce a carbon price on imports of a targeted selection of products. The CBAM is designed as a climate measure that should prevent the risk of carbon leakage, ensuring that the same carbon price will be paid by domestic and imported products. The CBAM will initially apply to imports of cement, iron and steel aluminium, fertilisers and electricity. Under the EC's proposal, the CBAM will first be introduced in a transitional phase until the end of 2025 where a simplified system will apply in the first years with the

objective of facilitating a smooth rollout of the mechanism. In the sectors concerned, CBAM will be gradually phased-in while free allowances are phased out, ensuring that the new system provides stronger incentives for the EU and foreign industries to innovate and reduce emissions.

Next steps

While the EU accounts for 8 percent of global CO2 emissions, climate change is a global problem that needs global engagement and international cooperation. The EC's proposals have significant implications for companies doing business in Europe, that will have to comply with the novelty introduced by this extensive package. The coming months will be extremely important to see how the EC's proposal will be revised during the legislative process, which normally lasts around 18 months but could last even

longer in relation to some of the more politically sensitive proposals included in the 'Fit for 55' package.

Since these proposals are all connected and complementary, changing the weight of each tool inevitably has knock-on effects on several others, and removing any of the proposed measures requires tuning up the proposals in other areas. The European Council and Parliament will negotiate to reach a common agreement in view of the final adoption of each legislative act. The EU considers the package as a key step in light of the next United Nations Climate Change Conference, COP 26, which will be held in Glasgow in November 2021. ■

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