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

IMPULSE

Andreas Graf
Matthias Buck

211/05-I-2021/EN
May 2021

Dear reader,

In July 2021 the European Commission will adopt a first set of proposal to align EU climate and energy laws with the EU’s new net -55% climate target. A second set of proposals will follow in Q4 2021.

Given the complexity of the July part of the “Fit for 55” legislative package, everyone involved will be challenged to continue ‘seeing the forest for all the trees’.

To support a healthy public discourse on the package, this report highlights for 10 priority areas the most important concrete measures that must be included in the package to be truly “Fit for 55”; the Agora benchmarks for success.

I hope you find this report informative and stimulating.

Patrick Graichen,
Executive Director, Agora Energiewende

Key findings at a glance

1

The July “Fit for 55” package must be guided by three basic considerations: 1) the need for environmental integrity; 2) the need for social and distributional justice; and 3) the need for strong regulatory standards in support of expanded emission trading. The EU’s new climate architecture must have ambitious national targets and strengthen the use of emissions trading. But it must also be accompanied by additional financial support and policy measures to address the distributional impact on lower-income Member States, poorer households and industry, and deliver strong regulatory policies in all sectors to keep carbon prices in check.

2

The July “Fit for 55” package must ensure enhanced carbon pricing with fairness and environmental integrity. The EU should: (1) strengthen the ETS to accelerate the EU coal phase out and clean industry transformation; (2) tighten the Effort Sharing in the Climate Action Regulation and introduce a new separate ETS Directive for transport and buildings; (3) introduce an effective and cooperative approach to carbon leakage protection; and (4) strengthen rules for energy taxes.

3

The July “Fit for 55” package must include sectoral policies that deliver. EU sectoral policies should: (5) drive the upscaling of renewable energy; (6) drive a just transition in buildings; (7) create an enabling framework for efficiency, electrification, renewables and hydrogen in industry; (8) prepare a phase-out of combustion engines before 2035; (9) roll out the necessary infrastructure for zero emission vehicles; and (10) establish ambitious goals for Agriculture, Forestry and Land-use.

4

Important elements are still missing in the second part of the “Fit for 55” package (Q4/2021). Initiatives are planned on energy efficiency in buildings, on gas and on methane emissions. To be truly “Fit for 55”, the package must also establish a robust framework enabling European industry to invest into climate neutral technologies (e.g., Carbon Contracts for Difference, create new markets for low-CO₂ materials, circular economy targets, infrastructure planning). And the Energy Union Governance Regulation must be adjusted to reflect the higher 2030 targets, the new intermediate climate target for 2040, and ensure that the required updates of national energy and climate plans in 2023/2024 are fully consistent with the “Fit for 55” package.

Content

What it takes to meet the challenge	4
The July Fit-for-55 Package: 10 Benchmarks for Success	10
I Enhanced carbon pricing with fairness and environmental integrity	10
1 Strengthen emissions trading to phase-out coal use over the next decade and accelerate the transition to climate-neutral industry (ETS Directive)	11
2 Increase binding national level targets in the Climate Action Regulation and intro-duce a new separate ETS for transport and buildings (Climate Action Regulation and ETS Directive)	12
3 Develop an effective and cooperative approach to carbon leakage protection for European industries in transition to climate-neutrality (Carbon Border Adjustment Mechanism and ETS Directive)	13
4 Set rules for energy taxes to regulate interaction with new separate ETS and enable energy and mobility transition (Energy Taxation Directive)	14
II Sectoral policies in power, buildings, transport, industry and AFOLU that deliver	15
5 Accelerate deployment of renewable energy and strengthen sustainability criteria for bioenergy (Renewable Energy Directive)	15
6 Increase end-use savings across all sectors, accelerate the decarbonization of buildings and protect tenants (Energy Efficiency Directive)	16
7 Prioritize efficiency and electrification in industry and establish a strong “no regrets” enabling framework for renewable hydrogen (Renewable Energy Directive)	17
8 Tighten CO ₂ limit values for cars and vans by up to 75% and phase-out new combustion engines by latest 2035 (CO ₂ -standards for cars & vans)	18
9 Roll out the necessary infrastructure for zero emission vehicles and end support for fossil gas (Alternative Fuels Infrastructure Directive)	19
10 Establish a separate climate regime for agriculture, forestry, and land-use with binding targets for removals and emission reductions (new AFOLU Regulation)	20

What it takes to meet the challenge

The climate crisis is real. But disaster can be avoided. Europe and the rest of the world must move rapidly away from the use of fossil fuels in all economic sectors (power, buildings, transport, industry, and agriculture and forestry) and expand natural and technical solutions for removing carbon from the atmosphere to offset the emissions that remain. It is technically feasible to replace the use of fossil fuels in almost all cases; often at costs lower than burning fossil fuels. And it is feasible to reverse the deterioration of our carbon sink by investing in our forests and soils, as well as expanding negative emissions technologies. Citizens throughout Europe demand rapidly accelerated climate action from their elected representatives.

In December 2019 EU heads of state and government committed to "the objective of achieving a climate-neutral EU by 2050, in line with the objectives of the Paris Agreement." In December 2020, despite the COVID-19 pandemic, EU heads of state and government set "a binding EU target of a net domestic reduction of at least 55% in greenhouse gas emissions by 2030 compared to 1990"; increasing ambition from the previous 40% target for 2030.

What 55% means in the different sectors

Meeting the 55% target by 2030 would put the European Union on a realistic pathway to climate-neutrality by 2050. But it requires a comprehensive update of the EU's current climate and energy laws, only three years after the Clean Energy for All Europeans-package was adopted. The update must maximize the deployment of known zero-emission technologies in all sectors and accelerate the parallel phase down of fossil-based ones. Where zero-emission technologies do not yet exist or come at comparatively high cost, innovation needs to be spurred.

Figure 1 below shows the projected contribution from each sector to achieving the 55% target by 2030. The sectoral pathways during the 2020-2030 period are as follows:

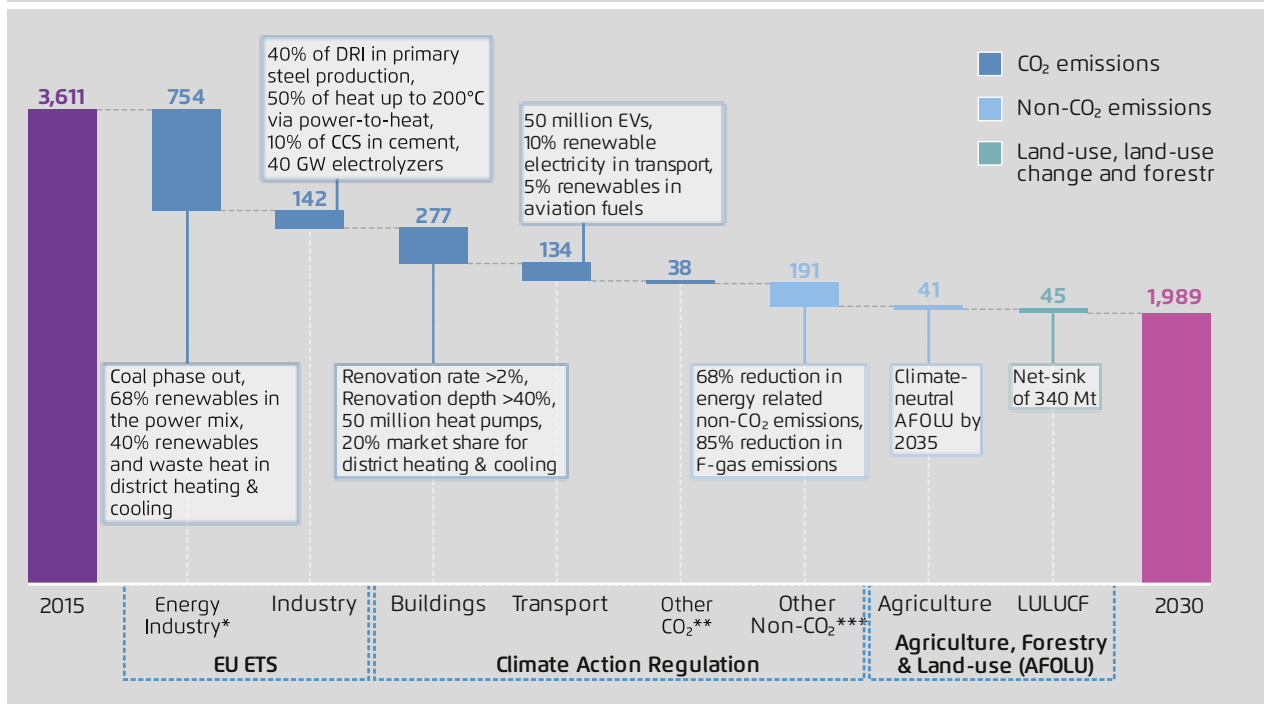
In the **power** sector there is a phase out of coal-use over the next decade, a scaling down of gas-generation, a replacement of coal by renewables, and a predominance of wind (onshore and offshore) and solar photovoltaics. Some decision-makers also consider new nuclear as a viable zero-emission technology. But new nuclear will not contribute to the 2030 target achievement due to its slow deployment and may not help achieving long-term climate neutrality unless basic issues relating to costs, operating security, nuclear waste management and proliferation risk are resolved.

In the **buildings** sector there is, on the demand side, a faster and deeper renovation of the existing building stock and zero energy or net-positive energy buildings for all new buildings. On the supply side, there is a switch from fossil-fuel heating and cooling systems to heat pumps and low-temperature heat networks that make use of all sustainable local renewable energy and waste heat potentials.

In the **transport** sector, there is a rapid conversion from the internal combustion engine to battery electric vehicles for passenger cars and vans, and a yet to be determined mix of zero-emission and climate-neutral technologies for heavy duty vehicles, shipping and aviation, including EVs, fuel cells and sustainable aviation and shipping fuels. Making active mobility attractive in urban areas and rail for long distance.

In the **industry** sector, breakthrough technologies such as hydrogen-based steelmaking, power-to-

Figure 1: Reduction in GHG emissions in MtCO₂-eq in a net-55% scenario with an ambitious sinks target reflecting the trilogue agreement on the EU Climate Law, 2015-2030, by sector



* Energy industry includes power generation, energy branch, refineries and district heating.

** Other CO₂ includes CO₂ emissions from agriculture.

*** 340 Mt is based on the COM LULUCF+ Scenario. The net-sink in the MIX scenario is 295Mt.

Agora Energiewende (2021) based on the MIX and LULUCF+ Scenarios of the European Commission Impact Assessment for 2030 Climate Target Plan.

heat, chemical recycling and CCS in the cement sector are deployed well before 2030. Higher quality recycling of steel and plastics and more efficient use of cement and concrete help to foster an enhanced circular economy with greater material efficiency. Low and medium temperature industrial heat sources begin to switch from gas to clean power. Downstream, final product producers, like construction companies and vehicle manufacturers, use increasingly low-carbon and circular basic materials.

In **agriculture, forestry and land use** (agricultural non-CO₂ emissions and LULUCF), reduced fertilizer use through more efficient application techniques, reduced meat production and consumption, the scaling of artificial meat production and consumption practices, increased carbon retention of soils

through carbon farming, the expansion of natural sinks through afforestation, reforestation and reduced deforestation, as well as the restoration of peatlands and wetlands that have been drained to be converted to agriculture.

Whether Europe's sectors successfully move through these transition pathways is mainly a political challenge; not a technical one. Success requires a stable political commitment and leadership, a robust legal framework, proper planning and clear signals to citizens, companies and private investors.

Currently planned initiatives to make Europe’s climate and energy laws “Fit for 55”

In its 2021 Work Programme, the Commission announced two legislative packages to enshrine the 55% target into Europe’s climate and energy laws.

The “**July package**” will contain 12 legislative proposals:

- a revision of the EU Emissions Trading System (ETS), including maritime, aviation and CORSIA as well as a proposal for ETS as an own resource;
- a proposal for a Carbon Border Adjustment Mechanism (CBAM) and its use as an own resource;
- a revision of the Climate Action Regulation (CAR – aka Effort Sharing Regulation);
- a revision of the Energy Tax Directive (ETD);
- an amendment of the Renewable Energy Directive to implement the ambition of the new 2030 climate target (RED);
- an amendment of the Energy Efficiency Directive to implement the ambition of the new 2030 climate target (EED);
- a revision of the Regulation on the inclusion of greenhouse gas emissions and carbon removals from land use, land use change and forestry (LULUCF);
- a revision of the Directive on deployment of alternative fuels infrastructure (AFID);
- a revision of the Regulation setting CO₂ emission performance standards for new passenger cars and for new light commercial vehicles.

Three further proposals are envisaged in the “Q4 package”:

- a revision of the Energy Performance of Buildings Directive (EPBD);
- a revision of the Third Energy Package for Gas (Directive 2009/73/EU and Regulation 715/2009/EU) to regulate competitive decarbonized gas markets; and
- a legislative proposal for reducing methane emissions in the energy sector;

In Q4/2021, the Commission will also update **EU rules on state aid and on competition policy**. Both policy areas are of eminent practical importance and must be made consistent with the Green Deal to enable governments and the private sector to pursue more aggressive climate protection policies. Once the “Fit for 55” package is on the table, priority issues for the necessary alignment will become clear.

Negotiations on the “Fit for 55” package will likely be concluded by the end of 2023 and the updated laws will take effect in 2024 or 2025, when we are half-way through the 2020–2030 decade. Until then, accelerated climate action primarily relies on the full and effective implementation of the Clean Energy for All Europeans Package, particularly on its elements preparing Europe’s power system for higher shares of renewable electricity, and on the full use of climate-related funding in the 1.85 trillion EUR European budget to ensure the rapid roll-out of clean energy infrastructure.

Still missing: climate-neutral industry and an update to the Governance Regulation

Climate-neutral industry. The ETS reform and the CBAM proposal will primarily address concerns about the competitiveness of incumbent industry in the presence of a significantly increased carbon price. However, the EU must also establish a **robust framework for enabling European industry to invest into the zero-emitting technologies and business models needed for a climate neutral future**. In December, the European Council tasked the Commission to “propose measures that enable energy intensive industries to *develop* and *deploy* new climate-neutral technologies while maintaining their industrial competitiveness” (emphasis added). Thus, in Q4 2021, the Commission should also propose a “**Clean Industry for Europe**” package that includes:

- supportive language on **carbon contracts for difference (CCfD)** in the revised state aid framework and potentially a legislative proposal on an

- EU CCfD mechanism as part of a revision of the ETS Innovation Fund;
- measures to **create lead markets** and to **accelerate demand** for climate-friendly basic materials and their use in final products (e.g. via eco-design limits on embedded carbon, public procurement, CO₂ labelling for basic materials);
 - **circular economy targets** for the most CO₂ intensive basic materials (e.g., concrete, steel, plastics) through, for example, an update of End of Life Vehicles Regulation and the Construction Products Regulation;
 - an update of **EU infrastructure planning instruments** (e.g., TEN-E, Gas Regulation, NECPs) to support the integrated planning of clean energy/CO₂ infrastructure, particularly around industrial clusters.

Energy Union Governance Regulation. Given the framework character of the Governance Regulation it seems sensible to propose targeted updates in Q4 2021 after the finalization of the European Climate Law and once all the pieces of the “Fit for 55” package are on the table. Obvious revisions include adjustments to reflect the higher climate and energy targets for 2030 and the new intermediate climate target for 2040; to ensure that the required updates of national energy and climate plans in 2023/2024 are consistent with the new 2030 climate and energy framework; to address new issues such as the development of climate-neutral industry and renewable hydrogen development; and to consider the increasingly close link between national climate and energy plans and the use of EU and EIB funding in support of climate protection and the clean-energy transition.

Before going into more detail about what the package needs to be considered a success, it seems important to introduce three guiding principles that we believe must underpin the “Fit for 55” package as a whole:

- (i) environmental integrity,
- (ii) social and distributional justice, and
- (iii) strong regulatory standards in support of enhanced carbon pricing.

The need for environmental integrity

If the “Fit for 55” package is to ensure environmental integrity, it must include a climate policy architecture with a robust compliance mechanism. Whatever EU climate policy architecture is chosen, each ton of CO₂ must be governed by the EU Emissions Trading System, the Climate Action Regulation or a new regulation for the agriculture and land use sector. Only in this way can we ensure that the inclusion of sinks in the EU’s net-55% climate target does not come at the expense of climate mitigation.

Furthermore, each instrument must define who is accountable for reducing emissions, and who will be responsible if targets are not met. When emissions trading serves as the central compliance mechanism, prices must be allowed to rise as high as necessary to reach the emission reduction target – which means forgoing price caps.

In this context, an EU-wide emissions trading that includes the buildings and transport sectors, can serve an important role in reducing energy-related emissions by supporting the business case for clean technologies and raising revenues for clean investments.

But to transform the EU economy to climate neutrality in less than three decades, emissions trading is far from enough. Significant additional companion policies will be needed at national and EU-levels to overcome the many market barriers and distortions that often render carbon prices ineffective and to unlock abatement potentials through technologies that are still a long way away from market maturity.

The “Fit for 55” package represents the best chance to strengthen EU-level companion policies such as CO₂-standards for vehicles that will help meet the EU’s climate target cost-effectively and enable consumers to respond to rising carbon prices by reducing their emissions.

The need for social and distributional justice

Delivering the EU's climate target will only be successful if environmental integrity and social and distributional justice go hand in hand.

For example, Member States with below-average GDP per-capita levels will need to make greater relative contributions to EU climate action than is currently the case if the EU as a whole is to achieve climate neutrality by 2050. Additional EU financing must ensure a fair distribution of costs and benefits between EU Member States.

Moreover, while EU-level carbon pricing could be an effective instrument for achieving cost-effective emissions reductions and help raise the necessary revenues for clean investments, policy makers will need to consider household income levels across the EU and the varying degree of vulnerability to a rising carbon price.

Such social and distributional questions pose difficult challenges. But there are solutions for resolving them. For example, the new EU budget for 2021–2027 should play a crucial role in accelerating the roll-out of clean investments to help protect lower-income Member States and vulnerable households. In particular, the EU's Next Generation EU recovery fund earmarks 37% of all funds for climate objectives. This translates into at least 41 billion euros for short-term climate spending for Member States with below

EU-average per capita GDP. These funds will be committed over the course of 2021–2023 and must be spent by no later than 2026.

Additional revenues from carbon pricing should be prioritized for scaling up EU and national-level clean infrastructure investment programmes and to provide targeted support for vulnerable households and lower-income Member States.

Delivering the EU's climate target will only be successful if environmental integrity and social and distributional justice go hand in hand.

The need for strong regulatory standards in support of enhanced carbon pricing

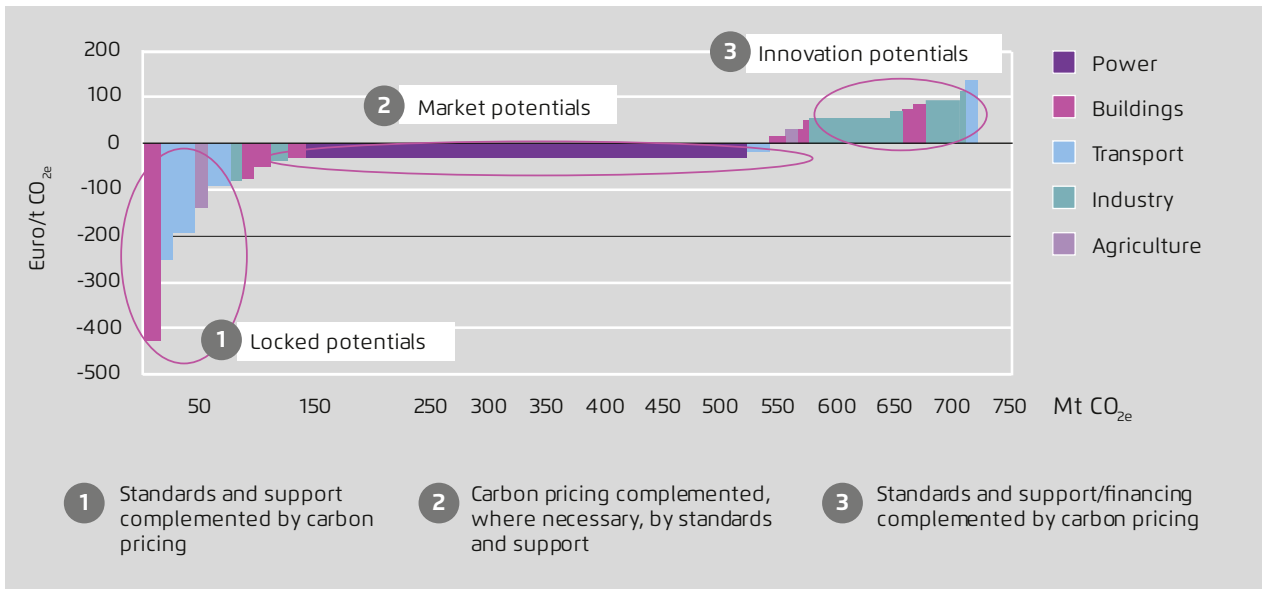
Enhanced carbon pricing will play an essential role in delivering climate action by:

- creating price incentives for the efficient use of fossil fuels and preventing rebound effects from efficiency improvements;
- sending a long-term signal to investors and accelerating the business case for the transition from carbon-intensive to mature, low-carbon solutions such as wind, solar, electric vehicles and heat pumps;
- leveling the playing field between technologies competing across different sectors in a way that supports electrification; and
- generating revenues that can support the transition to a clean economy.

Enhanced carbon pricing must however also be complemented by strong regulatory standards at the EU and national level if it is to remain socially and politically acceptable and contribute to delivering a net-zero economy by 2050 (See Figure 2).

Due to a number of market barriers and distortions transport and heating emissions are less price elastic than emissions from energy and industry, which means that emitters are much less responsive to carbon pricing. As a result, higher carbon prices are needed to achieve a given emission reduction in transport and heating than in the power sector. Most if not all of the barriers and distortions can (and must) be addressed by strong regulatory standards and support policies. The more effective such policies are in lowering emissions, the less reduction also needs to be driven by emissions trading – reflected in a lower carbon price. By contrast, failure to

Figure 2: Mitigation cost-potentials in 2030 by sector grouped according to policy instruments needed for unlocking



Agora Energiewende and Ecologic Institute (2021) based on McKinsey & Company, IEA and Felix Matthes.

introduce strong companion policies can push carbon prices to high

levels and increase political pressure to undermine the carbon pricing incentive effect or even the basic compliance mechanisms of the system.

While emissions trading is a strong tool to drive optimization, its performance in driving innovation and transformative investment is also mixed. Given the scale of the challenge of the transition to

climate-neutrality and the long lead times, massive changes must be initiated in the 2020s in the

housing stock, heavy-duty transport, industrial processes, and other areas. Strong regulatory standards are therefore needed to support the roll-out of new technologies, bring down their cost over time and prevent a lock-in to fossil-intensive infrastructure, technology and lifestyles.

The July “Fit for 55” package: 10 Benchmarks for Success

I. Enhanced carbon pricing with fairness and environmental integrity

1	Strengthen emissions trading to phase-out coal use over the next decade and accelerate the transition to climate-neutral industry (ETS Directive)
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)
3	Develop an effective and cooperative approach to carbon leakage protection for European industries in transition to climate-neutrality (Carbon Border Adjustment Mechanism and ETS Directive)
4	Set rules for energy taxes to regulate interaction with new separate ETS and enable energy and mobility transition (Energy Taxation Directive)

II. Sectoral policies in power, buildings, transport, industry and AFOLU that deliver

5	Accelerate deployment of renewable energy and strengthen sustainability criteria for bioenergy (Renewable Energy Directive)
6	Increase end-use savings across all sectors, accelerate the decarbonization of buildings and protect tenants (Energy Efficiency Directive)
7	Prioritize efficiency and electrification in industry and establish a strong “no regrets” enabling framework for renewable hydrogen (Renewable Energy Directive)
8	Tighten CO ₂ limit values for cars and vans by up to 75% and phase-out new combustion engines by latest 2035 (CO ₂ -standards for cars & vans)
9	Roll out the necessary infrastructure for zero emission vehicles and end support for fossil gas (Alternative Fuels Infrastructure Directive)
10	Establish a separate climate regime for agriculture, forestry, and land-use with binding targets for removals and emission reductions (new AFOLU Regulation)

I. Enhanced carbon pricing with fairness and environmental integrity

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/tCO₂ 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.

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)

Where we are today

- The Climate Action Regulation (CAR) sets a binding -30% EU reduction target and national reduction targets for the sectors not currently covered under the EU ETS – mainly buildings, transport, agriculture, and waste – which make up roughly 60% of EU GHG emissions.
- Current national targets are calibrated for the EU’s outdated climate target and are based on per-capita GDP, ranging from -0% (Bulgaria) to -40% (Luxembourg). This target distribution reflects efforts at solidarity, but fails to put the EU on track to climate-neutrality by 2050.
- Following emissions reductions of nearly 13% in the EU27 between 2005 and 2014, emissions reductions have plateaued or increased in all ESR sectors.
- Member State projections show that currently planned policies and measures can achieve the current EU-level CAR target of -30% GHG emissions vs 2005, but fall far short of the climate action needed to deliver the EU’s new overall 55% climate target.
- The CAR does not expose these sectors to an explicit EU-level carbon price.

Where we want to be in 2030

- The CAR sectors have delivered emissions reductions in line with the 55% climate target.
- Emissions from transport and heating are exposed to a meaningful explicit EU-level carbon price of at least €100/tCO₂ via a new separate ETS.
- National targets under the CAR and the revenue distribution under the new separate ETS are both based on the principle of solidarity.
- Carbon pricing revenues are fully returned to citizens with a priority on supporting investment into housing renovation, the reform of electricity taxes and levies, or to provide relief to vulnerable groups.
- Member States have further supported households and businesses to transition by adopting ambitious EU and national-level companion policies (e.g. see Priorities 1-4). There will also be an early update of the National Energy and Climate Plans and forward-thinking investment support via the EU and national budgets.
- Remaining sectors and emissions in the CAR that are not included in the separate ETS or the new AFOLU sector (see Priority 10) are also subject to robust regulatory regime that ensure they make a significant contribution towards the net-55% target (other non-CO₂ emissions from energy and industry and waste).

What we need to do

- 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.
 - Explore the feasibility of introducing a temporary price collar for the first years of the separate ETS or alternatively a price stabilization mechanism similar to the MSR.

3 Develop an effective and cooperative approach to carbon leakage protection for European industries in transition to climate-neutrality (CBAM and ETS Directive)

Where we are today

- The EU ETS will be adjusted to help deliver the EU’s increased 2030 climate target. The EU needs to avoid the short term leakage of incumbents in the presence of significantly higher (i.e. at least 30-65 €/tCO₂) carbon prices in the period to 2030.
- Even more important, the EU must begin a progressive, cautious and sure transition to a new long-term anti-leakage system. Free allocation will become unsustainable after 2030. It is essential that this new system meets certain criteria: it must ensure that the carbon costs pass-through from green material producers to final consumer (this is key for the long-term business case); it must be politically and legally robust; it must be sustainable for as long as global carbon prices differ (i.e. for a long time); and it must be effective against carbon leakage.
- Presently, a Carbon Border Adjustment Mechanism (CBAM) is discussed as the candidate solution for long-term carbon-leakage protection in Europe. However, not all CBAM designs under discussion would meet the above criteria and the concept as such is little understood. Hence, the EU might encounter significant domestic and international opposition.

Where we want to be in 2030

- The EU has developed a comprehensive policy framework that combines effective carbon-leakage protection for incumbent and green industries, clear timelines for replacing emitting with climate neutral production processes, and a set of up-stream, mid-stream and downstream measures that provide a robust long-term business case for investing in the EU’s climate-neutral industry.
- The EU is leading global efforts to provide transparent, high quality and comparable data on embedded emissions in basic materials and in intermediate products.
- The EU closely cooperates with key trading partners on effective and mutually acceptable approaches to long-term carbon leakage protection for green industries, their interaction and the mutual recognition of such systems.

What we need to do

- To reduce domestic and international political risks associated with a CBAM, the EU will fully engage with its main trading partners to explain why effective carbon leakage protection is necessary for the EU’s own industrial transition under the Paris Agreement, how a CBAM could work, how discrimination and undesirable impacts on developing country exports could be mitigated, and how it could interact with other approaches to carbon leakage protection around the world.
- 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 also 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.
- The EU should prioritize work to improve the availability, quality and comparability of data on embedded emissions in basic materials and in intermediate products. Such data is essential for a transparent, non-discriminatory application of a CBAM. It is also essential for confidence of reticent industries that CBAM can be a truly effective replacement for free allocation. Developing such high quality data also can have other positive spill-overs, e.g. for creating lead markets and trade in green products internationally.
- Since a new long-term anti-leakage system will not be needed until after 2030, the EU can afford to proceed slowly. 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 like steel or products from electro-intensive sectors could follow several years later, when the EU power mix is almost fully decarbonized, and as carbon regulations on industry in key trading partners, like the US and China, mature.
- While waiting for CBAM to phase in in the long run, 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.

4 Set tax rules that enable a clean-energy transition in the energy and transport sectors (Energy Taxation Directive)

<p>Where we are today</p>	<ul style="list-style-type: none"> → The EU Energy Taxation Directive (ETD) lays down rather low minimum levels of taxation for heating fuels, diesel, gasoline and electricity, as well as the conditions for applying tax exemptions. → The primary objective of the ETD is to support the proper functioning of the internal market by avoiding double taxation and other distortions of trade and competition. Environmental protection is currently still treated as a secondary objective - no link exists between the minimum tax rates of fuels and CO₂ emissions. → Member States are free to apply excise duty rates above these minimum levels of taxation, according to their own national needs and environmental ambitions. All revenues from excise duties go entirely to the budgets of the Member States. → The weakness of ETD minimum tax rates has led to a high divergence in national energy tax rates and a broad use of exemptions. It is also leading to inherent contradictions with other EU objectives on environment and energy. These commonly include a lower taxation of diesel vs petrol relative to CO₂ content, a complete lack of fuel taxation for aviation, and a disequilibrium with regards to taxes, levies and surcharges applied to electricity and natural gas. → As taxation remains under the authority of the Member States, a reform of the ETD requires unanimity to be adopted. Failed efforts at reforming the Energy Taxation Directive in the past have shown that unanimity is a high political barrier. The ETD dates from 2003, has not been reviewed since. By contrast, EU-level carbon pricing via emissions trading can be agreed with majority voting rules. → EU retail prices for electricity are on average 3.3 times more expensive than for gas.
<p>Where we want to be in 2030</p>	<ul style="list-style-type: none"> → Member States have established a regime for the energy taxation that regulates the interaction between national excise duties on heating and transport fuels on the one hand and carbon pricing under the new separate ETS (see Priority 6) or EU’s Eurovignette Directive on the other. → Member States have to the greatest extent possible removed barriers to clean investments from energy taxation, including all direct and indirect fossil fuel subsidies.
<p>What we need to do</p>	<ul style="list-style-type: none"> → 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.

II. Sectoral policies in power, buildings, transport, industry and AFOLU that deliver

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

<p>Where we are today</p>	<ul style="list-style-type: none"> → In 2020, renewables overtook fossils for the first time in the EU power sector, but there has been far less progress in replacing fossil fuels in transport and heating. → Key provisions of the recent clean energy package – e.g. on markets, permitting – could accelerate renewables uptake but must be correctly transposed and implemented. → Since 2011, the costs for renewables have markedly declined – 85 % for PV, 40 % for onshore wind and 29 % for offshore wind – but these cost developments have not been matched by a corresponding increase in deployment of renewables in the EU. → Bioenergy contributes almost 60% to EU renewable energy. However, net zero 2050 scenarios underscore the limited potential to expand forestry or land use for bioenergy production beyond current levels, because of the need to enhance natural sinks and to preserve biodiversity. → Guarantees of origin currently do not drive additional green investments by private actors and need reform with a view to rising electricity demand from sectoral integration.
<p>Where we want to be in 2030</p>	<ul style="list-style-type: none"> → The renewables share in gross final energy consumption in the EU has at least doubled. → Throughout the decade 2020-2030, the EU has tripled the deployment speed of renewable electricity compared to today. New actors such as communities, aggregators, business and private investors are part of this upscaling. Public authorities lead by example. → The share of renewables in the EU electricity mix has risen to nearly 70% allowing for a near complete phase-out of coal in the power sector by 2030. → Europe has kept its leading position in offshore wind, expanded into the floating offshore market and brought about a PV manufacturing renaissance capitalizing on the EU’s lead in solar R&D. The competitiveness of EU companies is aided by strong home markets. → A strong transposition by Member States has eliminated market integration and permitting bottlenecks already addressed by the EU’s clean-energy package so that project pipelines can absorb the significant climate funding already available. → Renewable heating and power generation technologies compete on a level playing field with their fossil fuel competitors, helping to accelerate decarbonization in transport and heating, especially through renewable-based electrification (heat pumps, EVs). → Renewable electricity used to produce renewable hydrogen enables “indirect electrification” in some hard to abate industrial processes and to produce synthetic fuels for use in aviation or maritime transport.
<p>What we need to do</p>	<ul style="list-style-type: none"> → 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 scheduled update of current NECPs by 30 June 2024 reflects the higher 2030 climate ambition and require earlier gap filling based on revised timelines. → Revise Article 23 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.

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

<p>Where we are today</p>	<ul style="list-style-type: none"> → The EU is not on track to meet its 2020 energy savings target. Relative to 2005 energy demand increased in transport and services and decreased in households and industry. → Key provisions of the clean energy package – e.g. on energy saving obligations, flexible markets and metering and billing – make increased efforts easier but must be transposed and implemented. → Combined, residential and commercial buildings have the highest energy consumption of all sectors (roughly 40%) and offer the greatest cost-efficient reductions. → New buildings have to be nearly zero energy buildings since January 2021, but 75% of all existing EU buildings are energy inefficient and must be retrofitted or replaced. Current renovation rates and depths are far too low. → Member States are annually required under Article 5 of the EED to renovate at least 3% of the total floor area of public buildings to minimum energy performance requirements, but this applies only to buildings owned and occupied by central governments. → Energy efficiency obligations under Article 7 require Member States to ensure additional annual end-use energy savings of 0.8%. → On private rental markets landlords often have little incentive to renovate, while tenants have limited capabilities to influence their decision. → Article 14 of the EED requires Member States to assess the potential of high-efficiency CHP and efficient district heating & cooling, but integrated local heat planning is still far from adequate in most municipalities.
<p>Where we want to be in 2030</p>	<ul style="list-style-type: none"> → The EU has doubled its efforts on reducing energy consumption in all end-use sectors. → The efficiency first principle is applied in all sectoral legislation. → A framework is in place that ensures product and process requirements are continuously updated and applied in all sectors, including aviation and digital services. → EED, EPBD, upcoming gas package and Governance Regulation ensure that the EU has reduced GHG emissions reductions in buildings by 60% relative to 2015. → All tenants are protected by instruments like ‘all-inclusive rents’ where the landlord pays the costs for heating and hot water, or the Netherlands, where annual rent increase after renovations are allowed up to the level of energy savings due to the renovation. → All municipalities larger than 20,000 are implementing local heat plans that put them on track to transition their heating system to climate-neutrality by no later than 2050.
<p>What we need to do</p>	<ul style="list-style-type: none"> → 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 binding¹. → Revise Article 3 to require 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 a new obligation for gas suppliers to install smart gas meters for all customers unless there is a plan for changing the system from gas to res within the next 10 years.

¹ Based on the European Commission’s MIX scenario

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

Where we are today

- A large energy savings potential in SMEs and large industry still remains untapped.
- Direct use of renewable electricity is also much more energy efficient than “indirect electrification” through the use of renewable hydrogen produced with renewable electricity. Direct electrification can be used to decarbonize, say, low temperature industrial heating processes, home heating, and road or rail transport. Renewable hydrogen should only be used only where no other renewable alternatives are available, such as in some high temperature industrial heating processes or in feedstock for fertilizer production.
- Certain industrial sectors represent a major area of hydrogen demand in the future due to a current lack of alternative decarbonization options in many cases. Steel, ammonia, refineries and chemical plants are widely distributed across Europe. To reduce and eventually eliminate their process emissions, 300 TWh per year of low-carbon hydrogen are required.
- During the 2020-2030 period, the available quantities of renewable hydrogen will not be sufficient to meet industry demand in hard-to-abate sectors. Accordingly, fossil-based hydrogen with Carbon Capture and Storage will be needed for an interim period. However, strong policies in support of renewable hydrogen will shorten the investment window for fossil hydrogen, and likely close it by the end of the 2020s.
- Independent studies have identified priority areas for renewable hydrogen applications, particularly in industry, and have related “no regret” investments into hydrogen infrastructure. The EU regulatory framework does not (yet) demand or support a focus on “no regret”-investments.

Where we want to be in 2030

- European SMEs and industry are the most energy efficient companies globally, giving them a competitive advantage.
- European industry has used its enormous potential to decarbonise low and medium temperature heat processes through use of technologies such as heat pumps, geothermal, enhanced waste heat recovery and hybrid e-boiler/ gas-boiler systems.
- The EU has established a robust framework for scaling renewable hydrogen production and use. It has established 40 GW of electrolyzer capacity and the costs of renewable hydrogen have become competitive with fossil-based hydrogen with CCS.
- The EU regulatory framework prioritizes renewable hydrogen demand where it is needed most, especially in certain sectors of industry.
- “No regret” hydrogen infrastructure development is supported by integrated planning around industrial clusters.

What we need to do

- 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 Renewable Energy Directive (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 in this context establish a “no regrets hierarchy” based on the efficiency first principle. This will require that all renewable energy solutions in industry reflect the energy-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 further require member states to develop enabling measures to promote 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.

8 Tighten CO₂ limit values for cars and vans by up to 75% and phase-out new combustion engines by latest 2035 (CO₂-standards for cars & vans)²

Where we are today	<ul style="list-style-type: none"> → Light duty vehicles (cars and vans) represent about 75% of total EU road transport emissions, which in turn represent 70% of transport greenhouse gas emissions. → European Commission analysis for the 2030 climate target plan foresee roughly 50 million electrified vehicles (electric vehicles and plug-in hybrid vehicles) by 2030. A study conducted by the electricity industry anticipates 50-70 million electrified cars by 2030³. → In order to reach these values, the combined market share of new electric and plug-in vehicles will have to be at least 50% in 2030; in large part Battery Electric Vehicles. → The EU regulates the CO₂ emissions of light-duty vehicles through fleet-wide CO₂ emission-performance standards reflected in targets for 2020, 2025 and 2030. → CO₂ limits for cars and vans have recently undergone their first scheduled tightening from 130g/km (NEDC) to 95g/km. Two further reductions are already set: in 2025 by 15% relative to 2021 and in 2030 by 37.5% relative to 2021. These limits are going in the right direction but insufficient for achieving climate neutrality by 2050. → In view of the typical lifetimes of road vehicles (roughly 15 years) the emissions of newly registered cars must be reduced to zero by 2035. → Zero emissions vehicles now entering the market are not regulated at all in terms of their energy efficiency and with higher CO₂ standards driving electrification, the design of the legislation poses the risk that market forces will lead to a fleet of increasingly large, heavy and energy-consuming vehicles on the combustion side and on the electric side, running counter to the intention of the legislation.
Where we want to be in 2030	<ul style="list-style-type: none"> → The average CO₂ emission levels of new cars and vans have dropped between 50 and 75% relative to 2021, driven by substantial electrification. → The CO₂ emissions performance of combustion-powered cars has improved somewhat relative to today and the end of combustion engines in newly registered cars is in sight within the next five years.
What we need to do	<ul style="list-style-type: none"> → 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: <ul style="list-style-type: none"> • 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.

² See Agora Verkehrswende (2021): Notes on the revision of the EU CO₂ emission performance standards for cars and light commercial vehicles (Regulation (EU) 2019/631)

³ See Eurelectric (2021): Connecting the Dots

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)

Where we are today

- With the tightening of the CO₂ limit values for cars in 2020 from 130g/km to 95g/km, we have seen a jump in the share of electrified cars (battery-electric and plug-in hybrids) from 3% to 11%. The future reduction of the limit values that is already scheduled in the legislation, and their anticipated further tightening as part of the “Fit for 55” package, will lead to substantial further electrification rates.
- The industrial structure around the charging of electric vehicles is taking shape as more players enter the market.
- The future remains less determined for heavy-duty vehicles but a limited number of technology options, all electrified, are emerging. A decision point needs to be prepared but we are not there yet.
- The Alternative Fuels Infrastructure Directive aims at ensuring the build-up of alternative refueling points across Europe with common standards for their design and use.
- Certain fossil fuels are still within the scope of the Alternative Fuels Infrastructure Directive. This is in urgent need of change in view of the EU’s climate neutrality target and the risk of lock-in effects.

Where we want to be in 2030

- The electric charging network across the EU has a sufficient density and spatial distribution to support the light-duty vehicle fleet then on the road, and is being developed further in order to be able to support the gradual full electrification of the fleet post-2030.
- A decision has been taken on the long-term technology pathway in heavy-duty road transport, and the build-up of the associated infrastructure is in full swing.
- Access to vehicle- and charging point-specific data is regulated in a manner conducive to a smooth and user-friendly customer experience at reasonable prices. Access to charging is non-discriminatory.

What we need to do

- 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.

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)

<p>Where we are today</p>	<ul style="list-style-type: none"> → Avoiding emissions is better for the climate than removing carbon due to serious risks related to permanence and accounting and the need for residual emissions to be as low as possible to achieve climate-neutrality. → The EU Climate Law sets a quantitative limit (-225 Mt) to the contribution of net-removals to the EU's 55 % climate target and thus a minimum emissions reduction target. → The EU's net-removals have declined over the last decades from a peak of -337 in 2006 to -264 in 2018, mainly due to an increase in forest harvesting rates, including for bioenergy. Natural disturbances have also been accelerated by climate change like winds, fires, droughts and pests, placing the persistence of natural carbon stocks at risk. → The European Commission has found that it is possible to enhance the EU's carbon sink to levels above 300 million tons CO₂eq. by 2030 and affirmed its commitment to propose a revision of the LULUCF Regulation in line with this ambition. → The LULUCF Regulation governs emissions and carbon removals from land use and forestry and aims to keep emissions and removals in balance by requiring that accounted greenhouse gas emissions from LULUCF are offset by at least the equivalent removal of CO₂ from the atmosphere in the 2021–2030 period (“no debit rule”). → The LULUCF Regulation covers only natural carbon sequestration and emissions on managed lands. It does not cover carbon emissions and removals on unmanaged lands or marine ecosystems. Moreover, while land use emissions from agriculture are covered under LULUCF, non-CO₂ emissions from livestock management and fertilizer usage are accounted for separately under the Climate Action Regulation. → GHG emissions in the agriculture sector can be significantly reduced through a transition from intensive agriculture to agroecological systems, but their complete elimination is considered difficult with current technology and practices. Residual agriculture emissions will, therefore, need to be compensated by sinks to achieve climate-neutrality. → After compliance under the LULUCF Regulation Member States can use a certain number of credits from LULUCF for compliance under the CAR (not exceeding 266 million credits EU-wide for the 2021–2030 period – and split into maximum amounts per country).
<p>Where we want to be in 2030</p>	<ul style="list-style-type: none"> → The EU establishes a combined Agriculture, Forestry and Land Use (AFOLU) sector as a robust separate pillar of the EU's climate policy architecture, ensuring that each of these areas make a reliable contribution to the 2030 target. → All Member States have reduced non-CO₂ emissions from agriculture and increased carbon removals from forestry and land use sectors. → The EU is on track to achieving a climate-neutral AFOLU sector between 2030-2035. → The EU is on track to double net removals from natural sinks by 2050. → The environmental integrity of the EU's climate target is safeguarded by a strict governance that ensures that the AFOLU pillar does not negatively impact emission reduction efforts in the sectors covered by the EU ETS and the current CAR.
<p>What we need to do</p>	<ul style="list-style-type: none"> → Propose emission reductions for the EU based on the maximum contribution of net-removals towards the climate target (-225 Mt), as specified in the EU Climate Law. → Introduce a new AFOLU Regulation covering the LULUCF sectors and non-CO₂ emissions from agriculture, currently covered by the CAR. The regulation should: <ul style="list-style-type: none"> • 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, meaning that emissions from agricultural non-CO₂ emissions and removals from the other land-use sectors are in balance. • introduce differentiated national-level targets and a robust governance to ensure the achievement of the EU's climate-neutrality goal for the AFOLU sector. → Environmental integrity should be enhanced by strictly limiting flexibility with the CAR. → 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 due to climate change.

Agora Energiewende

Anna-Louisa-Karsch-Strasse 2 | 10178 Berlin

P +49 (0) 30 700 14 35-000

F +49 (0) 30 700 14 35-129

www.agora-energiewende.de

<mailto:info@agora-energiewende.de>