

# FIT FOR 55: RENEWABLE ENERGIES

**Proposal COM(2021) 557** of 14 July 2021 for a **Directive** of the European Parliament and of the Council **amending Directive (EU) 2018/2001**, Regulation EU 2018/199 and Directive 98/70/EC as regards the promotion of energy from renewable sources, and repealing Directive (EU) 2015/62

cepPolicyBrief 1/2022

SHORT VERSION

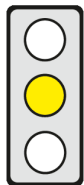
## Background | Objective | Affected Parties

**Background:** The EU wants to reduce its greenhouse gas (GHG) emissions by 2050 to net zero (“climate neutrality”) and by 2030 to 55% compared to 1990 levels (EU 2030 climate target). To achieve this EU 2030 climate target, the Commission has proposed to overhaul the EU climate and energy legislation (“Fit for 55” climate package), including the Renewable Energy Directive [(EU) 2018/2001].

**Objective:** The share of renewable energy (“renewables”) in overall EU energy consumption shall increase to 40% by 2030. Furthermore, renewable targets for specific sectors – e.g. energy, buildings, transport and industry – shall be set.

**Affected Parties:** Energy, fuel and industry sectors.

### Brief Assessment



#### Pro

- ▶ To achieve the deployment of renewables at the lowest possible cost, the predominantly national focus of Member States needs to be abandoned. The Commission rightly wants to strengthen cross-border cooperation between Member States.
- ▶ The selling of guarantees of origins (GOs) can reduce the need for support schemes as producers of renewables have an additional market-based income. The obligation for Member States to issue GOs will support the further market integration of renewables.

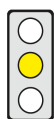
#### Contra

- ▶ Setting general targets – e.g. the use of 50% green hydrogen – can lead to cost disadvantages for the EU industry. For ramping-up green hydrogen, targeted quotas for end uses can be an alternative.
- ▶ Energy demand and costs of switching to renewables of the industry varies between the Member States. Therefore, an EU-wide uniform renewables target should be avoided. The intertemporal switching costs can be lowered by a coordinated development of renewables infrastructure.

## EU and National 2030 Renewables Targets

**COM Proposal:** The revised Renewable Energy Directive (RED III) provides:

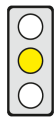
- for a tightened collectively-binding EU 2030 renewables target of at least 40% [RED III, amended Art. 3 (1)];
- that the Member States increase their indicative national 2030 renewables target in line with their respective renewables potential to reach collectively the EU 2030 renewables target [RED III, Art. 3 (2)].



**cep Assessment:** The renewables share in the EU and its Member States should not be determined predominantly by political decision but by competition through the EU emissions trading system (EU ETS) and other instruments of climate and energy policy. The fact that the 2030 renewables target is only binding at EU level and that Member States must specify their national targets avoids the imposition of disproportionately high economic and political costs on Member States with low renewables development potential.

## Reducing Regulatory Barriers

**COM Proposal:** The Commission detects barriers to the deployment of renewables by “overly complex and excessively long” administrative procedures of Member States, e.g., for the granting of permits. It will, therefore, review them and, where appropriate, propose “modifications” [RED III, recital 10 and Art. 15 new paragraph (9)].



**cep-Assessment:** The increased deployment of renewables is hampered by regulatory barriers, e.g., complex and lengthy procedures for the issuing of permits. The Commission’s plan to review administrative procedures can give an incentive for Member States to simplify those. However, this process will take time before results can be achieved. For short-term improvements, the Commission could support the simplification of authorisation procedures by giving guidance on regulations, e.g., regarding species protection.

## Guarantees of Origin

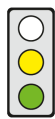
**COM Proposal:** “Guarantees of origin” (GOs) are tradeable certificates that certify to final energy consumers that a given quantity of energy was produced from renewable sources [RED II, Art. 2 No. 12]. In the future, GOs are to be issued upon request to producers of renewable energy, regardless of whether the producers receive financial support from a national support scheme or not. Currently Member States can decide not to issue GOs to producers who benefit from national support scheme [RED III, amended Art. 19 (2)].



**cep Assessment:** The option to sell GOs can reduce the need for support schemes as producers of renewables have an additional market-based source of income. Furthermore, GOs enable companies to decrease their individual GHG emissions cost-efficiently. The proposed obligation for Member States to issue GOs upon request – regardless of whether renewables producers benefit from their national support scheme – facilitates the further market integration of renewables and provides incentives for their increased deployment.

## Strengthening of Cross-Border Cooperation

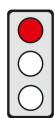
**COM Proposal:** Member States can cooperate with other Member States to achieve their national 2030 renewables targets. By 31 December 2025, Member States must oblige themselves to cooperate on at least one renewables project with at least one other Member State [RED III, Art. 9 new paragraph 1a].



**cep Assessment:** To achieve the increased deployment of renewables at the lowest possible cost, the predominantly national focus of Member States needs to be abandoned. Cross-border cooperation mechanisms between Member States on joint projects should be used to enable Member States to achieve their targets in a more cost-efficient way. Rather than making cross-border cooperation mandatory, it should be ensured that cross-border projects can be realised in an unbureaucratic way.

## Sector-Specific Targets in the Industry Sector

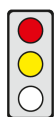
**COM Proposal:** By 2030, Member States must “endeavour” to increase the renewables share in the industry sector used for final energy and non-energy purposes – such as the use as feedstock, e.g., “green hydrogen” for producing steel – by an “indicative average minimum increase” of at least 1.1 percentage points per year [RED III, new Art. 22a (1) subparagraph 1].



**cep Assessment:** The energy demand of the industry varies between the Member States, and hence the costs of switching to renewables. A uniform target for all Member States can prevent companies from pursuing the most cost-effective GHG reduction options induced by the carbon price. Therefore, the proposed target of an EU-wide uniform increase of the renewable share per year should be avoided. The intertemporal switching costs can be lowered by a coordinated development of renewables infrastructure.

## Use of Green Hydrogen in the Industry Sector

**COM Proposal:** By 2030, Member States must “ensure” that 50% of the hydrogen used for final energy and non-energy purposes is produced by renewable sources [RED III, new Art. 22a (1) subparagraph 3].



**cep Assessment:** Since the capability to pass additional costs to customers differs significantly across economic sectors, an industry-wide target is to be seen critically. Setting general targets – e.g., that 50% of the hydrogen used should be produced by renewable sources by 2030 – can lead to cost disadvantages for the European industry. To achieve the envisaged market ramp-up of green hydrogen cost-efficiently, targeted quotas for end uses with greater willingness to pay for green hydrogen could be a better alternative.