Fit for 55: Overview of most important policy proposals for the building sector

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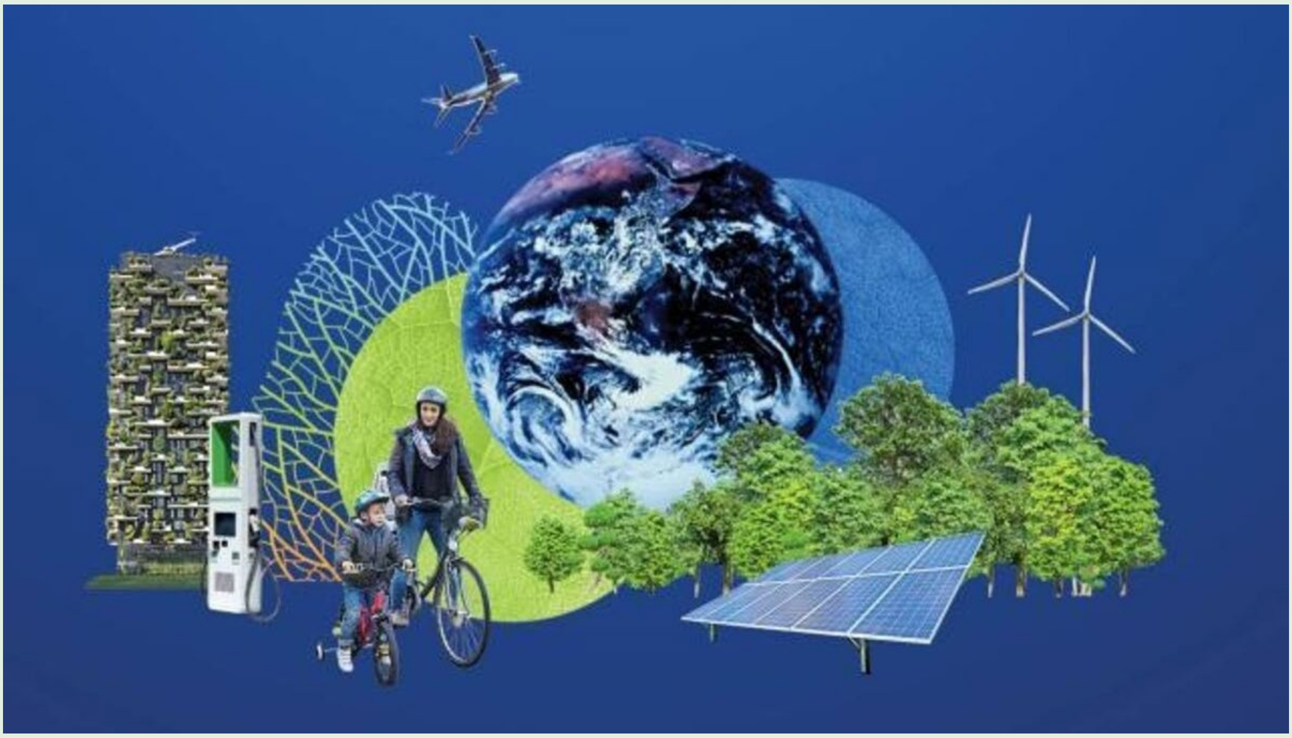
In its mission to deliver upon the European Green Deal, the European Commission has published the first part of the "Fit for 55" package on 14 July 2021. This is a set of 13 proposals to either introduce or revise EU policies related to climate, energy, land use, transport, buildings and taxation to get the EU's policies fit to reach the target of a 55% reduction of greenhouse gas (GHG) emissions by 2030, compared to 1990 levels. In this article we will briefly explain the context of Fit for 55 and give an overview of the policy proposals that are the most relevant for the building sector.

Context of Fit for 55

The package was accompanied by a Communication from the Commission called "Fit for 55: Delivering the EU's 2030 Climate Target on the way to Climate Neutrality". Meaning that these proposals aim to get the EU's policy environment ready to reach its 55% reduction of GHG emissions by 2030 with the long-term objective in mind to get Europe carbon neutral by 2050. As mentioned, the package is a set



of inter-connected proposals where the Commission has aimed to strike a cautious balance in its policy mix between pricing, targets, standards and support measures, as can be seen in **Figure 1**.

The proposals impact a wide variety of sectors such as energy, industry, transport, agriculture and buildings. The latter has been identified as one of the key sector tackle for the reduction of GHG, under the European Green Deal [1] which is exemplified by the Renovation Wave strategy [2] and the objective to double the annual renovation rate of buildings by 2030. In the following sections we will give outline of the four proposals that will likely impact the building sector the most under Fit for 55, being: the proposed extension of the EU's Emission Trading System (ETS) to the building sector; the revisions of the Energy Efficiency and Renewable Energy Directives; and the proposal to introduce a Social Climate Fund with the objective to tackle energy poverty for vulnerable households.

Revision of the EU Emission Trading System: Extension to the building sector

One of the most talked about topics in the months leading up to Fit for 55 was the extension of the ETS to the building and transport sectors. The ETS is a 'cap and trade' system [3] which puts a carbon price on the GHG emissions in a variety of sectors that together cover around 40% of GHG emissions in Europe. A cap is set on total amount of GHG that can be emitted by installations covered by the ETS, to gradually lower the emissions this cap is reduced over time. The owners of these installations can receive or buy emission allowances and trade with one another to remain within the cap of emissions. As the total number of allowances reduce over time, so do the emissions released through these installations.

The ETS already covers around 30% of building emissions from heating, related to the system's coverage of district heating and electricity used for heating.[4] The amendment proposed by the Commission would ensure that a new ETS covers all emissions related to fossil fuel combustion of heating in buildings, e.g. heating through gas, oil or coal. This means that a separate but adjacent trading system will be setup next to the currently existing ETS. This new and self-standing ETS would cover the transport and building sectors together and would avoid disturbances with the ETS that is already in place. The reason to setup a separate system is due to the difference in reduction potential between the already covered sectors and the transport & building sectors, as well as a large difference in factors that influence the demand. A possible merger between the two systems would be assessed a few years after the implementation of the new ETS.

Pricing	Targets	Rules
• Stronger Emissions Trading System including in aviation	• Updated Effort Sharing Regulation	• Stricter CO_2 performance for cars & vans
• Extending Emissions Trading to maritime, road transport, and buildings	• Updated Land Use Land Use Change and Forestry Regulation	• New infrastructure for alternative fuels
• Updated Energy taxation Directive	• Updated Renewable Energy Directive	• ReFuelEU: More sustainable aviation fuels
• New Carbon Border Adjustment Mechanism	• Updated Energy Efficiency Directive	• FuelEU: Cleaner maritime fuels

Support measures

- Using revenues and regulations to promote innovation, build solidarity and mitigate impacts for the vulnerable, notably through the new **Social Climate Fund and enhanced Modernisation and Innovation Funds.**

Figure 1. Overview of policy mix of the first part of the Fit for 55 package.
Source: https://ec.europa.eu/info/sites/default/files/chapeau_communication.pdf

In the current proposal the new self-standing system would be established in 2025 where the regulated entities would only have to report the emissions related to previous years. The issuance of allowances and compliance obligations would start from 2026. The proposed rate of allowances should allow for a reduction of emissions of 43% by 2030 in the transport and building sectors together, compared to 2005 levels.[5]

It needs to be highlighted here that building sector will remain a part of the Effort Sharing Regulation. [6] Initially this Regulation set national binding annual GHG target for non-ETS sectors. In the current proposals the building sector will now be covered in both policies, as the Commission assessed that the combined inclusion of the buildings in both a carbon pricing-system and national target-setting would lead to important synergies that strengthen each other and avoid inefficiencies.[7]

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Introduction of a Social Climate Fund

The abovementioned introduction of a carbon price will be especially large for households that use coal for heating, especially in lower income countries. To balance this the Commission has put forward a proposal to introduce a Social Climate Fund to support households finance investments in energy efficiency, heating & cooling systems and clean mobility. In the current proposal this Fund would be financed through up to 25% of the revenue created by extension of the ETS to the building and transport sectors would go towards this new Fund.[8]

To implement this all Member States would have to establish a Social Climate Plan with an update every two years, together with the national energy and climate plans[9] that will contain a set of measures and investments to address the impact of carbon pricing on vulnerable households.[10] The calculation of maximum financial allocation per Member State depends on a set of indicators related to total population, amount of population at risk of living in poverty in rural areas, GHG emissions from fuel combustion in households and the Member State's Gross National Income (GNI) per capita. In the current proposal Poland would be the largest receiver with a share of 17.61% of the fund, followed by France (11.20%), Italy (10.81%), Spain (10.53%) and Romania (9.26%).[11]

Revision of the Energy Efficiency and Renewable Energy Directives (EED & RED)

The new revisions of the EED & RED have to be seen within the context of the Renovation Wave objectives to at least double the annual renovation and to decarbonise heating & cooling, which are currently responsible for 80% of the energy consumed in residential buildings.

One of the main changes in the EED is that in the new Article 6 it is mentioned that each Member State shall ensure that at least 3% of buildings owned by public bodies shall be renovated each year to at least nearly zero-energy buildings (NZEB).[12] This both widens the earlier set target from government-owned to all publicly owned buildings and raises to depth of renovations to a minimum of NZEB level.

The annual energy savings obligation for Member States are almost doubled for the period between 2024 and 2030 in the new EED proposal, from 0.8% to 1.5%. [13] Furthermore, the revision of the EED introduces a higher target for reducing primary energy consumption (39%) and final consumption (36%) by 2030.

The newly proposed revision of the RED aims to raise the 2030 renewable energy target of gross final energy consumption up to 40%.[14]

The revision of the RED puts a high emphasis on the decarbonisation of the heating & cooling sector, with one of the main introductions being a higher obligation on Member States to increase the share of renewables in this sector by 1.1% per year. For district heating & cooling the annual target for increased shares from renewables and waste heat & cold is increased from 1% to 2.1%. Member States also have to ensure that third parties who supply energy from renewable sources and waste heat & cold can connect to heating & cooling systems with a capacity of above 25MWth.[15]

Next steps

The European Parliament and Council of the EU will now enter into "trialogues" to discuss and amend the proposals put forward by the Commission. An inter-institutional agreement and the entry into force of the legislative texts can easily take up to two or three years. The second part of Fit for 55 is planned for Q4 2021, where the Commission will put forward a proposal for a new revision of the EPBD [16] and provisions for the gas markets. ■

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[5] Ibidem, p. 19 & 34.

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[15] Ibidem, p. 37.

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