

DECEMBER 2023

A comprehensive overview
of outcomes and impacts for
Maltese business





Representing



The Malta Business Bureau represents the Malta Chamber of Commerce, Enterprise and Industry and the Malta Hotels and Restaurants Association (MHRA) in Brussels and Malta. It does so by liaising directly with the European institutions, the Maltese Permanent Representation and with umbrella organisations such as BusinessEurope, EUROCHAMBRES and HOTREC on all policy and funding issues affecting Maltese business interests.

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FORWARD



The Fit for 55 packages provide a comprehensive set of legislative proposals put forward in 2021 by the European Commission to accelerate the EU's efforts in achieving its ambitious climate targets, in line with the EU Green Deal. The package aims to introduce several new policies, while reforming existing ones, with the end goal of reducing greenhouse gas emissions by at least 55% below 1990 levels by 2030. The package consequently tackles various high emitting sectors and industries, such as energy production, transport, buildings, and industry.

On energy, the focus is placed on sourcing cleaner forms of energy by increasing the share of renewable production and significantly increasing energy efficiency. Regarding transportation, the aviation and maritime sectors will be expected to gradually shift towards the use of sustainable fuels and embrace greener practices such as connecting to onshore power supplies and only carrying the fuel required to complete a trip. The sale of new Internal Combustion Engine (ICE) cars shall be banned as from 2035 to reduce the environmental impact of road transport.

Buildings and industry are intricately linked to the above efforts. More specifically, they will be expected to gradually increase the energy efficiency of their operations through, for instance, efficient machinery and increased building renovation, while increasing investment in greener energy onsite.

At the same time, the use of carbon-based fuels across various sectors will be gradually disincentivized through higher taxes and other costs.

Having proceeded through the EU legislative process, most of the proposals within the two Fit for 55 packages have now been adopted as law. As such, I am pleased that this report compiled by the Malta Business Bureau will serve as a useful tool for businesses to be aware of the main outcomes of the Fit for 55 legislations and what changes are expected in the coming years.

Alison Mizzi

President
Malta Business Bureau

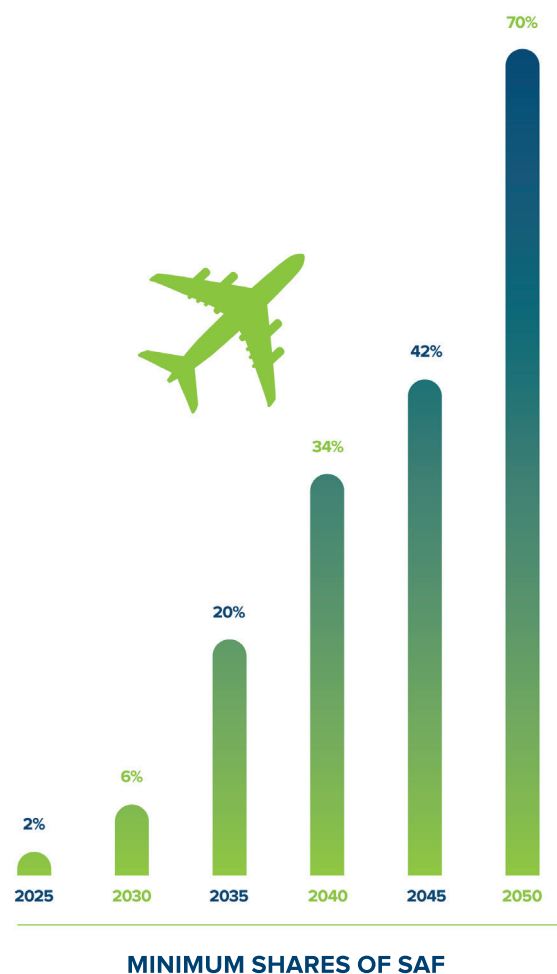
TRANSPORT

Aviation and Maritime Sectors

Collectively, the aviation and maritime sectors are considered two of the largest sources of emissions in the EU. They are estimated to account for 14.4% and 13.5% of transport related greenhouse gas emissions (GHG), respectively. It is for this reason that the European Commission put forward measures to reduce the environmental footprint of these two sectors through the Fit for 55 packages.

Cleaner Fuel for the Aviation Sector

To gradually reduce the dependence on carbon-based fuels, fuel suppliers will be obliged to increase the share of sustainable aviation fuels (SAF) they distribute at EU airports under the ReFuelEU regulation. Consequently, EU airports must ensure the appropriate infrastructure for the storing and refuelling of SAF.

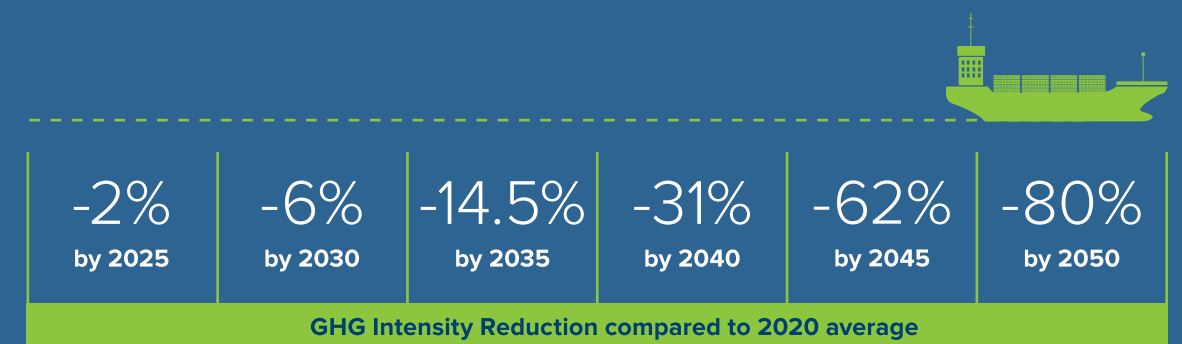


SAFs are currently significantly more expensive than conventional aviation fuels. While prices are expected to decrease as technology and supply improves, airlines are anticipating higher fuel prices in the short to medium term. This transition is expected to lead to higher flight prices. Malta is particularly sensitive to these developments, given its double insularity and heavy reliance on air connectivity for travel and logistics.

To prevent situations in which airlines carry extra fuel to avoid refuelling at more expensive airports, flights departing from EU airports will be required to only refuel with the amount needed for that specific journey. This will help reduce emissions generated due to the extra weight carried from the excess fuel.

Reducing Maritime Emissions

The new FuelEU regulation targeting the maritime sector will oblige ships larger than 5,000 tonnes calling at EU seaports to gradually reduce the GHG emissions they generate. This represents roughly 55% of all ships at EU ports, which alone contribute to 90% of maritime emissions.



Ships must also connect to onshore power while docked at an EU port to help reduce emissions generated.

As with SAFs, shifting to cleaning methods of maritime transport is expected to result in higher transport costs, at least in the short to medium term.

Placing a Price on Carbon: Aviation & Maritime

The EU Emission Trading System (ETS) is a carbon market established to reduce greenhouse gas emissions from the greatest emitting sectors. The system places a price on carbon through the purchase of emission allowances by operators in these sectors. Through the latest revisions under the Fit for 55 packages, the ETS's role in aviation and maritime has been strengthened.

The new agreement will require that free emission allowances will be phased out for the aviation sector by 2026, presenting a greater business incentive for airlines to reduce emissions. Tying into ReFuelEU, revenues from the ETS will contribute towards increasing the uptake of SAF at EU airports.

On maritime, the ETS will cover 100% of the emissions generated for intra-EU trips, and 50% of the emissions of journeys between an EU and non-EU port, for ships larger than 5,000 tonnes. This means that operators falling within scope will have to purchase allowances for the emissions generated which fall under the ETS (Carbon Dioxide, Methane, and Nitrous Oxide). This system will be gradually phased in:

Phase-in of allowances to be surrendered by shipping companies



In the Maltese context, the revised ETS will introduce several potential implications. Free emission allowances granted to airlines will be gradually reduced until being completely phased out. This means that additional emission allowances will have to be auctioned, ultimately increasing the price of aviation (fossil) fuel. In the maritime sector, Malta's continued competitiveness as a popular transshipment hub must be assessed vis-à-vis competition from northern African ports which do not fall under the ETS.

Under Negotiation: Taxing Aviation & Maritime Fuels

The Energy Tax Directive (ETD) lays down structural rules and minimum excise duty rates for the taxation of energy products used as motor and heating fuel, and electricity. Individual Member States are then free to set their own rates if those minimum rates are respected. The European Commission has proposed a revision to this Directive, to introduce a new structure of tax rates and to broaden the taxable base.

The Revised ETD will work in tandem with the other legislation targeting the aviation and maritime sectors by placing a higher price on the use of polluting aviation and maritime fuels, while incentivising a shift towards more sustainable fuels. The revision will consequently remove tax exemptions on fossil fuel (e.g., kerosene and heavy oil) used in the aviation and maritime sectors, effectively increasing the cost of using these fuels.

As a result, if operators pass on the tax to consumers, the cost of transportation and travel would increase, leaving an expected substantial negative impact on sectors of strategic importance to Malta such as tourism and all other sectors involved in import and export activities. The increase in transport costs have a disproportional impact on citizens and businesses located in peripheral member states and island states such as Malta, adversely impacting the economic and social cohesion in the EU.

ROAD

TRANSPORT

Road transport is also considered one of the main sources of GHG emissions in Europe, with cars and vans contributing towards 12% and 2.5% of EU CO2 emissions, respectively. As of 2035, EU institutions have agreed that only cars and vans which emit no carbon dioxide (0g CO2/km) can be manufactured and sold in the EU market. This effectively means a ban for the ICE car using traditional fuels. In the run up to this target, car manufacturers must also gradually reduce the emissions generated by their cars and vans.



Emission Targets for Vehicle Manufacturers

By 2024:

Cars: 95g CO2/km
Vans: 147g CO2/km

By 2029:

Cars: 93.6g CO2/km
Vans: 153.9g CO2/km

By 2034:

Cars: 49.5g CO2/km
Vans: 90.6g CO2/km

By 2035:

Cars: 0g CO2/km
Vans: 0g CO2/km



The most widely accepted alternative to ICE cars is currently the electric vehicle (EV), which is why the Fit for 55 packages have also stepped-up efforts to provide more EV charging points along public infrastructure.

Infrastructure for Alternative Fuels

Ambitious targets to increase the uptake of more sustainable forms of fuel and energy will require the upgrading of infrastructure to enable its feasibility. In this respect, AFIR stipulates that publicly accessible charging infrastructure with a power output of 1.3 kW need to be installed for every battery EV registered in a member state. Furthermore, fast recharging stations (150 kW) need to be installed every 60km along the trans-European transport (TEN-T) network from 2025 onwards, while minimum outputs of 350 kW are to be provided for heavy duty vehicles. Charging points in maritime ports, airports, and for hydrogen cars and lorries must also be set up.

POWER YOUR BUSINESS WITH EFFICIENCY

ROAD TOWARDS A ZERO ENERGY FUTURE IN THE BUILDING SECTOR

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From 2024 all new and renovated buildings will be required to adhere to updated Minimum Energy Performance Requirements (Document F).

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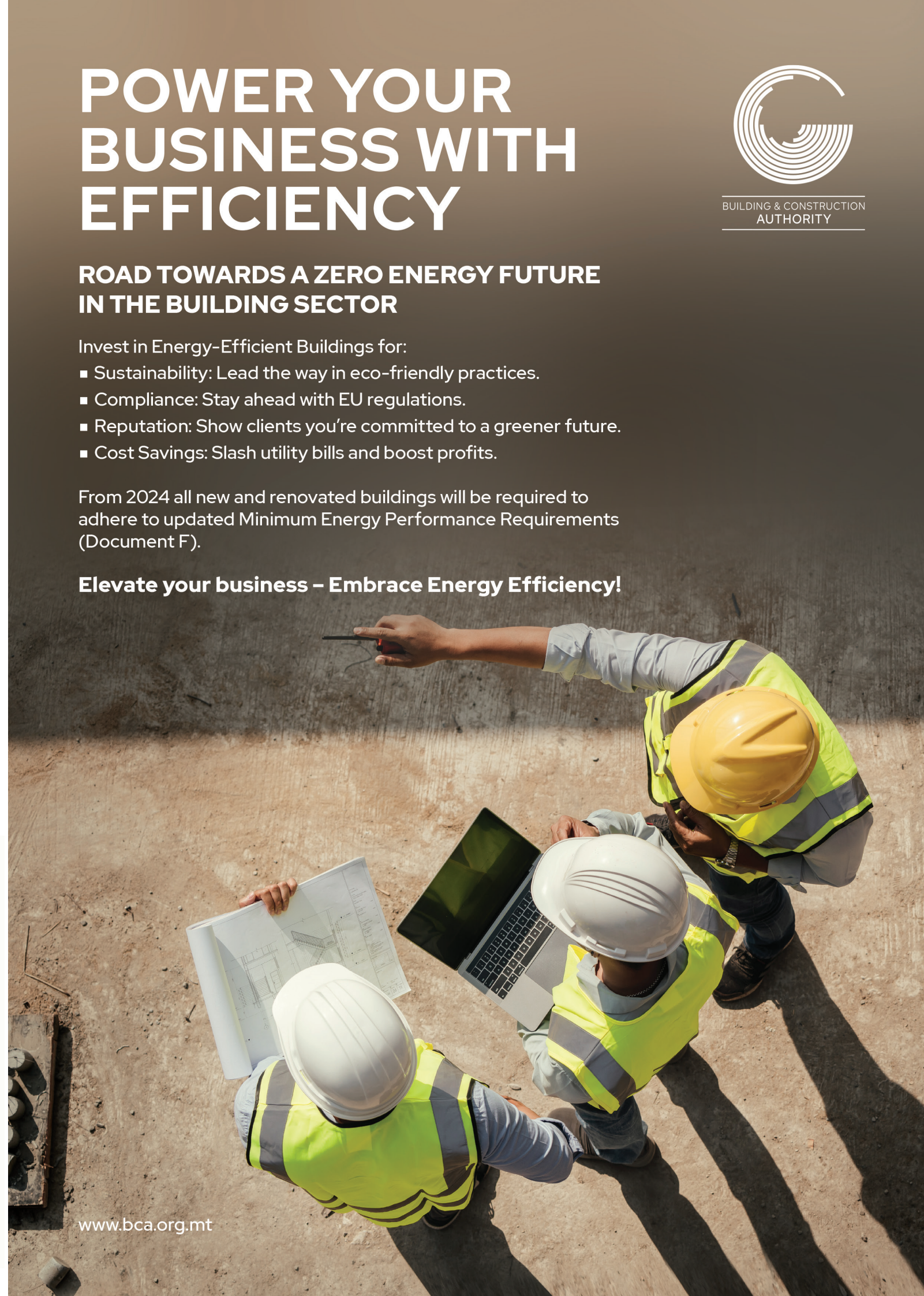
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The European Commission data shows that buildings in the EU account for 40% of final energy consumption, and 36% of all energy-related greenhouse gases. These are substantial percentages which cannot be ignored in the policy drive towards Europe's climate neutrality. In this respect, the Commission has put forward several proposals to reduce buildings' dependence on fossil fuels and their negative environmental impact.

ESG ZEB EPBD

Placing a Price on Carbon: Buildings

For the first time, a new ETS has been set up exclusively for the buildings and road transport sectors, along with fuels designated for other sectors, commencing in 2027. This initiative aims to ensure cost-effective reductions in emissions within these sectors, which have proven to be challenging to decarbonize thus far. 'ETS II' will be applicable to distributors supplying fuels to buildings and road transport, with a portion of revenues from auctions earmarked for the support of vulnerable households and small businesses through the Social Climate Fund.

The linear reduction factor has been determined as 5.15 starting in 2024, which will subsequently increase to 5.43 from 2028 onward. This sets the pace of emission reductions by annually decreasing the overall quantity of available allowances. Furthermore, an additional 30% of the initial year's auction volume will be allocated to ensure a smooth launch of the system.

Under Negotiation: Energy Performance of Buildings Directive

The overall objective of the revised Energy Performance of Buildings Directive (EPBD) is to increase renovation rates of existing buildings in Europe and to achieve a zero-emission building (ZEB) stock by 2050. This is defined by the Commission as a building with a very high level of energy performance, while meeting its energy demands through renewable sources. This will require a large-scale renovation of national stocks of existing buildings across Europe, and the upgrading of technical standards for new buildings.

In terms of new buildings, the proposal introduces a relatively short cut-off date, with all new buildings constructed after 1 January 2030 needing to be zero-emission. This applies to both commercial and residential buildings. New public buildings need to meet an even shorter cut-off date of 1 January 2027. Nonetheless, existing buildings naturally make up the bulk of the national building stock. The initial focus shall be on the worst performing buildings, which correspond to the bottom 15% performers, and which are granted an energy rating of 'G' for classification purposes. This rating is reflected on the building's Energy Performance Certificate (EPC). To gradually bring all buildings in the EU up to standards in terms of energy performance, commercial buildings classified as class 'G' will need to be renovated to meet a higher energy rating by 2027, and again one rating higher by 2030. Further improvements will be planned down the line. The EPBD is currently in trilogue negotiations between the EU Council, the European Parliament and European Commission. The legislation is expected to be adopted in the coming months.

INDUSTRY

Putting a price on carbon: Industry

To meet the EU's GHG reduction target for 2030, emission reduction efforts through the ETS must be stepped up. More specifically, affected sectors will be obliged to reduce their emissions by 62% by 2030 compared to levels recorded in 2005. The revised EU ETS Directive will be implemented until 2030 and will employ a combination of various measures to achieve this target. The ETS includes CO₂ emissions from power plants, civil aviation, and energy-intensive industries such as oil refineries, metalworks, cement, paper, and glass production.

Free allocations have also been amended to target those industries which are likeliest to move their operations to non-EU jurisdictions. A list of these industries is regularly updated by the Commission. Free allowances will be maintained at least until the end of the current phase (2030). For other sectors, free allocation will be gradually phased out starting from 2026 to 2030.

Preventing Carbon Leakage

The European Commission has recognised that despite measures to reduce carbon leakage within the ETS itself, significant burdens on European industry may still lead to competitiveness concerns and leakage to outside the EU. In this respect, the Carbon Border Adjustment Mechanism (CBAM) aims to tackle carbon-intensive goods imported from non-EU countries and simultaneously promote cleaner industrial production. This mechanism allows for levying an appropriate price on carbon emissions generated when producing certain imported goods, making sure that their carbon prices are equivalent to those of domestically produced goods (based on average ETS prices).

The CBAM transitional period came into effect on 1 October 2023, with the first report being submitted in January 2024. The transition period will serve as a pilot phase for affected businesses and national governments. It will initially apply to certain goods that are at high risk of carbon leakage, including cement, iron and steel, aluminium, fertiliser, electricity, and hydrogen. For a full list of products and their respective CN code, refer to Annex I here.

During this period, operators falling within scope will only be required to report on the emissions covered by the mechanism, without purchasing any CBAM certificates. This will allow for the final approach to be adjusted by 2026, while also giving businesses enough time to plan accordingly.

HORIZONTAL MEASURES

Renewable Energy

Renewable energy in the EU is governed through the Renewable Energy Directive II (RED II), which sets the legal framework to increase the share of renewable energy production and consumption in the EU. This directive has been revised to match the EU's ambition in the Green Deal, with a new target of 42.5% by 2030.

Complimenting this, industry is required to increase the use of renewable energy in their operations by 1.6% per year, including through the use of renewable liquid and gaseous fuels of non-biological origin (RFNBO) particularly to produce hydrogen. Separate targets apply to the transport sector, with member states allowed flexibility to choose between a binding GHG emission reduction target of 14.5% or a 29% share of renewables in energy consumption by transport.

For buildings, the new directive has introduced a renewable energy target of 49% in buildings by 2030, including sub targets concerning the use of renewable energy in heating and cooling. The latter should increase nationally by 0.8% per annum until 2026, and by 1.1% per annum until 2030.

Finally, permitting processes for renewable energy projects will be accelerated to help meet EU targets and further reduce dependence on the imports of Russian energy. Deploying renewable energy will also be seen as being in the "overriding public interest," which would restrict opportunities to legally challenge new projects.

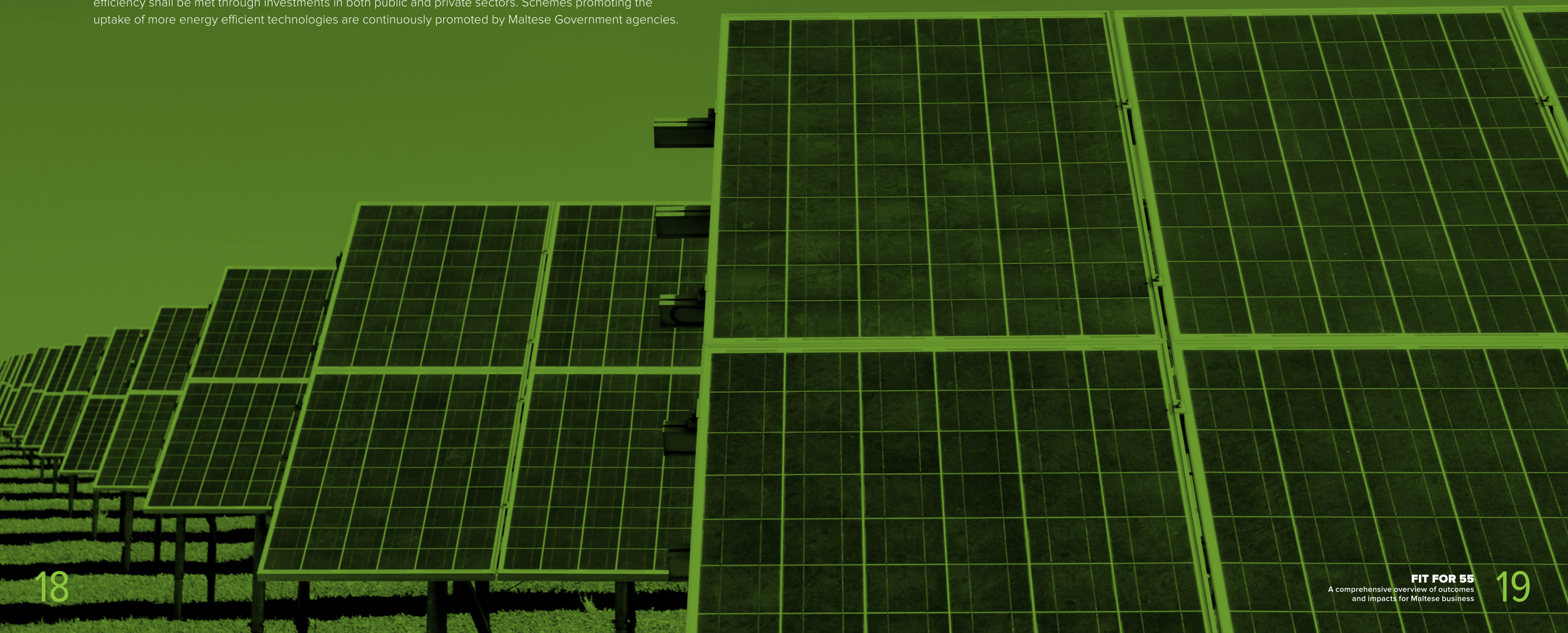
While the figures quoted above are EU-wide targets to be met collectively, each member state will be allocated its own indicative renewable energy target. Malta has indicated its target in the National Energy and Climate Plan of 2019. This is up for a revision in the coming years. Improvements in renewable energy generated shall be met through mainly through public projects, but also through private investment.

Energy Efficiency

The Energy Efficiency Directive (EED) was originally in place to help EU member states reduce energy consumption by at least 20% by 2020. In 2018, this target was raised again to 32.5% by 2030. In line with the Green Deal ambition, the energy consumption reduction target was further increased to 11.7% by 2030, this time compared to 2020 levels. All member states will contribute towards this objective through indicative national targets set by their national energy and climate plans (NECPs). Updated NECPs are due this year and in 2024.

The EED includes mandatory obligations for non-SMEs to conduct energy audits every 4 years. The revised directive has expanded this obligation to cover all enterprises with an average annual energy consumption higher than 10TJ over the previous 3 years. This means that certain high energy consuming SMEs may also be captured. Meanwhile, enterprises with an average annual energy consumption higher than 85TJ over the previous three years are obliged to implement an energy management system.

As with the renewable energy targets, the figures quoted above are EU-wide targets to be met collectively, with each member state being allocated its own indicative energy efficiency target. Improvements in energy efficiency shall be met through investments in both public and private sectors. Schemes promoting the uptake of more energy efficient technologies are continuously promoted by Maltese Government agencies.



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Yesterday, Today, Tomorrow

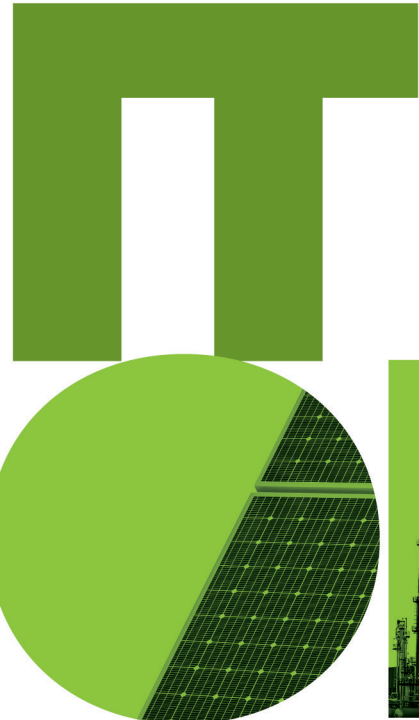


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FOR 55



FIT FOR 55

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