MBB Position Paper on EU Fit For 55 Package

December 2021

The Fit For 55 Package has the overarching aim of reducing the European Union's (EU) greenhouse gas emissions by 55% by 2030, against a base year of 1990. It is a comprehensive package of proposals which involves new and revised measures to mitigate climate change in various areas, including transport, through tackling renewable energy, energy efficiency, emissions trading, and carbon taxes, among others.

Background

In 2019, the European Commission published the EU Green Deal, which sets out a detailed vision to make Europe the first climate-neutral continent by 2050, safeguard biodiversity, establish a circular economy and limit pollution, while boosting the competitiveness of European industry and ensuring a just transition for the regions and workers affected.

In 2020, the European Commission updated its 2030 emissions reduction target to a net 55% reduction compared to 1990 levels, from the 40% target previously set. In 2021, the Fit for 55 Package was presented, containing legislative proposals to revise EU climate and energy laws and introduce new measures.

General reactions

The MBB is fully committed to the vision of a carbon neutral Europe by 2050. Climate change is a real existential threat, the effects of which are now being felt on a societal and even economic level.

This is particularly crucial for countries like Malta, an island in the Mediterranean on the periphery of the European continent, with permanent challenges including insularity, limited natural resources and a heavy reliance on imports, including for food. Supply disruptions abroad have a clear impact on prices and availability locally. Malta is also dependent on inbound Tourism, which in turn relies on favourable weather and climate conditions.

It is in the best interest of Maltese businesses, therefore, in ensuring that climate ambition is addressed as necessary to safeguard livelihoods and ensure prosperity in the long term.

Notwithstanding the above, policy measures must also consider the economic and technical context which they are applied to. Businesses in general are only now starting to recover from the economic hardship brought by the COVID-19 pandemic. It is critical that new or revised measures do not hamper Maltese and European businesses' competitiveness or introduce large cost increases which will invariably be felt by companies, and consequently impact employees and consumers at large.

Energy

Revision of the Energy Efficiency Directive (EED)

Energy Consumption (Art 4.)

While the 9% energy consumption reduction target is in line with the 2030 targets for emission reductions, we should be cautious of introducing a simple cap on energy consumption without considering:

(i) How this will impact industry's potential for decarbonisation, since certain innovative technologies for decarbonisation can themselves be very energy intensive, and;

(ii) Future demand.

'Energy intensity' may be a more useful concept to guide efforts going forward. This refers to the amount of energy used per unit of economic output produced. In this respect, energy efficiency targets should take into account future needs as well as the trade-offs between decarbonization and energy consumption, with an increase in the latter supplied through green energy sources (e.g. RES).

Energy Efficiency First Principle (Art. 3)

The MBB welcomes the proposal to enshrine the energy efficiency first principle into the revised EED, considering energy efficiency is a crucial pathway to achieving climate neutrality goals. However, it sometimes runs contrary to climate objectives, as highlighted in the previous section, and hence, it will be important to fix the scope of action and application of this principle. The end goal of the EU's (and UN's) climate strategy is to reduce greenhouse gas emissions, not energy consumption as such, which should be reflected in the Commission proposals.

Energy Audits & Financing (Art. 11)

The MBB strongly believes in the importance of energy audits to gauge the energy efficiency of business operations and to identify intervention points. Nonetheless, energy audits for SMEs should continue to be optional because obligatory measures would represent a significant cost that could pre-condition their investment plans. Public financial support is therefore crucial in aiding SMEs to undergo this process.

Furthermore, targeted financing instruments must be created to support the recommendations identified in energy audits. This will reduce the risk of auditing becoming a ‘ticking the box’ exercise. It is only by taking up recommendations of audit outcomes that will lead to tangible emission reductions.

Energy Savings Obligation (Art. 8)

The proposed increase in energy savings obligation to 1.5% per annum until 2030 introduces similar concerns to the ones expressed above on energy consumption. Certain technologies which effectively contribute towards decarbonization are themselves highly energy intensive, meaning that large energy saving obligations may risk limiting the investment and innovation that would otherwise be dedicated to developing solutions that would greatly contribute towards the decarbonization of industry. Once again, we believe that energy intensity would prove to be a much more effective and realistic measurement tool to achieve higher energy efficiency.

Public Sector Leading by Example (Arts. 6 & 7)

Commitments by the public sector to lead by example and increase energy efficiency of its own buildings and procurement contracts is a key starting point for this transition. However, it remains to be seen how energy efficiency can be properly implemented in certain public buildings with historical significance without compromising their specific characteristics.

On public procurement, a first step would be to ensure that contracting authorities are regularly up to date with technological developments and revise technical specifications in tenders accordingly.

Revision of the Renewable Energy Directive (REDII)

The MBB welcomes the increased ambition presented by the European Commission in terms of renewable energy targets. The dual goal of increasing energy efficiency and greening energy production is in line with the ultimate goal of carbon neutrality by 2050.

Malta’s contribution on this front is limited due to geographic and technical constraints, with a fixed energy supply link from Europe (interconnector via Sicily) meeting most energy demand since 2017. Nonetheless, Malta should increase its ambition and aim for a higher end target than foreseen with current technological limitations.

Further R&D should be encouraged, also with state-aid support as necessary, to develop more commercially viable renewable energy technologies, which could help Europe meet the 2030 target and allow Malta to be more ambitious in terms of its national capacity for renewables. This ensures a better security of supply and help offset the cost burden of potential increase in energy demand that is still heavily reliant on fossil fuels, and which therefore hampers business competitiveness and economic growth. This especially important considering the risk associated with an overdependency on one country for a reliable energy supply.

Cross-Border Cooperation (Art. 9)

The provisions on cross-border cooperation on renewable energy projects is particularly positive for Malta given the above-mentioned limitations for local RES production. Such connections with continental Europe can facilitate the importation of green energy and reduce reliance on fossil fuels.

Transport

Revision of the Energy Tax Directive (ETD), ReFuel EU Aviation & FuelEU Maritime Proposals[1]

The cost of insularity

The revision of the ETD as well as the introduction of new taxes on aviation and maritime fuels will pose severe threats to Malta's connectivity and competitiveness, leading to inflationary pressures on transport prices for people and goods and potential supply shortages. This is especially worrying considering these sectors' strategic role in supplying essential goods to Malta.

Such threats will undoubtedly disproportionately affect insular and island regions, which are not able to rely on suitable alternative modes of transport for natural reasons. Furthermore, those operating within the EU will be disadvantaged vis-à-vis those operating outside the EU which will not be subject to the same taxes.

Due to the insufficient supply of alternative and sustainable fuels, the difficulty for Malta to procure them, and the increasing doubt whether sustainable fuel production infrastructure will be able to support demand to keep up with established EU blend requirements, aviation and maritime companies will be faced with increasing costs, at a time where these sectors are already hard hit by the COVID-19 pandemic.

The ReFuel EU Aviation specifically sets mandates on the percentage of Sustainable Aviation Fuel (SAF) that is to be blended with conventional jet fuel in future. Even in the case of adequate supply, the price of SAF is some five times more expensive than jet kerosene. While the proposal is targeted towards artificially increasing demand to give a signal to investors and producers to increase supply, there are no signs that the price of SAF will go down as investments made will need to be recouped. Appropriate support will be required to maintain connectivity to and from Malta.

Malta currently has a higher reliance on leisure traffic than business traffic, and it is expected that the Maltese tourism sector will be negatively impacted by the likely increased ticket prices, potentially decreasing the number of inbound tourists. Tourism is a major contributor towards growth and job creation in Malta, amounting to roughly 30% of the island's gross domestic product.

[1] These are three separate proposals within the Fit For 55 package.

Emissions Trading System (ETS)

Maritime Sector (Art. 3a-h)

The Commission's own impact assessment found that both a distinct trading system for maritime transport (as is proposed for road transport and buildings), as well as the integration into the current system would lead to similar emission reductions. The decision to include maritime transport within the existing ETS rather than creating a separate system will lead to increased costs for maritime operators, businesses and consumers.

As discussed in previous sections, price and supply fluctuations abroad are especially worrying for insular countries such as Malta. The impact on peripheral and island state regions should be recognized and address both within the scope of this legislation as well as other policy instruments, such as state-aid to cover additional transport costs due to the insularity of island states and regions.

Aviation Sector

Aviation was included in the EU ETS due to a recognition that it would not be possible to tax fossil fuel globally, the need to avoid a patchwork of taxes and in the absence of a global market-based measure at the time. Since then, a global market-based measure entitled Carbon Offset and Reduction Scheme for International Aviation (CORSIA) was created under the auspices of ICAO.

The proposed amendments to the Aviation ETS propose to include CORSIA within the ETS scheme while further tightening the ETS. One such measure is moving the benchmark to 2023 which could penalize those airlines which took early action and renewed their fleet, unless measures to take this fact into account are adopted. As a result, and due to speculation on allowances leading to very high prices, airlines will increasingly be looking to increase their use of SAF in the absence of any further technological improvements, or better air traffic management which could result in emissions reductions. However, the latter is in the remit of governments.

If all aviation-related measures were to be implemented, the airline industry might end up having to pay for its emissions potentially four times over (under CORSIA, EU ETS, Energy Tax Directive and national taxes). Industry estimates put the cost increase at twenty times current costs. This is unsustainable from a business point of view and such costs would have to be passed on to the consumer. Whereas abroad a modal shift to rail transport would be triggered, in Malta this would not be possible.

Proposal to Create a Social Climate Fund

The expansion of the ETS to cover buildings and road transport will result in several economic and social consequences, most notably rising energy prices and cost of transport. The proposal to create a Social Climate Fund to help offset some of these costs in these two sectors is a positive development.

A careful assessment of the fund and its business case needs to be made to avoid duplication with already existing or proposed funds, just as the Just Transition Fund and the Modernisation and Solidarity Fund.

Alternative Fuel Infrastructure Regulation (AFIR)

Change from Directive to Regulation (Art. 1)

While the previous fragmented expansion in infrastructure needs to be addressed, the system still needs to provide enough flexibility to account for specific national and local circumstances. In particular, the Regulation should leave sufficient flexibility for specific circumstances borne out of the Member States' geographic, economic and legal conditions.

Flexibility is also needed in terms of EU financing and appropriate support programmes to overcome barriers to the deployment of charging infrastructure within Member States. These programmes must ensure that a comprehensive EU-wide network of charging infrastructure is built as quickly as possible given the fast-approaching cut-off date for ICE cars. Charging infrastructure will be key to incentivize the uptake of EVs and hybrids.

Grid Expansion Targets for Publicly Accessible Charging Points (Art. 3)

The proposal design will result in a target of around 3.5 million publicly accessible charging points by 2030, according to the Commission's impact assessment. However, in a previous Non-Paper the Commission argued that to achieve a fleet emissions reduction goal of 50% in 2030, Europe requires at least 4.3 million charging points. It seems that the currently proposed targets are not sufficient for reaching the targets in emission reductions set by the CO_2 emission performance regulation.

Other comments

Carbon Border Adjustment Mechanism (CBAM) and a proposal for CBAM as own resource

The CBAM proposal could be a useful tool to avoid carbon leakage outside of the EU and safeguard the competitiveness of European Industries falling under this proposal. Ensuring compatibility with WTO rules is first and foremost the priority.

Nonetheless, even if compatibility is ensured, third countries may still initiate retaliatory trade measures against the EU. This may have an effect not only on products covered by CBAM, but other important European goods. In this respect, European climate diplomacy with third countries will be crucial to avoid legal and economic battles. *Inter alia*, EU diplomatic efforts should be focused on encouraging third countries to adopt their own carbon pricing systems. Third countries also need to be supported and encouraged to increase the sustainability of their own products.

In the long term, a global carbon pricing system would help alleviate concerns over WTO compatibility and retaliation.

Financing Energy Efficiency

On energy efficiency in particular, financing opportunities was a key issue prior to the pandemic and is even more important now. Maltese businesses are concerned that traditional modes of financing are not adequate to support the energy investments needed:

- Banks are risk averse, especially on energy efficiency projects, due to the variability on the return on investments;
- In the current economic climate, businesses are not in a position to commit own company funds to this investment;
- Investment decisions cannot be based on potential EU funding since approval of project applications is uncertain;
- (Local) government support takes the form of tax credits, which are unattractive to businesses.

A more innovative approach by policymakers, financial institutions and businesses will need to be developed to facilitate this green transition. Ambitious targets must be met by ambitious financing.

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