WWF EPO's first analysis of the 'Fit for 2030' package

Verdict on the overall package

We **welcome** that the European Commission moves closer to a whole of economy approach on climate action in its 2030 package. **However,** the package falls short of what is needed for a science-based and socially-fair approach that delivers consistently on environmental integrity and brings us to **at least 65% emissions reductions** by 2030. This analysis provides details of the positive and negative elements of the package that WWF EPO follows.

A blind spot in this package is the governance framework: a revision of the regulation 2018/1999 on the Governance of the Energy Union and Climate Action is missing whereas it would enable a shift to climate neutrality with the full support and participation of citizens.

ETS Directive Revision

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- **ETS ambition increases** - going up to 61% by 2030 – improvement **but not enough**: WWF calls for at least 70%. The Linear Reduction Factor (LRF) increases to **4,2%**, but it will help cut through the historical surplus only. There is no clarity on the rebasing, which must be combined with an increased LRF as of 2023 to make the system work effectively. Decent progress on strengthening the Market Stability Reserve (MSR) [with a maintained intake rate at 24% until 2030 and the invalidation of allowances above 400 million allowances from 2023].
- Member States shall now spend **100% of ETS revenues on 'climate action'**. The progressive end of free allocation will yield revenues for the Innovation Fund. Problems are that revenues from the decarbonisation of other sectors (electricity, road transport, buildings) will also be siphoned off for industrial decarbonisation. Besides, the Commission might still transfer revenues as own-resources in a future Delegated Act. Inclusion of **maritime emissions** in the scope of the EU ETS (though only half of the extra-EU voyages).

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- **25% of free allocation** to be made **conditional** to industries' progress on energy efficiency (though no clear date as to when it would start). This means major polluters would continue to receive significant amounts of pollution subsidies. All free allocation of allowances must be auctioned in 2023 instead.
- **The proposal to extend free allocation until 2035, instead of 2030 initially, through the revision of the ETS Directive art. 10 a. This is very damaging as it does permit to keep free allowances longer than expected.**
- **What constitutes a 'climate action' spending remains ill-defined**, with remaining loopholes allowing for fossil fuel investments to count as climate action (e.g. CCS, indirect cost compensation). The directive must better define climate action by requiring compliance

with the ‘do no significant harm’ principle and the European Pillar of Social Rights, and consistency with NECPs and TJTPs.

- WWF is critical of the creation of a **separate ETS to cover road transport & buildings**. Sectoral policies are the most effective ways to address emissions in the road transport and buildings sectors accompanied by carbon pricing at national level. [Free allocation in the **aviation sector** will be gradually phased out until 2027 (so not quickly enough), and emissions from international flights (to or from outside the EEA) will be covered by CORSIA allowing offsets of emissions above a 2019 baseline].

CBAM Regulation

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- A positive signal is that the proposal does not mention export rebates, avoiding an important amount of **subsidies for EU Industry**.
- CBAM certificates not used by a declaring entity will be cancelled on an annual basis.

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- The extension of free allocation until 2035. Whereas the risk of carbon leakage could be mitigated through the implementation of a CBAM, we see in effect that free allocation has been extended until 2035, compared to 2030 initially (under the current Directive, revised in 2018). The proposal extends the free allocation through the revision of the ETS Directive art. 10 a.; this is **very damaging** as it does permit to keep free allowances **longer than expected**. It must be designed as complement to the ending of **free allocation** of allowances only. Plus, this proposal would lead to the phase-out of free allocation of allowances only in 2035, but not the indirect cost compensation.
- Only direct emissions (scope 1) are covered by CBAM. This has changed from the leaked version where both direct emissions (scope 1) and indirect emissions (scope 2) were covered. The proposal is now to assess the possibility to extend the scope of CBAM to scope 2 after the transitional period (2023-2026) only. Or CBAM must include indirect emissions as well.
- Most revenues to **finance own resources**. Not supporting developing countries with international climate finance.

LULUCF Revision

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- Target for LULUCF sector **increased** to -310 million tonnes per year in 2030 (current rules assume sink declines to only -225 million tonnes).
- *Potentially* simpler system for accounting from 2026 onwards based on actual, reported emissions and removals.

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- Target **should be much higher** - we’re calling for [600 million tonnes]
- Offsetting between LULUCF and ESR maintained, and full offsetting between LULUCF and agriculture planned for after 2031 (i.e. an ‘AFOLU’ sector).

- Clear intention to **promote more offsetting in future**, by creating system for trading of carbon credits in the land use sector.

RED II Amendments

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- 2030 target increased from 32% to 40%.
- No fossil gas or hydropower provisions added.
- Indicative target of at least 49% share of renewable energy in the building sector by 2030.

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- 40% target **still too low,** this needs to be 50%.
- **No meaningful changes to bioenergy criteria**, so burning trees and crops still incentivised.
- For forest biomass there are some minor tweaks to existing criteria (e.g. to exclude biomass from primary forests and to apply the criteria to smaller plant) but these will have **minimal impact**. And while there are new rules on what feedstocks can be subsidised, only saw logs, veneer logs, stumps and roots are excluded. Finally, the restriction on subsidies for electricity only biomass plant could have been significant but there is a **huge loophole,** namely conversion to biomass in coal-dependent regions.
- Transport target changed from % to carbon intensity, but **based on flawed LCA methodology**, so risks reopening the door to first generation biofuels.

Effort Sharing Regulation (Climate Action Regulation)

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- The **scope of the regulation has been retained,** covering buildings, transport, waste and agriculture emissions.
- Annual emissions budgets for Member States will be set leading to the 2030 target set for each Member State under the ESR.
- In 2025 a revision of emissions data and annual emissions allocation is foreseen reflecting the stimulus package impacts and the COVID recovery trends. A more detailed assessment will be needed about the exact way of implementing it.

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- A revision of the trajectory is foreseen aligning the ESR with the overall target of 55% GHG emissions reductions by 2030. The sectors covered need to reduce emissions by 40% compared to 2005 emissions levels, while for an alignment with a 65% target a **reduction of 50% would be needed**.
- **Flexibilities** between the ESR and LULUCF regulation are still built in.
- An additional reserve of removals will be created which potentially can lead to **even higher flexibility** for countries under the ESR.

- A **lack of clarity** on how the carbon pricing on roads and buildings will play out for the ESR targets and for each country target. No information on the set (and expected) carbon price for buildings and road transport is provided.
- Legal rights for **the public to access national courts** for non-compliance **are not included.**

Social Climate Fund

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- Member States must submit evidenced **social climate plans** to access funds.
- Member State should co-finance the €72.2 billion foreseen with their revenues from the ETS transport and buildings, increasing available funding to €144.4 billion over 7 years.
- Social Climate Plans will be assessed against do no significant harm criteria.

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- It is not clear whether the €72.2 billion (and co-financing) foreseen **will be sufficient to mitigate the negative impact on the poorest households** - and whether the right investments, targeting the lowest income and most vulnerable groups will be prioritised by Member States who must only use a part of their ETS transport and buildings revenues for these groups.
- Fossil fuel investments are **not explicitly excluded** from the fund.
- A strong role for **partnership and consultation** - including at territorial level - is missing.

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- We remain **critical of the extension of the ETS to transport and buildings**, especially while free allocation to industry continues. However, it is welcome that attention - and funding - is given to supporting the most vulnerable and those on the lowest-incomes adapt to the transition.

You can access our press release on the package here.