

A multi-sector, multi-vector approach to 2030 & 2050

The European Commission proposals published in 2021 are key to bridging the climate ambition gap towards 2030, creating a predictable and well-designed policy framework, and ultimately reaching climate neutrality.

Complementing our [paper](#) published in July 2021, the European Net Zero Alliance (ENZA) calls on EU policymakers to ensure that the path towards climate-neutrality by 2050 is supported by:

- Carbon pricing for a competitive climate-neutral EU economy
- An improved taxation framework for energy products
- Leveraging the full potential of renewable and low-carbon gases (like biomethane and hydrogen)
- An effective decarbonisation of the building stock

The members of ENZA are ready to engage in dialogue with policymakers to identify the most comprehensive, impactful, and cost-efficient solutions across all sectors and value chains to meet the European climate goals.

Carbon pricing for a competitive climate-neutral EU economy

A well-functioning EU Emissions Trading System (EU ETS) is instrumental in achieving the EU 2030 climate targets and the 2050 climate-neutrality objective in a cost-effective way.

The EU ETS proposal includes the creation of dedicated separate emissions trading for the buildings and road transport sectors. Long-term drivers for decarbonisation are needed across the European economy, encouraging the uptake of the most cost-efficient emission reduction solutions and facilitating energy system integration. In this context, ENZA members call to:

- Address the possible **impact on household consumers and businesses**, including SMEs. Any distributional effect that carbon pricing might pose must be tackled with measures that support investments in energy efficient and renewable-based solutions in road transport and heating. This will maximise the potential of support while matching national decarbonisation strategies and choice of energy carriers, bringing bill savings and CO2 emissions reductions.
- Consider that sectors currently falling outside the EU ETS, such as road transport, are governed by the **Effort Sharing Regulation (ESR)**, which sets emissions reduction binding targets for Member States. It is important that the EU ETS revision does not undermine Member States' efforts driven by the ESR.
- **Clearly acknowledge the benefits of RFNBOs** (Fuels of Non Biological Origin) and low-carbon fuels. Coherence in accounting mechanisms for RFNBOs needs to be

ensured across the EU ETS and other relevant files, such as the Renewable Energy Directive (RED).

The introduction of a CBAM (Carbon Border Adjustment Mechanism) alongside the revision of the EU ETS should support the competitiveness of strategic manufacturing EU industries, while contributing to achieving EU climate goals. At the same time, final products that offer the EU a climate leadership opportunity should not be forgotten. For example, some components of electrolyzers are covered by CBAM. To reach climate neutrality, it is essential for the industry to have access to affordable clean energy and appropriate infrastructure.

Finally, the Innovation and Modernisation Funds should be directed towards clean investments and investments that support all renewable, efficient and sustainable energy vectors and technologies able to contribute. Moreover, the Social Climate Fund should be increased to match the push for higher ambition in the transport and building sector, earmarking revenues and channelling them to support citizens throughout the transition.

An improved taxation framework for energy products

The new taxation framework under the revised Energy Taxation Directive (ETD) should reflect the potential of each energy source to contribute to reaching energy and climate targets, while respecting sustainability criteria.

ENZA **supports** the move from volume-based taxation to a **system based on energy content and the environmental performance of the fuel**, as a positive step ahead of the current system.

The **minimum taxation rates of renewable fuels and energy carriers** should **better reflect their GHG emission savings**. A direct correlation between carbon content and the taxation minima is needed. Notably, this would also apply to:

- **Biogas:** as long as it meets the sustainability and GHG emission savings requirements set out in the RED II, all sustainable biogas - irrespective of feedstock type and end-use (heat or transport), should be taxed at the same level as electricity.
- **Crop-based biofuels:** as long as they meet the RED II sustainability criteria, they should not be discriminated against.

In the Commission's proposal, electricity gets the lowest minimum taxation level whatever its source, even if it is coal, while sustainable biogas and crop-based biofuels would be taxed 35 times more in 2023 and 71 more in 2033. The recasting of the ETD should ensure a **transparent, clear and fair treatment of these fuels compared to electricity**.

The new energy taxation system should **apply the “energy efficiency first” principle to tax exemptions and reductions**, ensuring that the highest utilisation of energy sources is fully recognised.

Leveraging the full potential of renewable and low-carbon gases (like biomethane and hydrogen)

Renewable and low-carbon gases (like biomethane and hydrogen) will remain essential energy sources, complementing the increasing use of all renewable energy sources, further electrification and energy efficiency measures and contributing to a truly integrated energy system. The use of renewable and low-carbon gases will be important for activities that cannot be fully electrified and for the provision of the necessary medium- and long-term flexibility. This will allow achieving the EU decarbonisation goals faster, while leaving nobody behind. Renewable and low-carbon gases will cover seasonal variations in demand and supply that cannot be met by variable renewable electricity supply nor provided competitively by existing electricity storage technologies. They also enable supply security, the cost-effective reuse of existing assets, and system stability, for example, helping manage unexpected interruption in terms of electrification.

ENZA welcomes the Hydrogen and Gas Market Decarbonisation Package, which aims at encouraging the introduction of renewable and low-carbon gases, their use, and the overall transition to a renewable and low-carbon energy system. The current gas market legislation needs to be brought in line with the European Green Deal, the EU Climate Law as well as the European Commission's Energy System Integration Strategy and the Hydrogen Strategy.

It is essential that the EU legislation recognises the role of cleaner alternative energy carriers and production methods while ensuring competition, diversity and security of supply. The markets for renewable and low-carbon gases should be based on the existing EU gas market design rules. At the same time, a flexible roadmap for market participants, investors, financial institutions and authorities should be developed without over-regulating the market.

A **predictable framework** for renewable and low-carbon gases will be key to scale up their production, reduce their cost and speed up the decarbonisation of the gas sector. In this sense, for ENZA members, it is essential to:

- Establish a harmonised regulatory framework for the future Hydrogen and Decarbonised Gas Market and infrastructure, while ensuring coherence between current and future legislation.
- Introduce demand and supply side mechanisms, with the goal of providing additional predictability and help further accelerate the development of the Hydrogen and Decarbonised Gas Markets.
- Enable the uptake of renewable and low-carbon gases and their efficient use in all sectors, to achieve economies of scale.
- Provide flexibility and guidance to Member States, regional and local public authorities, so that they can develop scenarios for gas decarbonisation based on demand and production trends.
- Increase the cooperation between transmission and distribution networks operators to speed up the uptake of renewable and low-carbon gases.
- Establish clear rules for gas network operators and project developers that facilitate market access for decentralised production of renewable and low-carbon gases.
- Build on existing infrastructure where it is more cost-efficient in order to enable the development of dedicated hydrogen infrastructure and market, allowing hydrogen to become a key component of the energy sector.

Integrated regional and national plans that include all energy networks (electricity, renewable and low-carbon gases, and heat) will ensure that investments are future-proof and

help avoid costly new investments whenever infrastructure can be repurposed. This would provide a proper energy mix that is based on diversification of energy sources and efficiency at system level, through system integration.

A well-functioning market is key to provide end-users with a variety of reliable and flexible renewable and low-carbon options at affordable prices. **Market-based mechanisms** will therefore remain key for ensuring a cost-efficient transition. Nevertheless, some interventions may be needed to support investments and accompany the transition.

Finally, a reliable and robust system of Guarantees of Origin will be key. **Certification schemes** designed to evidence the origin, carbon content and other sustainability attributes of energy underpinned by robust rules and standards will be essential to ensure tradability of renewable and low-carbon gases at EU level.

An effective decarbonisation of the European building stock

Work towards 60% emissions reductions in buildings by 2030 (as outlined in the Renovation Wave, the Climate Target Plan, the Long-Term Renovation Strategies and the National Building Renovation Plans) must focus on renovating heating stock with the phase-in of more efficient and renewable-based solutions in buildings and districts. In this context, it is important to foresee adequate financial instruments to promote their inclusion in building renovations.

An approach is needed that enables the most appropriate solution to be used in any building, according to users' needs, options and local conditions – achieving deep and fast CO₂ cuts, while keeping costs in check and leaving nobody behind.

In this sense, it is important that the Energy Performance of Buildings Directive:

- Acknowledges that buildings must be able to count on the efficient use of a variety of renewable and low-carbon energy sources and energy infrastructure for their decarbonisation.
- Promotes synergies between different energy efficiency solutions in buildings, including the role of local integrated planning of heating and cooling, electricity and gas systems.
- Emphasises the role of on-site and nearby renewable heat solutions, along with distant sources, given their potential for heat decarbonisation. On-site and nearby heat solutions ensure a dedicated and direct supply of heat to buildings and industry.
- Focuses on the renovation of the current building stock, with an approach emphasising and supporting the achievement of CO₂ emissions reductions and the phase-in of sustainable, efficient and future-proof residential / commercial heating solutions[1].
- Encourages the overall optimisation of existing energy infrastructure, providing society with a cheaper pathway to reducing emissions. Heat demand for buildings is a major source of seasonal peak energy demand, which increases the investment costs in energy grids. A variety of heating solutions is needed to reduce the cost of extensive renovation of the building stock and power grid expansion that would be required to accommodate all-electric heating.

Smart buildings need to become active contributors towards the efficiency, resilience and decarbonisation of their neighbourhoods and communities. The smart buildings indicator

needs to reflect the true energy systems integration potential of buildings – including the contribution from smart appliances and the role of the whole building. Building appliances, especially heating systems, are capable of providing not only short-term demand side flexibility, but truly supporting system resiliency through the efficient integration of energy carriers both on-site, at district level or supplied by existing gas networks.

Finally, the EPBD should set clear provisions providing the right framework conditions for achieving swift and deep CO₂ emissions reductions in buildings. First, it is key to ensure the availability of many installers and maintenance professionals with the right set of skills as a key factor to deliver both on consumer needs and on a timely and cost-effective transformation of the building and heating stock. Consumers should be able to rely on professional installers - certified, as required by national legislation – in turn guaranteeing the proper installation of higher efficiency and renewable and low-carbon heating solutions. Second and crucially, the potential of incentives should be maximised, matching national decarbonisation strategies and choice of energy carriers[2]. In particular, the Directive should guarantee access to incentives for all future-proof heating solutions that will drive Europe's buildings to carbon-neutrality, while leaving flexibility to Member States in designing incentive schemes – based on financial availability, national energy system specificities and the characteristics of their building stock.

About ENZA:

The European Net Zero Alliance (ENZA) was created in March 2021 and gathers 17 associations all advocating for cross-sectoral and cross-vectoral solutions towards climate neutrality. The members of these organisations are committed to climate neutrality following the “we can – we want – we will” approach. Find out more on [ENZA's website](#).

[1] The following EPBD renovation measures, among others, should focus on heating and not only on the building envelope: any introduction of minimum energy performance standards for buildings (MEPS), which must be well targeted and adequately funded, the energy performance certificates (EPCs) and renovation passports, as well as the definitions of deep and staged-deep renovation.

[2] It is Member States' right to determine their choice of energy sources (article 194 of the Treaty on the Functioning of the European Union).