

The implementation of the Green Deal legislative programme

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The growth of green finance is not only a question of supply, but also of demand. To give one example, the ongoing growth of the sales of electric cars to the households triggers a growth of car loans, which are to be considered as green given their object. The demand of electric cars is largely influenced by the EU legislation which foresees the end of the sales of fossil fuel cars in 2035. This is why it is interesting for the financial sector to look at the state of execution of the Green Deal legislative programme, which will have implications for the demand for sustainable finance in the coming years.

In this article, we will focus on the part of the Green Deal designed to reduce the emission of greenhouse gas. This comprises some general regulations – like the Climate Law setting the Green Deal and Fit for 55 objectives – and some sector-specific regulations on:

- renewable energies, and related infrastructure,
- energy efficiency in industrial production,
- energy efficiency in transport.

The good news is that a large part of these regulations, proposed by the European Commission, have been already adopted (*part 1*) or are near to their approval (*part 2*).

1. Green Deal legislations officially adopted by the legislators

1.1 Climate Law

The very first text which was adopted by the co-legislators is the **Climate Law**¹. This regulation sets a legally binding EU-wide and economy-wide common target of net-zero greenhouse gas (GHG) emissions

by 2050, and also comprises the -55% of GHG emissions by 2030 target, which gave birth to the Fit for 55 legislative package and all the related texts we evoke in this paper.

1.2 Emissions Trading Scheme: new benchmark values for free allocations and integration of CORSIA

One of the major projects in progress is the **reform of the Emissions Trading Scheme (ETS)**. Set up in 2005 as the first market tool of its kind, the EU ETS is now under its fourth trading phase (2021-2030). The legislative framework for phase 4 of the EU ETS was first revised in 2018, but given the new climate targets set, the Commission has proposed to strengthen the mechanism even more, with the objective to have a carbon pricing in line with the Fit for 55 objective. While the Commission Implementing Regulation on benchmarks values for free allocation of emission allowances 2021-2025² has been published in March 2021, a revision of aviation rules³ in the EU ETS has been adopted to ensure that Member States notify EU-based airlines of their offsetting obligations for the year 2021 under CORSIA⁴. Other texts extending EU ETS to new sectors are close to be voted as well (*cf. infra*).

1.3 Electricity infrastructure: TEN-E regulation

Another important text that was adopted concerns **energy infrastructure in the continent**. The revision of the TEN-E regulation⁵ provides a set of instructions for the prompt advancement and interoperability of the priority corridors and areas of energy infrastructure across Europe. The instructions specify the criteria for identifying projects of common interest (PCIs) and mutual interest (PMIs), while also expanding upon the previous guidelines. This updated version has an extended scope: it now includes smart electricity grids

1. Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'). Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1119>

2. Commission Implementing Regulation (EU) 2021/447 of 12 March 2021 determining revised benchmark values for free allocation of emission allowances for the period from 2021 to 2025 pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and of the Council (Text with EEA relevance). Link : <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32021R0447>

3. Decision (EU) 2023/136 of the European Parliament and of the Council of 18 January 2023 amending Directive 2003/87/EC as regards the notification of offsetting in respect of a global market-based measure for aircraft operators based in the Union (Text with EEA relevance). Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023D0136>

4. The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) of the International Civil Aviation Organisation (ICAO) requires countries to ensure that airlines based in those countries offset CO2 emissions that exceed the relevant baseline (2019 CO2 emissions) by international credits.

5. Regulation (EU) 2022/869 of the European Parliament and of the Council of 30 May 2022 on guidelines for trans-European energy infrastructure, amending Regulations (EC) No 715/2009, (EU) 2019/942 and (EU) 2019/943 and Directives 2009/73/EC and (EU) 2019/944, and repealing Regulation (EU) No 347/2013. Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R0869>

and electricity storage, hydrogen networks and power-to-gas, as well as projects with third countries; but it excludes natural Gas. It also simplifies procedures to grant permits, and proposes the creation of a one-stop-shop for offshore grid development.

1.4 Renewable energy: delegated Acts on RFNBOs

Lastly, three delegated acts have been published by the Commission. Two of them are of particular importance, as they complete the **implementation of the Renewable energy directive**⁶. The delegated Act on renewable liquid and gaseous transport fuels of non-biological origin⁷ provides a methodology to ensure that the electricity used to produce renewable liquid and gaseous transport fuels of non-biological origin (the so called “RFNBOs”) is indeed of renewable origin, while the delegated Act on GHG emissions savings of recycled carbon fuels⁸ sets a minimum threshold and gives a methodology for assessing GHG emissions savings from RFNBOs.

1.5 Delegated Act on chemical hazard classes

The third delegated act published concerns new **chemical hazard classes**⁹, and determines the classification, labelling and packaging of substances and mixtures, notably endocrine disruptors. It seeks to ensure a high level of protection of human health and the environment.

2. Green Deal legislations approved by the legislators

Political agreements have been reached for many other important texts, making them close to being officially enacted.

2.1 Emission Trading Scheme (ETS) for maritime sector and emissions reduction

There is an agreement on the reform of the EU ETS, which is strengthened and extended to new sectors in order to match the new ambitious target of the Climate Law. The co legislators agreed cutting emissions from EU ETS sectors – which will now also encompass the maritime industry – by 63% relative to 2005 levels by 2030. To accomplish this, the proposal¹⁰ involves increasing the linear emissions reduction factor from 2.2% per year to 4.2%.

2.2 ETS Aviation

The ETS Aviation proposal to end free allowances and increase the auctioning system¹¹ has been approved. The EU ETS now includes intra-European flights to and from the UK and Switzerland, while extra-EU flights will be subject to CORSIA. The phasing out of free allowances will occur one year earlier than proposed by the Commission, and full auctioning will be reached by 2026. A mandatory reporting, verification and monitoring (MRV) framework for non-CO2 emissions from aviation is required to be implemented from 2025 and evaluated in 2027.

2.3 ETS II for building and road transport sector

In parallel, a **distinct emissions trading system, called ETS II, will be implemented for fuel distribution in the road transport and building sectors**. The political agreement sets the starting date for the ETS II to 2024 for commercial buildings and road transport, while residential buildings and private road transport would be included from 2029. The fuel distributors that

6. Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (recast) (Text with EEA relevance.) Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32018L2001>. This Directive is currently under reviewal as well

7. Commission Delegated Regulation (EU) .../... of 10.2.2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a Union methodology setting out detailed rules for the production of renewable liquid and gaseous transport fuels of non-biological origin. Link : https://energy.ec.europa.eu/system/files/2023-02/C_2023_1087_1_EN_ACT_part1_v8.pdf

8. Commission Delegated Regulation (EU) .../... of 10.2.2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a minimum threshold for greenhouse gas emissions savings of recycled carbon fuels and by specifying a methodology for assessing greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuels. Link : https://energy.ec.europa.eu/system/files/2023-02/C_2023_1086_1_EN_ACT_part1_v5.pdf

9. Commission Delegated Regulation (EU) .../... of 19.12.2022 amending Regulation (EC) No 1272/2008 as regards hazard classes and criteria for the classification, labelling and packaging of substances and mixtures. Link : https://eur-lex.europa.eu/resource.html?uri=cellar:7f8116e9-7fc3-11ed-9887-01aa75ed71a1.0016.02/DOC_1&format=PDF

10. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757. Link : [https://ec.europa.eu/transparency/documents-register/detail?ref=COM\(2021\)551&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=COM(2021)551&lang=en)

11. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure. Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0552>

fall under regulation will be required to report the volume of fuels they place on the market, beginning in 2024. Starting in 2026, they must then surrender a corresponding quantity of allowances, determined on a proportional basis. The emissions cap for these sectors will be established in 2026 and gradually decrease, eventually achieving a 43% reduction in emissions by 2030 relative to 2005 levels. All allowances will be sold via auction, with none distributed for free.

2.4 Market Stability Reserve

The allowances system of ETS is dealt under the **Market Stability Reserve** which is also being reviewed. In order to expedite the absorption of the excess allowances and promote market stability, the proposal¹² – which the co-legislators did not change – maintains the current elevated annual allowance intake rate.

2.5 Regulation on a Carbon Border Adjustment Mechanism

Finally, an agreement was reached on another highly debated text creating a **Carbon Border Adjustment Mechanism (CBAM)**¹³, proposed to complement the ETS. Starting in 2026, EU importers will be required to pay a financial adjustment by surrendering CBAM certificates that align with the emissions integrated into their imports. The objective is to prevent the relocation of carbon-intensive industries outside of the EU (known as “carbon leakage”), which could compromise the EU’s ambitious climate targets. Additionally, this policy aims to incentivize producers in third-party countries that export to the EU to adopt low-carbon technologies, and to ensure that the price of imports more accurately reflects their carbon footprint.

2.6 Regulation on fuels for maritime sector

Debate on **Fuel EU Maritime**¹⁴ has almost come to an end. The Parliament’s report suggested keeping the objective of -2% of annual average carbon intensity in 2025 that was proposed by the Commission. However, it required a more stringent reduction in the greenhouse gas intensity of energy utilised on ships than the Commission. These reductions will take effect from 2035 onwards and will be 20% by that

year, 38% from 2040, 64% by 2045, and 80% by 2050. The report also proposes a target of 2% for the use of non-biological renewable fuels starting from 2030. Additionally, the establishment of an Ocean Fund is recommended to enhance ships’ energy efficiency and support investments that aim to decarbonize maritime transport. The Parliament and the Council reached a provisional agreement in March 2023 for Fuel EU maritime.

2.7 Regulation on emissions from cars and vans

Emissions from Cars and Vans¹⁵ were finally agreed after last minute discussions with Germany which was threatening to withdraw from the agreed political agreement. In comparison to the CO₂ emission targets applicable in 2021, the emissions of new passenger cars registered in the EU must be lowered by 55% in 2030, while new vans must exhibit a 50% reduction in emissions. By 2035, new passenger cars and vans must exhibit a 100% reduction in CO₂ emissions, meaning all new vehicles must have zero emissions. The incentive for low and zero-emission vehicles will no longer apply from 2030. The compromise finally reached with Germany will allow the sale of internal combustion engines after 2035 if they run on e-fuels.

2.8 Regulation on land use and forestry: LULUCF

An agreement has also been reached on the revision of **regulation on land use, land use change and forestry (LULUCF)**¹⁶. It aims to reverse the current trend of declining removals in the land sector, to deliver 310 million tonnes of CO₂ equivalent (MtCO₂e) removals from the LULUCF sector by 2030, and make it neutral by 2035. Starting in 2026, the sector must achieve a net removal of emissions, and each member State will be responsible for a specific amount of removals to be accomplished by 2030. The revised regulations include more stringent reporting guidelines, increased transparency, and a review process by 2025 to ensure compliance. Between 2026 and 2029, if reporting indicates insufficient progress towards their national targets, Member States may face an extra penalty of 8% on their 2030 removal target.

12. Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030. Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0571>

13. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a carbon border adjustment mechanism. Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52021PC0564>

14. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC. Link : <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2021:562:FIN>

15. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/631 as regards strengthening the CO₂ emission performance standards for new passenger cars and new light commercial vehicles in line with the Union’s increased climate ambition. Link : <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52021PC0556>

16. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2018/841 as regards the scope, simplifying the compliance rules, setting out the targets of the Member States for 2030 and committing to the collective achievement of climate neutrality by 2035 in the land use, forestry and agriculture sector, and (EU) 2018/1999 as regards improvement in monitoring, reporting, tracking of progress and review. Link : <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52021PC0554>

2.9 Regulation on deforestation-free products

Furthermore, an agreement was reached for the proposed regulation for **deforestation-free products**¹⁷. The proposal establishes a responsibility of reasonable care on operators who sell certain commodities or products within the EU market or export them outside the EU. The objective is to ensure that the goods have been manufactured in compliance with the legislation of the country of production and that the land used for production has not undergone deforestation or forest degradation after 31 December 2020.

2.10 Regulation on batteries and waste batteries

Finally, there has been a provisional agreement on the proposed **regulation on batteries and waste batteries**¹⁸ which sets compulsory standards for all batteries that are introduced to the EU market. Starting from 2024, there will be a gradual implementation of sustainability requirements, and extended producer responsibility provisions will begin to be enforced in mid-2025. By the end of 2027, the minimum collection targets for waste portable batteries will be established at 63%, and this figure will increase to 73% by the end of 2030. Additionally, specific collection targets for waste light means of transport batteries will be introduced, with a target of 51% by the end of 2028 and 61% by the end of 2031. Lastly, there will be a material recovery target of 50% for lithium, which will be set by the end of 2027, and this target will increase to 80% by the end of 2031.

2.11 Revision of the Renewable Energy Directive

In addition to the proposed revision¹⁹, the Commission has added a set of targeted amendments to the directive as part of the REPowerEU plan. Those have been incorporated into the agreement reached on March 30th by negotiators from the Council and Parliament. This provisional political agreement seeks to increase the share of renewable energy in the EU's overall energy consumption to 42.5% by 2030, with an additional 2.5% indicative top-up to achieve a total of 45%. Furthermore, negotiators agreed on sector-specific targets for transport, industry, buildings,

and district heating and cooling to accelerate the integration of renewables in sectors where adoption has been slow. This agreement must still be endorsed by both institutions.

Conclusion

The Green Deal programme has been launched in the beginning of 2020. Significant texts of the European Commission's legislative package, which are linked to the reduction of emission of greenhouse gas, have now been adopted or are very close to being adopted. Amongst the important texts still under discussion – for which a political agreement has not yet been reached between the co-legislators – there are the revision of the alternative fuels infrastructure directive²⁰, a proposal on energy efficiency²¹, and a proposal about the energy efficiency of buildings²². It is important to note that the progress of the negotiation of the two latter are affected by the RePower EU Plan²³ discussions.

Most of the adopted and almost approved texts are going to trigger investments in the sectors concerned: renewable energy, energy infrastructure, industry, road transport, maritime transport, aviation, land use, reforestation... Consequently, the development of investment projects in these sectors is anticipated to generate a significant increase in the demand for finance.

17. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010.

Link : <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52021PC0706>

18. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL concerning batteries and waste batteries, repealing Directive 2006/66/EC and amending Regulation (EU) No 2019/1020. Link : <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52020PC0798>

19. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive (EU) 2018/2001 of the European Parliament and of the Council, Regulation (EU) 2018/1999 of the European Parliament and of the Council and Directive 98/70/EC of the European Parliament and of the Council as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652

20. Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU of the European Parliament and of the Council. Link : <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52021PC0559>

21. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on energy efficiency (recast).

Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0558>

22. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the energy performance of buildings (recast).

Link : <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52021PC0559>

23. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources, Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency.

Link : <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2022:222:FIN>