

# Harnessing markets to deliver net zero

## EFET reaction to the proposed EU Fit for 55 Package

15 July 2021

### Main points for editors

EFET welcomes:

- An EU ambition to reach a 2030 greenhouse gas emission reduction target of at least 55% and to achieve carbon neutrality by 2050
- The Commission's vision for Europe's transition to net zero, which is fair, green and competitive thanks to 'market-based tools complemented by a comprehensive regulatory framework'<sup>1</sup>
- Strengthening and expansion of the EU Emissions Trading System, to encourage the uptake of least cost decarbonisation technologies and solutions
- Putting carbon pricing front and centre to all EU decarbonisation policies
- The empowerment of public and commercial energy consumers, to make choices about how they can stimulate renewable and low carbon energy production

EFET calls on the Commission to:

- Consider the need for an effective EU-wide market in instruments verifying at the wholesale level of the value chain renewable and, additionally or alternatively, low carbon attributes of gases (including hydrogen). Specifically:
  - We doubt a European database of life cycle sustainability certificates for renewable fuels as proposed in RED II revisions is readily adaptable to the working of markets in gases (including a prospective European hydrogen market) and to the operation of gas transmission and distribution systems
  - We advocate the development of already emerging schemes for enhanced Guarantees of Origin applying to both renewable and low carbon gases, which stand a better chance of success than certificates linked to commodity transactions
- Consider including within draft Gas Decarbonisation and Hydrogen legislative measures anticipated later this year strengthened incentives for switching to low carbon gases in addition to strictly renewable sources of gas

### **Assessment**

The European Federation of Energy Traders (EFET)<sup>2</sup> welcomes the EU ambition to reach a 2030 greenhouse gas (GHG) emission reduction target of at least 55% and to achieve carbon neutrality by 2050. The suite of legislative revisions and initiatives proposed today by the

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<sup>1</sup> President von der Leyen speech at the press conference on delivering the European Green Deal, 14 July 2021

<sup>2</sup>The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 120 energy trading companies, active in over 30 European countries. For more information: [www.efet.org](http://www.efet.org).

European Commission as part of its **Fit for 55 energy legislative package** will help Europe reach these climate policy goals.

We fully support the vision for the EU climate and energy policies enabled by ‘market-based tools complemented by a comprehensive regulatory framework’ set out by the Commission President Ursula von der Leyen.<sup>3</sup>

Decarbonisation of the European economy represents a unique opportunity and a huge challenge, which requires a coordinated European response. Innovation will be vital to meeting this challenge in a cost-effective manner. Innovation thrives and costs are reduced when competition flourishes. So our decarbonisation policy must be built around markets – in electricity and in gases, including hydrogen; in carbon emission allowances; in commercial contracts for the offtake of renewable energy; and in guarantees or certificates verifying the renewable and low carbon attributes of some energy sources or products.

We see three **especially positive features** of the parts of the Fit for 55 package published today, which will promote the development of these markets:

- Carbon markets – in Europe and internationally – are critical to cost-effective decarbonisation. The proposed package will strengthen and expand **carbon pricing**. By reducing the supply of CO2 emission allowances and expanding the EU Emissions Trading System into new sectors, it will encourage the uptake of least cost decarbonisation technologies and solutions. The new measures build on the success of the EU carbon market – the largest and one of the most mature carbon markets in the world.

In the words of Vice President Timmermans, ‘with its cap on emissions, it is a proven and effective tool to bring down emissions. It gives a price signal to industry to switch to cleaner production, it drives innovation and it generates revenues for redistribution and reinvestment’<sup>4</sup>

- The Package recognises and builds on Europe’s success in creating an **Internal Energy Market**, resting on a solid foundation of competition and cross border trade in power and gas.
  - We welcome the Commission’s call on Member States to ‘*establish a framework that includes **market-compatible mechanisms** to tackle remaining barriers to have secure and adequate electricity systems fit for a high level of **renewable energy, as well as storage facilities, fully integrated into the electricity system***’<sup>5</sup>
  - We agree on the need effectively to integrate RES-E output, as well as flexible capacity and storage, into the wholesale electricity market
  - Recognising the role of PPAs in driving efficient uptake of renewable energy, we welcome provisions to foster their uptake. Our EFET CPPA standard simplifies the negotiation and terms of such transactions in renewable power and reduces contractual risk
- By further standardising the way **Guarantees of Origin** are issued, the package will allow energy customers to make choices which can stimulate renewable and low carbon energy production. For the first time EU legislation will prevent Member States from withholding Guarantees of Origin from any RES producer which requests them to be issued.

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<sup>3</sup> Press conference on delivering the European Green Deal, 14 July 2021

<sup>4</sup> Ibid.

<sup>5</sup> COM(2021) 557 final, p.16

These three features pave the way for a cost-effective transition to a net zero energy economy throughout the EU. However, **refinements and additions** to the Commission's proposals thus far could further enhance their effectiveness:

- The scope for an effective EU-wide market in instruments evidencing the **renewable and/ or low carbon attributes of gases** (including hydrogen) is not yet clear in these draft revisions to existing legislation. The Commission foresees the use of a European database of life cycle sustainability certificates to validate the fulfilment by national governments of their share of renewable fuel consumption targets. However, this database will not embrace low carbon fuels and it requires the registration of transactions in the underlying energy commodity throughout the value chain. We doubt that such a system is readily adaptable to the working of markets in gases (including a prospective European hydrogen market) nor with the operation of gas transmission and distribution systems; a development of already emerging markets in enhanced Guarantees of Origin for both renewable and low carbon gases stands a better chance of success.
- For understandable reasons, much of the package as published so far is focused on promoting renewable energy and energy efficiency. These elements of the proposals will make a significant contribution to the goal of carbon neutrality. However, the scale of decarbonization required in Europe is so great that, in our view, all technologies will need to contribute. Thus, we urge the Commission to consider including within draft Gas Decarbonisation and Hydrogen legislative measures anticipated later this year strengthened incentives for switching to low carbon gases, in addition to the strictly renewable sources of gas dealt with in draft RED II revisions.

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