

The European Green Deal & Fit for 55

Insights on the revision of the Renewable Energy Directive and Energy Efficiency Directive



Following the climate targets set in the Paris Agreement, the European Union aims to make Europe the first climate-neutral continent by 2050. On 12th December 2019, the European Council, together with the European Commission, established the European Green Deal (EGD), the core EU strategy to fight climate change and achieve climate neutrality. As a first step, the Commission proposed an initial set of targets to be met by 2030. On 14 July 2021, the European Commission adopted “Fit for 55”, a set of policy proposals preparing the implementation of the EGD. In particular, Fit for 55 aims to reduce greenhouse gas emissions (GHG) by at least 55 percent by 2030.

In this document, we introduce the energy package proposals – the Renewable Energy Directive (RED) and Energy Efficiency Directive (EED) – and provide relevant insights for various sectors of the economy.



Policy areas in the EGD climate action plan

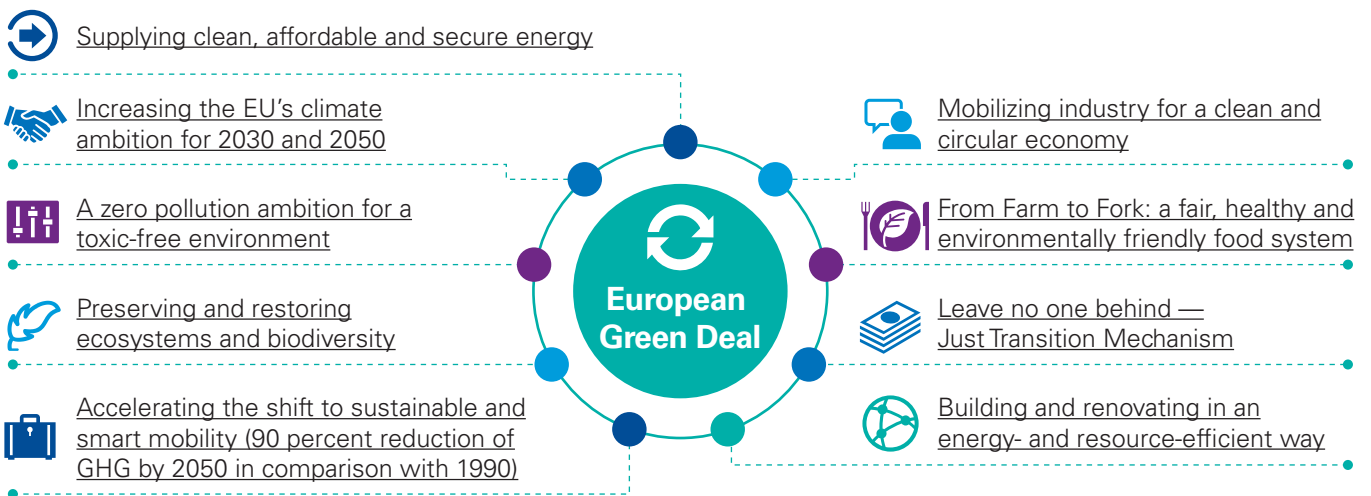


Figure 1. Climate Action for 9 Policy Areas (European Commission, 2019)

While declaring its climate neutrality ambition, the European Commission has set strong climate targets to guide the member states through their way towards a green transition:

- **A minimum of 55 percent in cuts in GHG**
- **Above a 32 percent share of renewable energy (currently proposed to be increased to 40 percent)**
- **At least a 32.5 percent improvement in energy efficiency (currently proposed to be increased to 36–39 percent)**

The EGD provides a Climate Action plan for 9 policy areas (Figure 2). Each policy area consists of dedicated regulations, strategies and funding sources. While the cost projections of the EGD exceed EUR 260 billion annually, the European Commission plans to fund half of the investments through the long-term budget.

Source: https://ec.europa.eu/clima/eu-action/climate-strategies-targets/2030-climate-energy-framework_en



Fit for 55 policy package

While the EGD represents a general action plan to fight climate change, the Fit for 55 package offers the preparatory path to meet the targets of the EGD. More specifically, Fit for 55 focuses on specific topics that need particular attention (see **Figure 2**) and need a strong green transition to achieve climate neutrality. In particular, this package aims to reduce 55 percent of the GHG emissions by 2030 (compared to 1990 levels).

The primary objectives of the package include:

- Guaranteeing environmental integrity and addressing solidarity
- The European Union Emissions Trading System (EU ETS) will be tightened and strengthened, helping to ensure effort sharing with relevant targets
- Additional policies will help ensure the implementation of carbon prices
- All revenues from carbon pricing aim to positively influence final consumers.

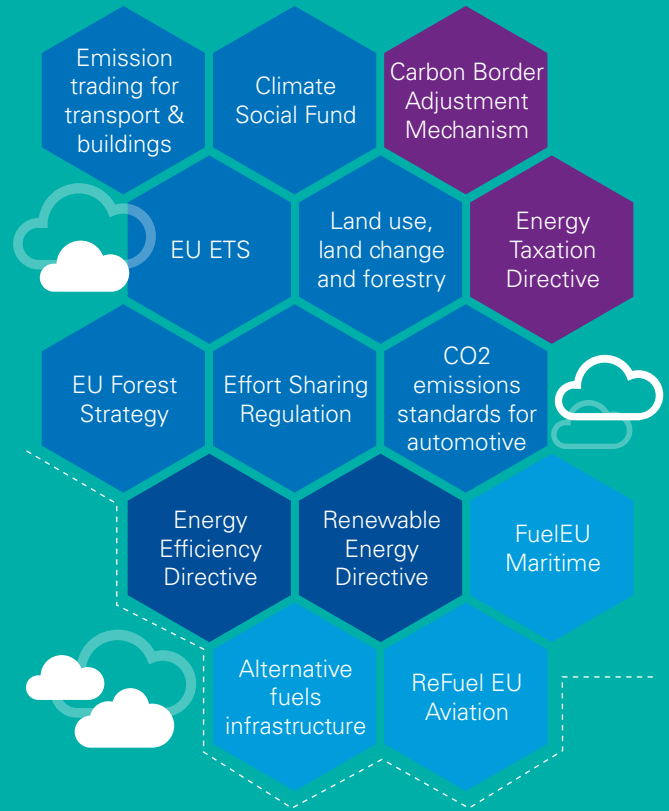


Figure 2. 2030 Climate Actions (European Commission, 2021)



In order to reduce GHG emissions by 55 percent by 2030 as required by the EGD, the European Union will have to increase its share of renewable energy in the energy generation mix, while also increasing energy efficiency. Acknowledging that almost three-quarters of GHG emissions in the EU come from the energy sector, the European Commission proposed in its Fit for 55 package an increase from the preliminary 32 percent share of renewables to 40 percent. This includes increasing energy efficiency targets. These European targets have a direct transposition on national ones. Consequently, member states' renewable and efficiency targets will impact all sectors of the economy, increasing innovation to final consumers.

Changes to the energy directives



Renewable Energy Directive (RED)

The Fit for 55 package will help accelerate the EU's transition to green energy

RED is a legal framework that establishes common principles and rules for the development of renewable energy across all sectors of the EU economy.

In December 2018, RED established a new target of producing at least 32 percent of all energy from renewable sources by 2030. This was a revision from the previous target of 20 percent by 2020, which was achieved in 2019.

Fit for 55 proposes to **increase RED's renewables target to 40 percent by 2030**. The European Commission states that energy production accounts for 75 percent of EU emissions. Increasing the renewable energy production target can enable the reduction of EU GHG emissions and achieve the Fit for 55 objective.

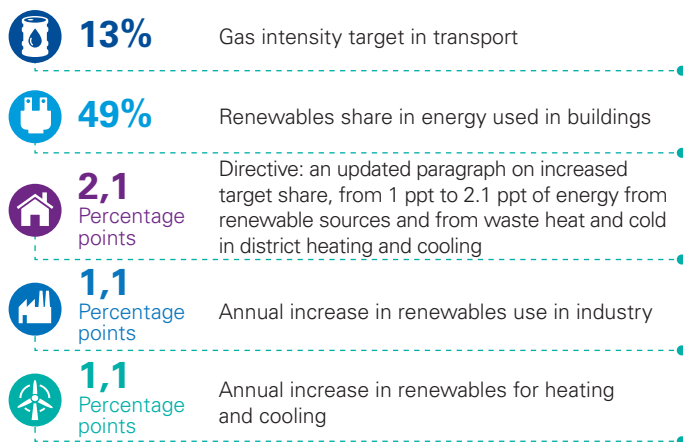


Figure 3. RED II Revision specific targets (European Commission, 2021)



Under the new directive, RED II, innovative measures will be introduced in order to exploit all possible renewable energy development opportunities. These include:

- **Specific targets** proposed for renewable energy use in transport, heating and cooling, buildings and industry (see **Figure 3**)
- **Increasing focus** away from classic renewable energy sources (e.g. solar and wind to **new types of energy** (e.g. hydrogen, biofuels and other renewable fuels))
- **Convert into EU law some of the concepts** outlined in the energy system integration and hydrogen strategies (e.g. integrated energy system)
- **Biomass**, especially the use of wood, **will no longer be supported by the European Commission**. Instead, it will be included in specific prohibitions in national incentives
- To support renewables deployment, member states **will remove barriers to permitting procedures and PPAs** and further develop work on guarantees of origin.





Energy Efficiency Directive (EED)

Fit for 55 will help decrease the EU's energy use

In 2016, the European Commission presented a package of policies impacting energy efficiency targets to 2030, strengthening the European legislative framework by ensuring the member states would consider this commitment more systematically. This package, the Energy Efficiency Directive (EED), was aiming to achieve 32.5 percent of energy efficiency by 2030, resulting in the member states setting national targets and monitoring progress.

The new package launched by the European Commission in 2021 has proposed to increase the target for energy efficiency to 36–39 percent. Stricter rules will apply to all member states through binding annual targets for energy use reduction, introducing commitments on energy efficiency solutions in policy and investment decisions within whole energy systems and other sectors (e.g. housing). Relevant investments will be expected by the public sector, with the national requirement of a 3 percent renovation.

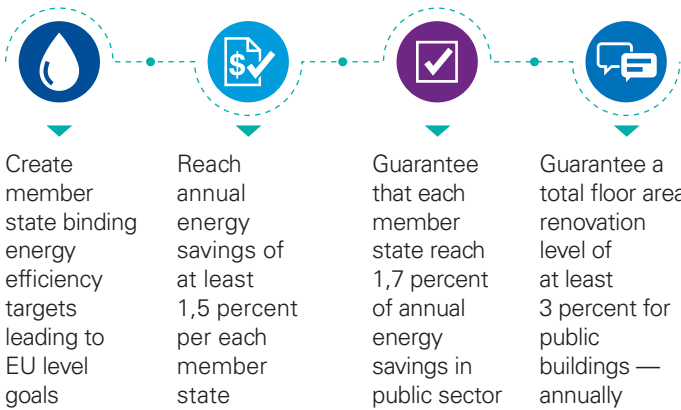


Figure 4. EED specific targets (European Commission, 2021)



The EED Revisions may include the following:

- **Stepping up actions** and addressing gaps for energy efficiency;
- **Reviewing the adequacy** of the directive and accounting for the higher climate target and recent Commission initiatives, such as the Energy System Integration Strategy;
- Implementing of the **energy savings obligation** for the 2021–2030 period;
- Revising metering and billing provisions for thermal energy;
- Addressing heating and cooling.



EU Funding opportunities in regards to Fit for 55 and the EGD

Before publishing the Fit for 55 package, the European Commission prepared a dedicated impact assessment study (available [here](#)), which provided insights into the feasibility of reaching the 55 percent GHG emission reduction target. In addition to being beneficial for the climate, it will also introduce an energy revolution to all sectors of the EU's economy, transitioning member states into a new, zero-emission economy. To facilitate the transition, European Commission has adopted a long-term budget for 2021 to 2027: the Multiannual Financial Framework (MFF) together with the NextGenerationEU Fund (NGEU), amounts to over **EUR2 trillion**, of which 30 percent of MFF and 37 percent of NGEU will be dedicated to supporting climate action.



Possible Implications of directive revisions

The revisions not only impact member states but specifically all sectors of the European economy. Both the energy and industrial sectors, as well as the public sector, will foresee major changes in the forthcoming years. The revised directives act as a guarantee that the lengthy process of energy transformation will be accelerated in an unprecedented way. For these objectives to be met, all sectors and public decision makers need to be on board and participate in the innovative transition to a low-carbon and climate-neutral future. **Considering the ongoing legislative changes, how will the RED II and EED revisions impact daily business?**



Statements

Possible implications



Energy sector ▼

- An increase to 40 percent of renewables will include all types of energy (electricity, district heating, fuels) ➤ Innovation boost, especially on the district heating and cooling side where renewables have not been previously dominating innovation
- Decreasing use of wood in energy generation ➤ Focus on new, cleaner technologies and energy transformation, which will protect forest biomass
- New measures to facilitate renewable power purchase agreements (PPAs) and simplification of permitting processes for renewable energy deployment ➤ More PPAs with less market barriers leading to quicker energy systems decarbonization
- Increasing cross-border cooperation ➤ Development of European grid stability and increasing competition



Industrial sector ▼

- 49 percent of renewables in buildings ➤ Less energy intensive housing and innovation in building materials
- Annual binding target of renewable energy sources deployment in industrial sector ➤ Increased off-grid solutions and industry focus on energy savings and sustainable energy strategies
- Major deployment and use of hydrogen by various industries ➤ Innovation in storage, energy generation and decarbonization in industry using hydrogen



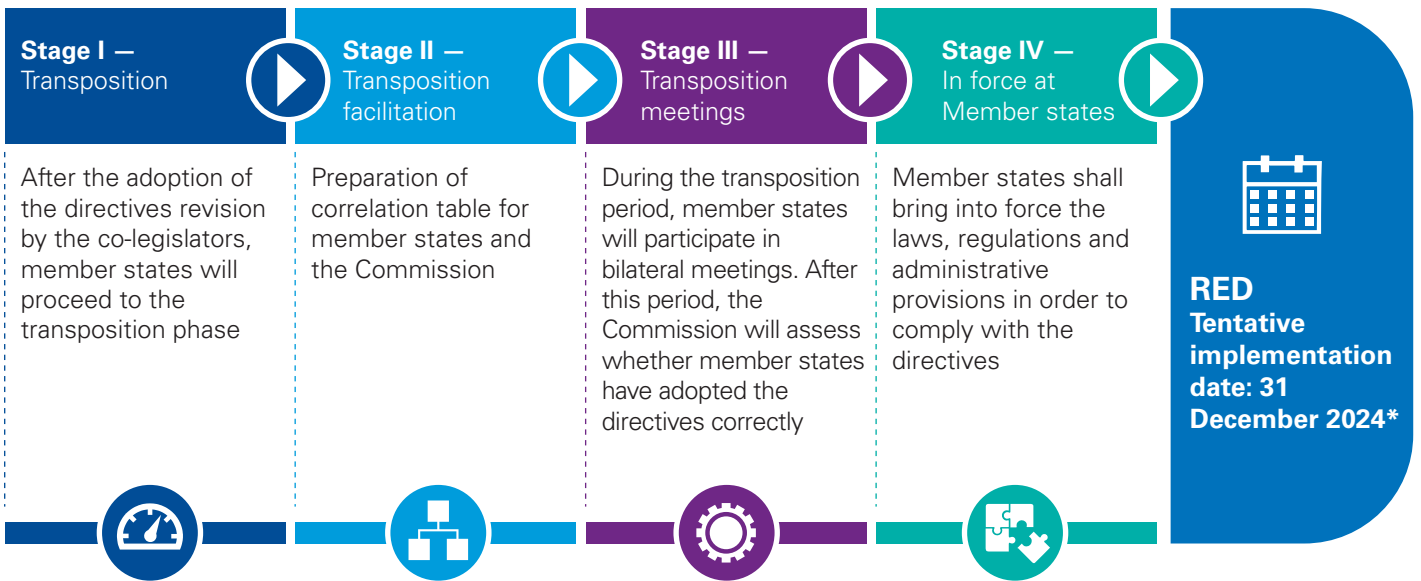
Government and public sector ▼

- Increased focus and targets on zero emission and low-carbon public transport ➤ Major deployment of renewable fuels, increasing the number of recharging points, energy storage innovation
- Providing access to renewables for low income households ➤ Increasing renewable energy deployment in housing sector and, decreasing air pollution
- Renovation increase by 3 percent of the total floor area of all public buildings annually ➤ Decreasing energy intensity

Figure 5. RED II Revision and EED targets and goals (European Commission, 2021)



Revision of RED and EED implementation



*This proposal from the European Commission could be subject to further changes, especially considering time schedules.

Figure 6. Policy implementation procedure (European Commission, 2021)

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