Setting the course towards climate neutrality

WindEurope position on the 'Fit for 55' package

SEPTEMBER 2021

WindEurope
windeurope.org

EXECUTIVE SUMMARY

This paper sets out WindEurope's priorities for the EU's 'Fit for 55' legislative package.

The European Green Deal requires an acceleration of the rate of expansion of onshore and offshore wind. A 25-fold increase in offshore wind capacity and an even bigger increase in GW in onshore wind capacity.

Member States have now agreed to ratchet up the EU 2030 greenhouse gas emission target from 40% to at least 55% to deliver the Green Deal. This leads to an upward revision of the EU's 2030 renewable energy target from 32% today to 40% in line with the European Commission's Impact Assessment.

This means the EU wind energy capacity would need to be 452 GW by 2030 (374 GW onshore and 79 GW offshore) for the 40% target. This is almost a threefold increase on the 179 GW installed today. And 90 GW more than what EU-27 pledged in their 2030 National Energy & Climate Plans.

The EU built 10.5 GW of new wind energy capacity in 2020 and is expected to install 15 GW per year in the period 2021-2025. The EU needs to build 18 GW per year over 2021-30 to deliver the existing 2030 EU renewable energy target and 30 GW per year to deliver the higher target foreseen by a 55% greenhouse gas emission reduction by 2030.

The benefits of an accelerated buildout will be significant. The EU wind energy sector supports 300,000 jobs, generates €37bn to EU GDP and €5bn in local taxes pa. It operates 248 factories across the EU. Each new wind turbine installed in Europe contributes €10m of economic activity. Onshore and offshore wind are the most cost-competitive sources of new power generation in most of Europe.

But current policies will not deliver these numbers – neither on volumes, nor on economic benefits. Higher targets are necessary but not sufficient. **Europe needs stronger delivery, monitoring, and enforcement measures to ensure 2030 is a stepping stone towards a climate neutral energy system.**

The negotiations on the Commission's proposal for the 'Fit for 55' package must address remaining bottlenecks to the cost-effective delivery of the EU's Climate & Energy targets across EU legislation. And maximise the benefits that a competitive European wind supply chain can deliver for the green and digital transition of all Europeans. This paper focuses on the three critical files underpinning wind energy expansion: the recast Renewable Energy Directive, the EU Emissions Trading System, and the new Carbon Border Adjustment Mechanism.

Policy Recommendations

Simplifying and accelerating the **permitting** of renewable energy projects is a pre-condition to the successful delivery of the 'Fit for 55' package, we call on the European Commission to:

- Issue **guidance to national Governments on good permitting practices** by early 2022 to support the implementation of Article 16 of the 2018 Renewable Energy Directive and its binding permitting deadlines.

On the **Renewable Energy Directive,** we call on the European Parliament and Council to:

- Endorse the 40% renewable energy target proposed by the European Commission;
- Endorse the revised **Guarantees of Origin rules** to accelerate renewable electricity uptake in Article 19;
- Endorse the definition of **Renewable Fuels of Non-Biological Origin (including renewable hydrogen)** in Article 2;
- Add definitions for **hybrid renewable energy power plants**, and **offshore hybrids** in Article 2.

On the **EU Emissions Trading System**, we call on the European Parliament and Council to:

- Endorse the European Commission's proposal to **adapt the emissions cap to bring the ETS** in line with the 55% GHG emission reductions target **through a combination of rebasing and the increase in the Linear Reduction Factor**;
- Maintain the intake rate of the **Market Stability Reserve** at 24% after 2023;
- Consider developing **more ambitious standards for vehicle and building emissions** before extending the ETS to these sectors;
- **Expand** the ETS to the intra-EU maritime sector;
- Set a **level-playing field in the allocation of free allowances** to fossil-based and renewable hydrogen.

On the new **Carbon Border Adjustment Mechanism** we call on the European Parliament and Council to:

- Ensure **uninterrupted access to global supply chains** of raw materials and components;
- Keep **wind turbine exports competitive** within and outside the EU;
- **Not undermine EU internal power market reforms** and electricity price formulation;
- Make it a tool of, and not an obstacle to, **EU climate diplomacy.**

RENEWABLE ENERGY DIRECTIVE

Simplifying and accelerating the **permitting** of renewable energy projects is a pre-condition to the successful delivery of the 'Fit for 55' package, we call on the European Commission to:

- Issue **guidance to national Governments on good permitting practices** by early 2022 to support the implementation of Article 16 of the 2018 Renewable Energy Directive and its binding permitting deadlines.

On the **Renewable Energy Directive** we call on the European Parliament and Council to:

- Endorse the 40% renewable energy target proposed by the European Commission;
- Endorse the revised **Guarantees of Origin rules** to accelerate renewable electricity uptake in Article 19;
- Endorse the definition of **Renewable Fuels of Non-Biological Origin (including renewable hydrogen)** in Article 2;
- Add definitions for **hybrid renewable energy power plants**, and **offshore hybrids** in Article 2;
- Include a certification system for renewable hydrogen reflecting article 19.7.

The 2018 Renewable Energy Directive is the key EU legislative instrument to unlock the wind energy volumes spelled out in the 2030 National Plans and to deliver on the EU 2030 renewable energy target. The Directive sets the regulatory framework for wind energy with clear requirements to Members States on timeline, volumes and budget for the pipeline of renewable energy installations; simplified permitting for new and repowered installations; and design of support schemes. A number of provisions in the Directive need to be strengthened if Europe is to increase the pace of wind buildout necessary to deliver climate neutrality by 2050.

Guidance on Permitting in 2022

Member States have now agreed to ratchet up the EU 2030 greenhouse gas emission target from 40% to at least 55% to deliver the Green Deal. This will trigger an upward revision of the EU's 2030 renewable energy target from 32% today to 40% according to the European Commission's Impact Assessment.

This means that the EU wind energy capacity needs to be 452 GW by 2030 (374 GW onshore and 79 GW offshore). This is almost a threefold increase on the 179 GW installed today. And 90 GW more than what EU-27 pledged in their 2030 National Energy & Climate Plans.

The EU only built 10.5 GW of new wind energy capacity in 2020 and is expected to install 15 GW per year in the period 2021-2025. This is not enough. The EU needs to build 18 GW per year over 2021-30 just to deliver the existing 2030 EU renewable energy target. And 30 GW per year to deliver the higher target that is now coming with the 55% climate target.

The problem for buildout is not technology, finance or costs. It is permitting. Europe is simply not permitting enough new wind farms to meet its renewable energy targets. **Raising the EU 2030 renewable energy target is academic if we do not address the permitting bottlenecks.**

It is too difficult to get permits for new and repowered wind farms in Europe today because:

- **Rules are complex.** There are more and more spatial planning constraints e.g. minimum distance to housing, tip/hub height restrictions, exclusion zones around radar installations or in Natura 2000 sites;
- **Procedures are slow.** There are too many administrative authorities involved: at national, regional, municipal level. Most EU countries still don't have a single contact point (i.e. one-stop-shop) to expedite the permitting process. And legal challenges add months of delays;
- **Permitting authorities aren't adequately staffed.** Authorities at all levels lack sufficient digital and/or human resources to process a growing number of permitting applications; and
- **National Maritime Spatial Plans don't factor in the needed uptake of offshore wind.** Current National Plans may not deliver the sites Europe needs to deploy 300 GW of offshore wind by 2050. National Plans don't fully mainstream long-term climate and energy objectives nor do they fully leverage multiple-use of the sea space to ensure coexistence of offshore wind with other users of the sea e.g. shipping, fishing, military.

This means that many projects do not go ahead and permitting costs add to development costs and risk which deters investors from developing projects. So there are not enough projects to meet Europe's climate and energy targets.

And there are wider economic consequences. Wind energy in Europe is 300,000 jobs, 248 factories, €37bn GDP contribution, global technology leadership. Retaining this, let alone increasing it, needs a healthy project pipeline.

Article 16 of the Renewable Energy Directive requires Member States to permit new renewable energy installations within 3 years and repowered ones within 2 years. And the Governance Regulation requires Member States to outline concrete measures they will take to ease permitting. **Only 4 Member States (PT, FR, DK, ES) have identified measures to simplify permitting** in their National Energy and Climate Plans. The rest of the Plans are silent on the simplification of permitting.

Neither the Renewable Energy Directive nor the Governance Regulation guide Member States on ***how*** they should simplify permitting.

The Commission can already support the further implementation of simpler and faster permitting rules and procedures in the current Renewable Energy Directive **(Article 16) with a Guidance setting out good practices on permitting**. These would cover good permitting practices in the following areas:

1. Effective single contact points
2. Factoring technology development in the permitting process
3. Spatial planning
4. Military and civil aviation constraints
5. Court proceedings
6. Civil resolution and mediation

Crucially, this Guidance should also serve to assess and benchmark national permitting process performance. Key criteria for this benchmarking exercise would include:

1. Total length of permitting process for renewable energy technology, including the time to evaluate the environmental impact assessment, grant grid connection, and to clear legal challenges (where applicable);
2. Number of staff (in terms of Full Time Equivalents - FTEs) in the relevant permitting authorities per GW of renewable energy set out in the 2030 National Energy & Climate Plan;
3. Rate of projects approved over total number of permit applications correctly submitted per country –
4. and where appropriate per federal/regional entity;
5. Proportion of legal challenges that are rejected per country - and where appropriate per federal/regional entity - and timing to reject those legal challenges;
6. Existence of conflicts between national and regional laws and procedures that may cause delays in the permitting process;
7. Existence of conflicting, overlapping or lack of clear division of competences between national and regional/local authorities that may cause delays in the permitting process.

The European Commission would serve as a clearing house facilitating the exchange of information and best practices between Member States based on the benchmarks above.

We call on the European Commission to issue this Guidance in early 2022 to support National Governments in identifying and addressing specific challenges in their approach to permitting as compared to other Member States. This will support national Governments in the timely delivery of the revised 2030 National Energy & Climate Plans to the European Commission in 2023.

Guarantees of Origin (Article 19, Article 15.8)

Guarantees of Origin (GOs) are key to track the consumption of renewable electricity. A well-functioning framework for GOs will unlock the full potential of corporate renewable Power Purchase Agreements (PPAs) in Europe to contribute to the achievement of higher EU Climate & Energy goals.

Corporate renewable PPAs are a key driver for market-based investments in new renewable installations in Europe. They help minimise financing costs for capital-intensive wind energy projects by complementing market-based public support and providing renewable electricity suppliers with stable and secure revenues. This in turn helps deploy wind energy at the lowest cost for society.

In 2020 nearly 4 gigawatts (GW) of capacity was contracted with corporate renewable power purchase agreements (PPAs) across 12 countries, with Spain leading the pack with more than 1.3 GW announced.

Europe now has 12.1 GW of cumulative contracted volume of PPAs, up from 2.2 GW in 2016. More corporate and industrial buyers are engaging in reducing carbon emissions with renewable electricity. But buyers are also increasingly seeking more information on the origin of their power supply.

Therefore, Europe needs clear rules on traceability and should ensure GOs are issued to all renewable electricity producers with a consistent approach across all Members States.

All Member States should issue GOs to all renewable electricity producers, irrespective of whether the renewable energy project receive Government support. Where Government support is allocated in a competitive auction, the value of the guarantee of origin is *de facto* included in the bid, thereby addressing any concern related to overcompensation.

The current formulation of Article 19 allows Member States to retain GOs from renewable energy projects benefitting from State aid. This breaks the link between renewable energy producers and consumers and prevents PPAs from being signed. **The industry calls on European Parliament and Council to endorse the new European Commission's proposal for Articles 19.2 and 19.8 which solves this issue and allows GOs allocation to all producers.**

This will ensure a harmonised approach across Member States on the issuance, use/cancellation of GOs for all renewable electricity producers.

The information related to the time of generation of the GO is currently provided on an annual or monthly basis. The EU should explore adapting the GO system to a finer temporal granularity to support corporate consumers in the matching of supply and demand. The GO system should be underpinned by state-of-the-art technology to ensure the highest efficiency possible.

Article 15.8 of the Renewable Energy Directive requires Member States to remove all barriers to support the market uptake of corporate renewable PPAs. However, most Member States have largely ignored this requirement. 19 out of the 27 National Energy & Climate Plans do not include any evaluation of the current barriers to corporate renewable PPAs nor do they propose dedicated measures to facilitate their uptake.

The industry calls on European Parliament and Council to endorse the European Commission's proposals reinforcing Articles 4 and 15 in view of accelerating corporate renewable PPAs uptake. Member States' full implementation of these provisions will ensure corporate buyers and sellers have a fit-for-purpose framework for the development of corporate renewable PPAs. In addition to addressing the main current bottleneck – the retention by National Government of GOs for renewable electricity benefiting from support - the European Commission should share best practices from more ambitious Members States having taken concrete measures to promote corporate renewable PPAs. And the European Commission should partner with the EIB to set up a de-risking facility for corporate Power Purchase Agreements.

Electrification (Articles 15, 23, 24, 25, 27)

→ Direct Electrification

- General principles

The revised Directive should reinforce the case for renewable-based direct electrification as the primary driver of Europe's decarbonisation. Today electricity covers only 24% of the final energy uses and most of it comes from fossil fuels. Only 32% is provided by renewables in the EU-27.

Replacing fossil fuels with renewable electricity is the most cost-effective and energy efficient way of reducing CO_2 emissions in sectors such as light transport, heating and cooling, and most of industry. Recital 5 of the recast Renewable Energy Directive is a step in the right direction as it recognises the key role renewable electricity production will play in the future EU's growing energy demand. It should be strengthened by adopting policies that support an active demand for renewable energy from the consumption side will be also crucial to ensure the targets are reached.

The **European Energy System Integration Strategy sets a clear course for direct electrification** using renewable electricity wherever it is available and whenever it is possible. The European Commission says electricity should cover at least 30% of final energy demand by 2030 and at least 57% by 2050[1]. This will deliver the bulk of decarbonisation of the economy.

The regulatory work on direct electrification must accelerate. And many regulatory barriers still exist. Further specific measures for electrification are needed e.g. incentives for the widespread use of heat pumps and for integrating electricity into transport.

[1] Getting Fit for 55 and set for 2050: Electrifying Europe with wind energy, 2021

The regulatory work on direct electrification must accelerate. And many regulatory barriers still exist. Further specific measures for electrification are needed e.g. incentives for the widespread use of heat pumps and for integrating electricity into transport.

- Mobility

The industry welcomes the European Commission's proposal to introduce a credit mechanism where operators of E-charging points can contribute to the fulfilment of the fuel supplier obligation by supplying renewable electricity. **We call on the European Parliament and Council to ensure the system effectively incentivises the renewables-based electrification of Transport**. The removal of the **multiplier for renewable electricity** may slow down the uptake of EVs and should be carefully considered.

→ Indirect Electrification

- General principles

Indirect electrification with renewables will play a crucial role in the hard-to-abate economic sectors such as cement, steel, heavy-duty road transport, aviation and shipping. Renewable hydrogen (i.e., electrolysed hydrogen powered by 100% renewable electricity) helps decarbonise these sectors.

The European Commission's Hydrogen strategy (July 2020) states that renewable hydrogen produced via electrolysis based on 100% renewable electricity is the hydrogen type most compatible with EU's climate neutrality goal. The Renewable Energy Directive should serve to ramp up the production of renewable hydrogen towards competitiveness in this decade.

- Definition of Renewable Fuels of Non-Biological Origin (RFNBOs) including renewable hydrogen

The industry welcomes the European Commission definition of Renewable Fuels of Non-Biological Origin (RFNBOs) and its extension to all end-use sectors. The proposed wording now defines renewable hydrogen as coming from renewable electricity. We call on the European Parliament and Council to endorse this language. It sets a **consistent European definition of renewable hydrogen** that can be used across all European policies and laws.

The Renewable Energy Directive should refrain from promoting low-carbon fuels (including low-carbon hydrogen) and keep its exclusive focus on renewables as in the European Commission's proposal.

- Certification of renewable hydrogen

The revision of the Directive should also aim at **designing a robust certification system across the EU for renewable hydrogen** linked to Article 19 that ensures the compatibility between renewable support schemes and Guarantees of Origin to enable the uptake of a European renewable hydrogen market over the next decade.

- Rules for accounting of renewable electricity content in RFNBOs

The accelerated uptake of renewable hydrogen will require electrolysers producing hydrogen with dedicated renewable power generation as well as electrolysers connected to the power grid.

This raises the issue of tracing the amount of renewable electricity used in the hydrogen production process. The Commission, as legally mandated by the 2018 Renewable Energy Directive, will have to set the rules for accounting renewable electricity content in renewable hydrogen for the transport sector. The revision of electrification measures in the Directive **could use as guidance the 3 criteria of additionality, geographic and temporal correlations set out in the Renewable Energy Directive on Renewable Fuels of Non-Biological Origin** when an electrolyser is connected to the grid (Article 27). **But also adapt them to reach the objectives of the EU Hydrogen Strategy when decarbonising other economic sectors.**

The industry notes that the simultaneous timing for the revision of the Renewable Energy Directive and the publication of the Delegated Act brings significant uncertainty for investors. Both texts deal with renewable hydrogen definition but have a different scope. This impedes the roll-out of renewable hydrogen. Coherence

and clarity are urgently needed on the interactions between the two texts. A single definition for renewable hydrogen across sectors is therefore crucial.

- Industry decarbonisation

The European wind industry supports the European Commission's proposal for 50% of all hydrogen used in industry to be met by Renewable Fuels of Non-Biological Origin notably renewable hydrogen. Its successful delivery will hinge on the development and implementation of clear incentives and support mechanisms to initially cover the cost gap between conventional and renewable hydrogen. This should be prioritised in the ongoing review of the Climate Energy and Environment State aid Guidelines.

New definitions: renewable energy hybrid plants (wind/solar/storage); and offshore hybrids (offshore wind combined with an interconnector (Article 2)

The Renewable Energy Directive should include a definition of renewable energy hybrid power plants in Article 2. These are plants where different renewable generation technologies - such as wind and solar - share the same grid access point, also potentially in co-location with storage.

Renewable hybrid power plants are becoming an increasingly important reality for the production and storage of renewable electricity, with huge benefits for the acceleration of renewable-based electrification and system integration based on grid optimisation and sustainability criteria. By defining renewable hybrid power plants, the Directive would set an important legal basis for further regulation of those assets – in particular clear guidelines for permitting[2] that is treated today on a case-by-case basis.

The Directive should cover grid access, monitoring practices, renewable energy tracing and integration of storage. Moreover, to make renewable hybrid power plants viable, Members States should enable developers of such assets to install more total renewable capacity than the one contracted with the grid (with the condition that the exported power will not be exceeding the contracted one). In those countries that want to further support the development of renewable hybrid power plants, these assets can even export more power than the one contracted with the grid when actual grid conditions allow for this.

The recast Renewable Energy Directive should also include a definition of offshore wind hybrids. These assets combine offshore wind farms with interconnectors linking 2 or more markets. Offshore Hybrids are essential to the successful deployment of 300 GW of offshore wind in the EU by 2050. They save space and money by optimising the use of offshore and onshore transmission infrastructure. And they help to balance the European energy system as shares of variable renewables increase.

As recognised by the EU Offshore Renewable strategy, the development of offshore hybrids requires adjustments to the EU's regulatory framework. Notably to provide developers and TSOs additional clarity on revenue perspectives which is critical to triggering investment.

Recital 8 of the recast Renewable Energy Directive and the introduction on joint offshore energy planning per basin in Article 7a are a ste in the right direction. But they should be further reinforced by a definition of offshore hybrids enshrined in the Directive that would help ensure the necessary consistency across EU legislation (e.g., infrastructure, market design, system operation) providing a fit-for-purpose EU framework to the benefit of EU tax payers and energy consumers. Developing such a definition would be a concrete driver for Member State cooperation in accelerating the deployment of renewables.

[2] Please refer to *Renewable Hybrid Power Plants* (position paper), WindEurope, 2020

2030 renewable energy target (Article 3)

2030 is a critical milestone on Europe's path towards decarbonisation. Europe needs the right level of renewable energy ambition that drives investment decisions in renewables in the 2030s and 2040s and that puts the continent firmly on track to deliver climate neutrality by 2050.

Backloading renewables deployment would mean Europe fails to deliver on its Green Deal strategy. And therefore, lose the economic benefits, jobs, supply chain development and global technology leadership in wind technology that has resulted from the Europe being a first mover on climate action.

If Governments fully implement their 2030 National Plans delivering a 32% renewable target Europe will have 450,000 jobs in wind (up 50% from today). But if they fail, Europe will lose 20,000 jobs compared to today. With higher 2030 renewable energy ambition the economic benefits will only amplify. But so will the missed opportunities resulting from delayed action.

The current 2030 renewable energy target of 32% therefore needs to be revised upwards to ensure Europe gets the most from its key climate mitigation technology. To reinforce the momentum in wind energy cost reductions, drive faster decarbonisation across the European economy, and maximise the contribution of the wind sector to the economic recovery from the COVID-19.

Article 3 of the Directive should maintain the proposed higher target of **at least 40% of renewable energy** in the EU final energy consumption by 2030, in line with the European Commission's Impact Assessment accompanying the proposal to raise the GHG emission reduction target to 55%.

EU EMISSIONS TRADING SYSTEM

On the **EU Emissions Trading System**, we call on the European Parlmiament and Council to:

- Endorse the European Commission's proposal to **adapt the emissions cap to bring the ETS** in line with the 55% GHG emission reductions target **through a combination of rebasing and the increase in the Linear Reduction Factor**;
- Maintain the intake rate of the **Market Stability Reserve** at 24% after 2023;
- Consider developing **more ambitious standards for vehicle and building emissions** before extending the ETS to these sectors;
- **Expand** the ETS to the intra-EU maritime sector;
- Set a **level-playing field in the allocation of free allowances** to fossil-based and renewable hydrogen;
- **Exclude fossil fuels** funding from the **Modernisation Fund**.

The European Emission Trading System (EU ETS) is the central EU policy to regulate CO_2 emissions and deliver effective price signals for market operators and investors. These **signals impact investment decisions as well as the merit order of the wholesale power market**.

For several years the EU ETS market has suffered from oversupply of EU CO_2 allowances and consequently experienced a very low CO_2 price. This trend has reversed with the revision of Phase IV and its important mechanisms e.g. the Market Stability Reserve. This, together with a higher Linear Reduction Factor, is crucial to align demand and supply of CO_2 allowances in line with the EU's 2050 decarbonisation objective.

The revision of the EU ETS Directive with a view of strengthening the system will contribute to aligning the ETS with the increased EU 2030 GHG ambition[3]. And underpin the delivery of the European Green Deal by sending markets signals for a cost-effective energy transition. This revision fits into the broader exercise of policy-making that aims at reaching climate neutrality. Ultimately, the EU ETS should be **made fit for purpose to incentivise renewables-based electrification in all final energy uses through an accelerated renewable energy capacity buildout**.

The current EU ETS has been designed long before Europe started its journey towards a complete decarbonisation set by the European Green Deal. National Governments are collectively committed to climate neutrality. Coal phase-outs have been recently introduced at national level. These measures are likely to have a significant impact on the quantity of allowances that will be released on the market over the next years affecting the CO_2 price.

We call on the European Parliament and Council to endorse the European Commission's proposals for the review of the EU ETS Directive which reflect the 2030 55% greenhouse gas emissions reduction target: namely by adapting the emissions cap through a **combination of a one-time rebasing and an upwards revision of the Linear Reduction Factor**.

The proposed Market Stability Reserve intake rate of 24% after 2023 should be also maintained. The revision should also aim to expand the ETS to additional sectors of the economy where faster decarbonisation will be a non-regret option in particular the intra-EU maritime sector.

The extension of the ETS to road transport and buildings can play an important role in decarbonising the existing building stock and transport fleet. This measure should be brought in coherence with other regulatory measures in particular the Energy Performance of Buildings Directive and CO2 emissions standards for vehicles. We support the measure and call on European Parliament and Council to factor in the impact on households. This is central to the viability of the proposal and the acceptability of the EU Green Deal as a whole.

The discussion on the extension of the ETS to these two sectors should not counteract or slow down the priority revision of the headline EU ETS system.

The wind industry welcomes the European Commission's proposal to allocate free allowances to renewable hydrogen. Today only renewable hydrogen is exposed to carbon pricing. Fossil-based hydrogen production, due to its exposure to international competition, receives most of its EU ETS allowances for free. Although renewable hydrogen production has no emissions and is not covered by the EU ETS, it is exposed to ETS prices through the cost of electricity. This means that when switching from fossil to renewable hydrogen production, the free allowances are lost and the cost of carbon is not reflected anywhere. As a result, renewable hydrogen is less competitive than its fossil-based counterpart. Aligning the ETS with the Hydrogen Strategy would create a level-playing field for renewable hydrogen and support the objective of scaling it up and making it competitive already by 2030.

A robust CO_2 price will ensure the fulfilment of the **polluter-pays principle** and put a price on climate-harmful emissions. It is essential that other climate related policies such as the Carbon Border Adjustment Mechanism (CBAM) be compatible with the strengthening of the EU ETS. The implementation of a CBAM should in no event result in an increase in the supply of tradeable emissions allowances.

Revenues deriving from selling allowances under the ETS should be used in their entirety for purposes that actively support the climate-neutrality target, such as faster deployment of renewable energy sources and investments in electricity grid infrastructures.

The **Modernisation Fund** supports low-income Member States in decarbonising their economies. In particular Article 10d of the ETS Directive prevents most of the beneficiary States[4] from using the Modernisation Fund to support projects related to *solid* fossil fuel deployment. This wording is not in line with EU climate targets as it only prohibits funding hard coal and lignite but allows for other fossil fuels to play a major role in those countries, without effectively boosting renewable energy deployment. While WindEurope recognises a stronger push for the allocation of the available money in renewable sources, the industry still recommends that **funding of all fossil fuels is excluded from the implementation of Modernisation Fund**.

Following the most recent technology developments and reflecting the increasingly growing role of renewables in the EU energy mix, the Modernisation Fund should also ensure that **storage solutions and 'hybrid' renewable energy power plants** (plants with any combination of wind, PV and storage) are eligible as investment projects. Investments should support the development of electricity grids.

[4] Member States with a GDP per capita at market prices below 60 % of the Union average in 2013 can benefit from the Modernisation Fund. No support from the Modernisation Fund shall be provided to energy generation facilities that use solid fossil fuels, other than efficient and sustainable district heating in Member States with a GDP per capita at market prices below 30 % of the Union average in 2013.

CARBON BORDER ADJUSTMENT MECHANISM

On the new **Carbon Border Adjustment Mechanism** we call on the European Parliament and Council to:

- Ensure **uninterrupted access to global supply chains** of raw materials and components;
- Keep **wind turbine exports competitive** within and outside the EU;
- **Not undermine EU internal power market reforms** and electricity price formulation; and
- Make it a tool of, and not an obstacle to, **EU climate diplomacy.**

Wind energy will be the key delivering technology of the EU Green Deal in the Commission's Long Term Decarbonisation Strategy. Hitting the EU's climate neutrality goal will require a 25-fold increase in offshore wind capacity. And an even bigger increase in terms of onshore wind capacity. Industry can deliver the volumes pending an **active EU industrial policy for renewables** that ensures this huge expansion of wind is made in Europe and our **industry is cost-competitive within and outside the EU**.

Delivering the economic benefits of wind to Governments, business and citizens means wind energy companies will continue to rely on global supply chains for flexibility and competitiveness. They will require sensible trade policies that guarantee access to raw materials supply chains (e.g. steel, glass fibre). And an EU Export Strategy for Renewables to put Europeans on a par with Asian competitors that outcompete Europe us on terms of finance in non-EU markets.

CBAM's objective would be to limit carbon leakage as carbon costs rise and free allocation of EU emissions allowances under the ETS is phased out. The CBAM will be applied to the carbon embedded in industrial products – and possibly also electricity – imported from third countries. The measure requires importers to surrender 'virtual' emissions allowances (EUAs) commensurate to the carbon content of the import in question. The value of these virtual EUAs would mirror the real carbon price, but they would not be tradeable on the real carbon market.

The European wind industry considers that the European Commission's proposals on CBAM could make the mechanism a driver for decarbonisation and renewable energy roll out. In particular, the CBAM could help drive increased climate ambitions from countries outside Europe.

However, its success remains conditional on the progress towards fulfilling EU Climate neutrality by 2050 and the EU's climate diplomacy to secure buy-in to climate ambition and CO2 pricing from our international partners. Crucially the measure should be compatible with securing uninterrupted access to global supply chains of raw materials and components for technologies like wind energy, in order to ensure the international competitiveness of the European wind industry.

The negotiators should ensure that the CBAM is designed so as to:

- **Ensure raw materials availability for wind turbine & equipment manufacturing.** Applying a CBAM to raw materials like steel only could distort the EU wind industry's supply chain, particularly as regards processed products containing relatively high quantities of raw materials likely to fall within the scope of the measure (such as steel wind towers, motors, and generators). The result could be an increase in imports of processed products in order to circumvent the CBAM, and a departure of value-added from the EU. Also the proposed mechanism brings in significant administrative complexity around import procedures that should be clarified, and simplified.
- **Keep wind turbine exports competitive.** The CBAM could increase manufacturing costs for European wind turbine manufacturers and reduce the competitiveness of made-in-Europe exports in third country markets. If this impact is not mitigated the EU could cease to be an export hub for the European wind industry. At the same time, mitigating the negative impact on competitiveness with refunds or rebates could raise issues under WTO law, and might also cause third country markets to

be closed to EU wind industry exports in retaliation. Also the Commission's proposed extension of CBAM to additional sectors beyond the trial five ones (steel, aluminium, cement, fertilisers, and electricity) in 2025 brings in investor uncertainty over the conclusion of long-term supply contracts and should be carefully considered as to notunder the competitiveness of the EU wind industry.

- **Avoid spikes in EU electricity prices**. If applied to imports of electricity, the CBAM could impact electricity prices. This will have mixed consequences for market operators and progress towards renewables-based electrification. These consequences should be carefully considered.
- **Strengthen EU's climate diplomacy.** Implementing a CBAM too soon could undermine climate diplomacy, e.g. the promotion of emissions trading and carbon pricing systems, Environmental Goods Agreement negotiations and international sectoral agreements.