Joint Oireachtas Committee on Environment and Climate Action

EU Scrutiny of 'Fit for 55' proposals

21 September 2021

Opening Statement by the Department of the Environment, Climate and Communications

I would like to thank the Committee for the opportunity to the Department to address it today in relation to the Committee's scrutiny of proposals in the European Commission's 'Fit for 55' legislative package, published in July. This package collectively aims to make the EU's climate, energy, land use, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels in line with the decision of the European Council. The European Climate Law Regulation, adopted in June 2021, has now given legal effect to the targets adopted by the EU Heads of State and Government. The package is a very extensive one and is currently being analysed and considered by our own Department and other Government Departments also.

In parallel, the recent enactment, by the Oireachtas, of the Climate Action and Low Carbon Development (Amendment) Act, 2021, sets Ireland on a similarly ambitious decarbonisation trajectory for 2030, but it must be stressed that these are two distinct targets, each with their own measurement and compliance regimes.

The Committee has indicated it wishes to focus specifically in its session today on the proposals to extend the EU Emissions Trading System to new sectors (COM (21) 551) and to establish a Social Climate Fund (COM (21) 568). I am aware the Committee has already received information notes from the Department on both of these proposals but I will briefly set out the key elements of each.

The EU Emissions Trading System is a key pillar of EU climate policy architecture. The sectors it covers – primarily electricity and heavy industry – are already obliged to achieve a 43% reduction in their emissions by 2030 relative to 2005 levels. The new proposal seeks to increase this target to 61% and to incorporate emissions from maritime transport within the overall cap. This will be achieved by a steeper annual reduction in the available allowances of 4.2% (instead of 2.2% per year under the current system), following a one-off reduction of the overall emissions cap by 117 million allowances ('re-basing').

The Commission also proposes to gradually remove free emissions allowances for the aviation sector, which is already covered by the EU ETS for domestic and intra-EU flights and to move to full auctioning of allowances by 2027 to create a stronger price signal to drive emissions reduction in the sector. Accompanying changes to the system's Market Stability Reserve will allow the system to absorb the historical surplus of allowances more quickly to help achieve this more ambitious overall cap.

The Commission is also proposing to extend the ETS to fuels used in road transport and buildings and for these to be covered by a separate cap, with distinct trading arrangements to the current system. This new system will operate at the point at which transport and heating fuels are placed on the market rather than at the point of end use. This will place the obligation on fuel suppliers, rather than households or drivers, to:

- hold a greenhouse gas emissions permit;
- report their emissions; and
- hold and surrender allowances to cover those emissions.

It is proposed to become operational from 2025, with a cap on emissions set from 2026, and with the objective of reducing emissions annual to yield an overall reduction of 43% in 2030 compared to 2005.

The Commission proposal indicates that the overall objective of this proposal is to ensure that sectors other than those currently included in the EU ETS contribute cost-effectively to the emission reductions needed in line with EU targets and Paris Agreement commitments, while ensuring synergies with other policies targeting those sectors.

To address the potential impacts arising from the fact that the fuel suppliers subject to this new regime are likely to pass on some of their costs to consumers buying road transport and heating fuels, the Commission has also presented a separately legislative proposal for a new Social Climate Fund.

The proposals recognises that increases in the price for fossil fuels will have social and distributional impacts that may disproportionally affect those households, micro-enterprises or transport users who spend a larger part of their incomes on energy and transport, and who may not have access to alternative transport solutions.

This could be achieved through temporary income support or investments intended to reduce, in the medium- to long-term, the reliance on fossil fuels through improving the energy efficiency of buildings, decarbonisation of heating and cooling of buildings, integrating energy from renewable sources, and the provision of improved access to zero- and low-emission transport.

The proposal anticipates that a portion of the auctioning revenue from the new ETS for buildings and road transport will be allocated to the EU Budget and from there to the Member States for expenditure through the Social Climate Fund.

Each Member State will be required to develop a Social Climate Plan, which will set out the measures and investments that will be financed from the new Fund, as well as their expected costs, and milestones and targets to achieve them. Each Social Climate Plan should:

1) provide vulnerable households, vulnerable micro-enterprises and vulnerable transport users with the necessary resources to finance and carry out investments in energy efficiency, decarbonisation of heating and cooling, in zero- and low-emission vehicles and mobility; and
2) mitigate the impact of the increase in the cost of fossil fuels on the most vulnerable and prevent energy and transport poverty.

It is proposed that €737 million will be allocated to Ireland over the proposed period for the first Social Climate Plan, 2025-2032. Member States' allocations are calculated, under the proposal, according to an allocation key, taking into account population at risk of poverty living in rural areas, emissions from fuel use in households, households at risk of poverty with arrears on their utility bills, GNI, and the Member State's share of reference emissions for the buildings and road transport sectors.

Member States will be required to contribute at least 50% of the total costs of their Social Climate Plan with the costs of this expected to be borne by Member States' share of auctioning revenues from the buildings and road transport sectors. A total fund of €1.474 billion would, therefore, be required for Ireland's Social Climate Plan.

The proposal to apply a separate trading system to road transport and buildings, and to use revenues from the new system to finance the Social Climate Fund would potentially reduce the funding available for Ireland's own measures to reduce greenhouse gas emissions. In accordance with the Programme for Government, revenue from increases in carbon tax is to be ring-fenced for climate purposes and is a key part of funding a just transition through targeted social welfare measures which protect vulnerable households against fuel poverty, fund socially progressive retrofitting schemes, and partially fund a REPS-2 (Rural Environment Protection Scheme) programme encouraging uptake of greener and more sustainable farming methods.

Government policy is not to levy a carbon tax in sectors of the economy included in the Emissions Trading System as this would amount to a form of double taxation. As the sectors proposed for inclusion in the new ETS for road transport and buildings are also subject to a carbon tax, this would require the Government to reduce the scope of application of this tax, therefore affecting expected future revenue from the carbon tax.

While a share of auction revenues from the new ETS would accrue to the State and funds would be made available to Ireland from the EU budget under the new Social Climate Fund, these revenues are likely be significantly lower than those raised by the carbon tax. It might be noted in this context that the full year yield from carbon tax in 2020 was approximately €495 million, when the applicable rate was €26 per tonne. As the Committee will be aware, the Oireachtas has also already legislated for an annual schedule of increases in the rate of carbon tax through the Finance Act which provide that the rate will reach €100 per tonne by 2030.

I should stress, in closing, that the Department and several other Government Departments are continuing to examine the implications of both proposals, in light of the issues that have been identified and in the context of the wider Fit for 55 package. The Minister proposes to brief Government on the Department's initial assessments with a view to informing the position to be taken during the negotiations on each of the proposals in the coming weeks.

We are very happy to take any questions the Committee may have.

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