THE FUTURE OF LIQUID HEATING FUELS

Putting the Pieces Together

MAY 20 & 27, 2021 VIRTUAL CONFERENCE

Presented by eurofuel The European Heating Oil Association

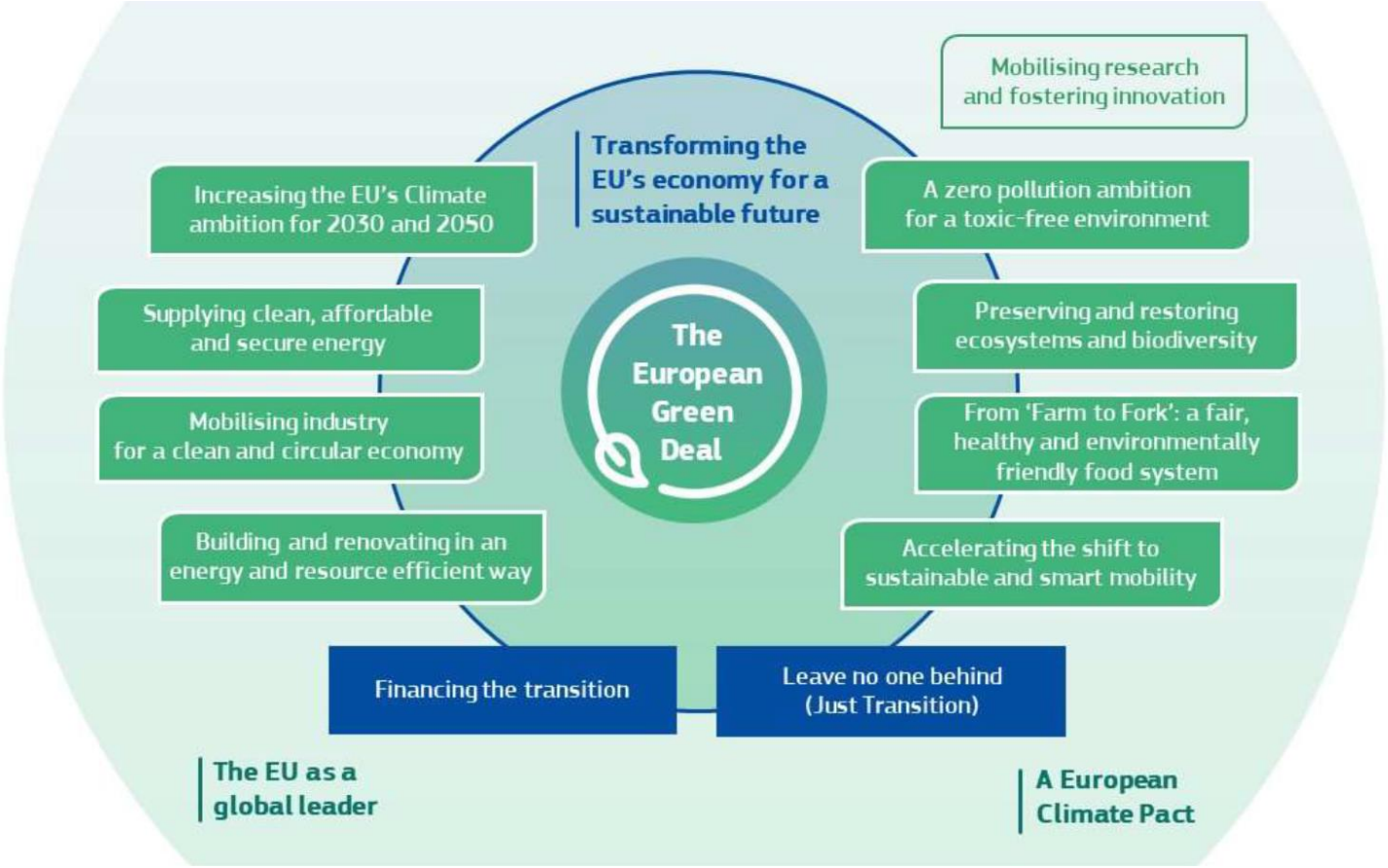
NORA NATIONAL OILHEAT RESEARCH ALLIANCE

Fit for 55% - An overview of EU policy

Barbara Cooreman

Hanover Communications

The European Green Deal



55% **by 2030**

Carbon-neutrality **by 2050**

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EU Emission Trading System

Reducing methane emissions in energy sector

Effort Sharing Regulation

Regulation on GHG emissions and removals from LULUCF

Energy Taxation Directive

55%

by 2030

Alternative Fuels Infrastructure Directive

Renewable Energy Directive

CO2 standards for cars

Energy Efficiency Directive

Third Energy Package for gas

Energy Performance of Buildings Directive

(Renovation Wave)

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ESR

ETD

ETS

EED

RED

NECPs

2019

Adoption Climate law

National recovery plans – EC review

EPBD

April **Today** **14 July** **Q4** **2022**

Discussions within Parliament and Council (Member States)

Engagement with technical + political level EC

Engagement with Parliament and Member States

Public consultations

Public consultations

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Revision Renewable Energy Directive

WHAT

- Adopted in 2009: 20% share of renewables by 2020
- Review 2018: 32% share of renewables by 2030

ON THE TABLE

- Revision of renewables target in light of 55% by 2030
- Focus on gas and liquid fuels, mostly in end-use sectors such as transport, heating/cooling in industry and buildings
    - Increase deployment of renewables for heating
    - Integrate renewables in buildings (*see Renovation Wave)*
- Establish certification scheme with LCA approach

IMPACT

- Physical incorporation of renewables in heating fuels + use of hybrid heating systems should be eligible to account for heating target
- List of eligible biofuels/bioliquids should take a tech-neutral approach, open for future innovation
- Scalability of alternative solutions + applications across sectors → ensure availability for heating

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Revision European Emission Trading System

WHAT

- Set up in 2005
- Cap-and-trade system for energy-intensive industries + electricity generation + aviation within EEA
- Free allocation for sectors at risk of carbon leakage
- Auctioning of allowances + Market Stability Reserve
- Revenue linked to funding mechanisms, such as Innovation Fund
- Current target 43% GHG reductions by 2030 (

ON THE TABLE

- Revision of ETS in light of 55% by 2030
- Potential expansion of scope to buildings and transport → to be linked to incentives such as revenues to be redistributed to limit impact on poorest (eg for renovation; clean heating solutions)
- Introduction Carbon Border Adjustment Mechanism

IMPACT

- Extension of scope would create overlap with other EU and national policies → uncertainty + administrative burden
- National circumstances (eg energy poverty; grids; climate conditions;…) would need to taken into account
- ETS extension to buildings would increase heating costs → impact on different income groups
- Overall impact energy efficiency may be limited due to inelastic demand of heating fuels (in short term)

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Revision Effort Sharing Regulation

WHAT

- Binding annual GHG targets for Member States for emissions not covered under the EU ETS (incl buildings)
    - Targets vary based on economic capacity
- Collective target of 30% GHG reductions by 2030 (compared to 2005 levels)
- Member States are responsible for the national policies and measures to limit emissions

ON THE TABLE

- Expansion of emission trading (see EU ETS)
    - could lead to phase out of ESR
    - Parallel systems

IMPACT

- Closely related to EU ETS (+ coherence with other instruments crucial)
- Continuation of a coherent regulatory and incentive architecture currently in place for heating (mainly small emitters; national circumstances)
- Double coverage ESR / ETS – additional impact?
- EU recovery budget could be driver for transformation

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Revision Energy Efficiency Directive

WHAT

- Targets to reduce overall EU energy consumption
    - Review 2018: 32,5% higher efficiency by 2030 (compared to 2007)
- Requirements to use energy more efficiently at all stages of energy chain
    - E.g. energy efficiency standards for boilers

ON THE TABLE

- Overcome regulatory and non-regulatory burden and market failures in energy systems
- Address ambition gaps in the NECPs
- Could be through
    - non-regulatory measures (training, awareness, info campaigns)
    - Revision of provisions such as renovation of public buildings; recovery of waste heat; heating and cooling;...

IMPACT

- Considerable investments required, partly offset by reduced energy bills
- Overall impact depending on how MS implement EED (financial support; social inclusion)
- Flexibility to achieve energy savings is key
- Obligations proportionate to size of energy providers
- Clean technologies may have increasing energy consumption (e.g. H2 electrolysis)

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Revision Energy Performance of Buildings

WHAT

- Measures to achieve a highly energy efficient and decarbonised building stock
- New buildings need to be Nearly Zero-Energy Buildings

ON THE TABLE

- Minimum energy performance standards for existing buildings (incl residential)
    - Eg requirements for replacement/retrofit of heating systems
- Strengthening building information tools with focus on energy performance certificates
    - Eg building renovation passports
- Renovation wave: double annual energy renovation rate of buildings by 2030 + foster deep renovation
- Create appropriate financing mechanisms

IMPACT

- Gradual phasing in of performance standards necessary
- Efficient condensing boilers will reduce CO2 emissions
- A label on energy consumption of existing heaters could complement energy label of new heaters
- Promote hybrid heating systems and renewable/low-carbon liquid fuels for heating
- Could potentially lead to a ban on existing technologies → impact on off-grid remote households

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Revision Energy Taxation Directive

WHAT

- Adopted in 2003
- Proposal for review withdrawn in 2015
- Rules for taxation of energy products used as motor or heating fuel and of electricity

ON THE TABLE

- Removal of fossil fuel subsidies (mostly transport)
- Taxes to send right price signal to consumers + provide incentives to producers and users
    - Reflect environmental performance of fuels in taxation
    - Incentives for clean technologies
- Update level/structure of rates to preserve internal market

IMPACT

- Differentiation across sectors
- Incentives for clean solutions
- Higher price for fossil fuels for consumers → impact on households due to inelastic demand

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Reflections

- Practical challenges
  - Lot of revisions at same time
  - Policy coherence & synergies
- Consideration of national circumstances
- Distributional impact
- Policy mix
  - What will do the trick?