

**FIEC examines the implications of the EU's plan to reduce greenhouse gas emissions**

# Why the EU's Fit for 55 package will take "green construction" to another level

**P**ublished in July 2021 as a set of ambitious legislative proposals to make the EU's climate, energy, and transport policies fit for reducing net greenhouse gas emissions by 55% by 2030, the European Commission's Fit for 55 package will have substantial implications for Europe's construction businesses.

Almost two years after the package's publication, most of the draft laws have been adopted by the EU Parliament and the Council and are about to be officially published in the Official Journal of the EU. Among the more than dozen proposals of the package, five directives and regulations are expected to considerably contribute to decarbonising construction in Europe and deserve a closer look.

## CAP-AND-TRADE

■ The EU emissions trading system (EU ETS) is the EU's main instrument in addressing emissions reductions. It is a carbon market based on a system of cap-and-trade of emission allowances for energy-intensive industries. The Fit for 55 package will reform the ETS by reducing emissions allowances in the system faster and by gradually phasing out free allowances of some sectors. In addition, a new self-standing emissions trading system (ETS II) will be created in 2027 for buildings and road transport. The overall ambition of emissions reductions by 2030 will be increased to 62% in the sectors covered by the ETS (iron, steel, metals, cement, etc.).

■ A new "Social Climate Fund", financed by the new emissions trading system from 2027, will be established to address the social and distributional impact of ETS II. The fund will make available up to EUR

65 bn to support vulnerable households, micro-enterprises, and transport users. It will also support investments intended to increase energy efficiency of buildings, to decarbonise heating and cooling of buildings, and to grant improved access to low-emission mobility and transport.

■ The so-called Carbon Border Adjustment Mechanism (often referred to as "CBAM") is a carbon import tax and aims to ensure that the emissions reduction efforts of the EU are not offset by increasing emissions outside its borders through the relocation of production to non-EU countries (where climate action is less ambitious than in the EU) or through increased imports of carbon-intensive products. The CBAM targets imports of products in carbon-intensive industries (such as iron, steel, cement, aluminium, electricity, or hydrogen). The price of CBAM certificates follows the ETS allowance price. The obligation for importers to pay a levy on energy-intensive goods will kick in as of 2026, in line with the ETS free allocation phase out.

■ The updated and third version of the EU's renewable energy directive will raise the share of renewable energy in the EU's overall energy consumption to 42.5 % by 2030. It also sets ambitious sector-specific targets in transport, industry,

buildings and district heating and cooling with the aim of speeding up the integration of renewables in these sectors. Most importantly, the "RED" sets an indicative target of at least a 49% renewable energy share in buildings in 2030.

■ The new energy efficiency directive aims to reduce final energy consumption at EU level by 11.7% in 2030. Member States will be required to renovate each year at least 3% of the total floor area of buildings owned by public bodies, and they will have to consider the whole life cycle of carbon emissions of buildings. Contracting authorities may be asked by Member States to require that tenderers disclose information on the life cycle global warming potential, on the use of low carbon materials and on the circularity of materials used for new buildings and buildings to be renovated.

■ Finally, the revised energy performance of buildings directive (still under discussion) will increase the rate of renovation in the EU and require all new buildings to be zero-emission buildings, from a date that is yet to be determined. The directive will most likely introduce EU-wide minimum energy performance standards for worst-performing buildings and facilitate more targeted financing for investments in the building sector. The Commission expects that the renovation

of worst-performing buildings will apply to about 30 million building units in the EU.

## INCENTIVISING CHANGE

Overall, the Fit for 55 package will put a higher price on carbon and carbon-intensive products and thereby provide strong incentives for using low-carbon building and construction materials.

On the other hand, the package offers tremendous business opportunities for construction companies, with EU programmes set to dedicate approximately €110 billion in total to energy efficiency and building renovation investment until 2027.

One thing is certain: The Fit for 55 package will take sustainable construction to a new level. **ce**



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