FIEC
EUROPEAN CONSTRUCTION INDUSTRY FEDERATION

The European Green Deal

Taking stock of the European Green Deal 2019-2024

This document aims to provide a concise overview of the various initiatives, regulations, directives and recommendations adopted in the context of the Green Deal. It is also relevant for FIEC's non-EU members, as their countries already apply EU climate legislation to a large extent. The impact of new legislation on the sector may change over time, depending on external factors and future revisions. The document does not claim to be exhaustive[1] and cannot replace a reading of the legal texts.

Introduction

Launched in 2019 and (mostly) completed in 2024[2], the ***European Green Deal***, Europe's sustainable growth strategy, combines a comprehensive set of mutually reinforcing measures and initiatives aimed at achieving carbon neutrality in the EU by 2050.

The Green Deal, primarily through strategies and policy packages such as the 'Circular Economy Action Plan' (2020), the 'Renovation Wave' (2020) and the 'Fit for 55' package (2021), is designed to reshape the way European contractors build, maintain and renovate buildings and infrastructure. Its objectives are threefold: To transform the EU into (1) a fair and prosperous society with a modern, resource-efficient and competitive economy, (2) where there are -55% net greenhouse gas emissions in 2030 and no net greenhouse gas emissions in 2050 ('climate neutrality'), (3) and where economic growth is decoupled from resource use.

Fit for 55 is the Green Deal's main legislative package, with 13 proposals covering climate, energy, taxation and mobility policies. It was presented in July 2021 and is nearing completion. Complemented by the '***REPowerEU plan***' in May 2022, which reinforced some of its proposals to make the EU more 'energy independent' from Russian fossil fuels, Fit for 55 will have a far-reaching impact across the entire construction value chain, boost low-carbon manufacturing and fossil-free energy production, stimulate the renovation market and the commercial construction segment in particular, and create new jobs.

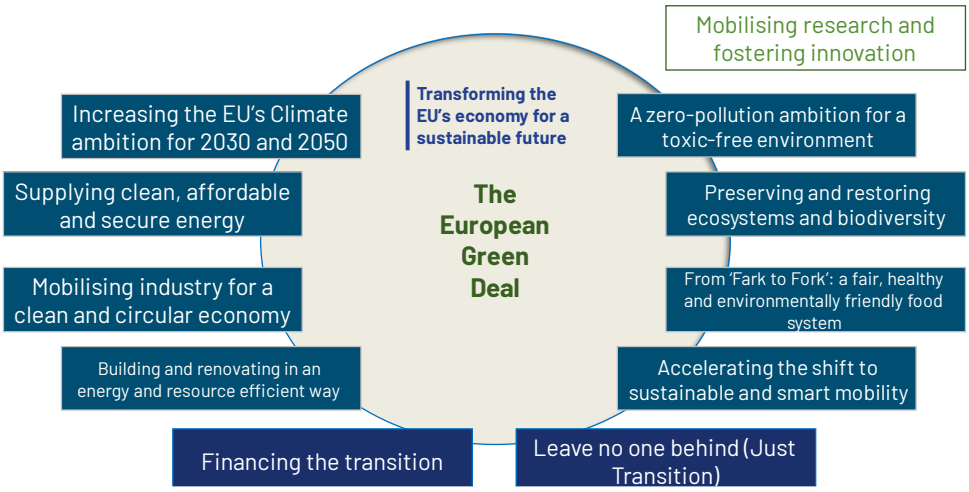
Also in 2022, in response to the US Inflation Reduction Act and the growing economic power of other regions of the world, the European Commission presented a ***'Green Deal Industrial Plan***' to boost the competitiveness of Europe's net zero industry and support the rapid transition to climate neutrality. The plan aims to create a more supportive environment for the expansion of the EU's manufacturing capacity for net zero technologies and products.

The European Green Deal is structured around 9 priority areas (see chart on page 2). At the heart of the Green Deal is the "***European Climate Law***": It includes a legal target

[1] (Other) new legislation such as the updated Industrial Emissions Directive, which regulates pollutant emissions from industrial installations, or the revision of the Urban Wastewater Treatment Directive, which aims to protect the environment from the adverse effects of urban wastewater discharges and discharges from certain industrial sectors, have not been analysed and are not part of this document.

[2] At the time of writing, the EU Nature Restoration Law, the EU Soil Monitoring Directive, the revised Energy Taxation Directive and the EU Corporate Sustainability Due Diligence Directive have not yet been formally adopted by the EU institutions or the European Parliament.

for the Union to become climate neutral by 2050, an ambitious climate target for 2030 of at least a 55% reduction in net GHG emissions compared to 1990, a process for setting a climate target for 2040, a commitment to negative emissions after 2050, and a framework for adaptation by 2050 by integrating the internationally shared vision for action into EU law (i.e.. the global goal on adaptation in Article 7 of the 2015 Paris Agreement and the 2015 United Nations Sustainable Development Goal 13).



Key initiatives of the Green Deal

The Green Deal is based on several strategies and action plans in different policy areas, which are presented and described below and which have been translated into concrete legislative proposals.

EU Industrial Strategy (2020/2021): The new European industrial strategy sets out a plan for how EU industry could lead the twin green and digital transitions and sets in motion a new policy approach to achieve this. Most importantly, the strategy introduces a flexible ecosystem-based approach and identifies construction as one of these 'ecosystems'. SMEs are at the center of the strategy. To accelerate the twin transitions in the construction sector, the Commission has proposed the "*Transition pathway for Construction*" in 2023.

Renovation Wave Strategy (2020): The Renovation Wave aims to at least double the annual energy renovation rate of residential and non-residential buildings in the EU and to promote deep energy renovation. It is based on 7 key principles, including "energy efficiency first", affordability, decarbonisation, life cycle thinking and circularity, and high environmental standards. The strategy estimates that by 2030 an additional 160,000 green jobs could be created in the EU construction sector through a renovation wave.

Offshore Renewable Energy Strategy (2020): The strategy sets targets for an installed capacity of at least 60 GW of offshore wind and 1 GW of ocean energy by 2030, and 300 GW and 40 GW, respectively, by 2050.

Hydrogen Strategy (2020): This strategy proposes policy action points in 5 areas: investment support; support production and demand; creating a hydrogen market and infrastructure; and research and (international) cooperation. It sets out concrete action to start the planning of hydrogen infrastructure, and to accelerate the deployment of different refuelling infrastructure.

Circular Economy Action Plan (2020): The action plan announces initiatives for the entire life cycle of products, from design and manufacturing to consumption, repair, reuse, recycling, and bringing resources back into the economy. It focuses on the sectors that use most resources and where the potential for circularity is high, including construction and buildings.

Sustainable & Smart Mobility Strategy (2020): The strategy aims to have at least 30 million zero-emission cars in operation on European roads by 2030, 100 climate neutral European cities, to double the high-speed rail traffic across Europe, and to deploy automated mobility at large scale[3].

Biodiversity Strategy for 2030 (2020): This strategy aims to put Europe's biodiversity on a path to recovery by 2030. It aims to establish protected areas for at least 30% of land in Europe and 30% of sea in Europe.

EU Soil Strategy (2021): The Soil Strategy sets out a framework to protect and restore soils and ensure that they are used sustainably. It sets a vision and objectives to achieve healthy soil by 2050 in Europe. Most importantly, it aims to ensure that, by 2050, there is no net land take and soil pollution is reduced to low levels.

Zero Pollution Action Plan (2021): This action plan sets out a zero-pollution vision for 2050: Air, water and soil pollution should be reduced to levels no longer considered harmful to health and natural ecosystems.

Climate Adaptation Strategy (2021): This strategy sets out how the EU can adapt to the unavoidable impacts of climate change and become climate resilient by 2050. On buildings, the strategy states that the EU will support the integration of climate resilience considerations into the criteria applicable to construction and renovation of buildings and critical infrastructure.

Sustainable Finance Strategy (2021): Inspired by the 2018 Action Plan on Financing Sustainable Growth, which laid the foundations for an EU-wide classification system for sustainable economic activities ("EU Taxonomy"), the key areas of this strategy are: Financing the path of the real economy towards sustainability, more inclusive sustainable finance supporting a green recovery, including providing better access for SMEs to finance and promoting digital sustainable finance tools for SMEs.

EU Standardisation Strategy (2022): This strategy proposes five key sets of actions, including anticipating, prioritising and addressing standardisation needs in strategic areas, such as low carbon cement.

EU Save Energy Plan (2022): Adopted as part of the REPowerEU plan in response to the Russian attack on Ukraine. The plan takes a two-pronged approach: (1) Achieving immediate energy savings through voluntary choices and (2) Accelerating structural, mid- to long term energy efficiency measures, including phasing out national subsidies for fossil fuel-based boilers in buildings.

EU Solar Strategy (2022): Adopted as part of the REPowerEU plan. The strategy identifies remaining barriers and challenges in the solar energy sector and outlines

[3] It also aims to have a zero-emissions large aircraft market by 2035, all cars, vans, buses and new heavy-duty vehicles to be zero-emissions, rail freight to double and the Trans-European Transport Network (TEN-T) to be fully operational by 2050.

initiatives to overcome them and accelerate the deployment of solar technologies. It aims to deliver 230 GW of solar photovoltaic by 2025 and almost 600 GW by 2030[4].

Transition Pathway for Construction (2023): Based on the Industrial Strategy. The pathway outlines a "concrete and actionable plan" (European Commission) to help the "construction ecosystem" transform its business models and value chain to become the foundation of a green, but also digital and resilient European economy.

European Wind Power Package (2023): This action plan aims to rapidly implement legislative initiatives for wind power deployment to tackle the issue of slow permitting procedures for renewable energy projects. Member States will aim to install 111 GW of offshore renewable generation capacity by 2030.

Industrial Carbon Management Strategy (2024): This strategy seeks to develop technologies to capture, store, transport and use CO2 emissions from industrial facilities, including cement and steel plants ("hard-to-abate sectors") as well as to remove CO2 from the atmosphere[5].

Key legislation and impact analysis

The following section provides an overview of the key legislation adopted under the Green Deal that has a particular impact on the business models, activities and supply chains of contractors. It is divided into 7 sections: (1) Greenhouse gas emissions reduction, (2) Energy efficiency, renewable energy and taxation, (3) Circular economy and sustainable products, (4) Infrastructure, sustainable mobility and transport, (5) Nature restoration, biodiversity and pollution, (6) Sustainable finance, reporting, sustainable supply chains and corporate responsibility, and (7) Industrial policy.

A. Greenhouse gas emissions reduction

Revised European carbon market (EU Emissions Trading System ETS)

Launched in 2005, the ETS is the centrepiece of European climate policy and the key to achieving the EU's climate neutrality target. It works on the 'cap and trade' principle'[6]. By putting a price on GHG emissions, the ETS aims to achieve significant reductions in EU emissions by providing incentives for industry to reduce emissions and invest in climate-friendly technologies.

[4] It is accompanied by the "European Solar Rooftops Initiative", which includes a proposal to gradually introduce an obligation to install solar energy in different types of buildings.

[5] It sets out three different stages of developing industrial carbon management in Europe, starting with the deployment of at least 50 million tonnes of CO2 storage capacity per year by 2030.

[6] A cap is a limit set on the total amount of greenhouse gases that can be emitted by the sectors covered by the system and is expressed in emission allowances, where one allowance gives the right to emit one tonne of CO2eq. Within the cap, companies in scope buy allowances on the carbon market but they also receive some allowances for free. Companies can also trade allowances with each other. The ETS interacts with the ***Effort Sharing Regulation (ESR),*** also revised in the Fit for 55 package, which requires Member States to reduce emissions by 40% from 2005 levels in sectors currently not covered by the ETS, such as buildings, road transport, agriculture, small industry and waste.

Under the new ETS, emissions in the ETS sectors[7] must be reduced by 62% by 2030 compared to 2005 levels. To achieve this reduction, there will be a one-off reduction in the EU-wide quantity of allowances of 90 million tonnes of CO2 equivalent in 2024 and 27 million tonnes in 2026, combined with an annual reduction in allowances. Free allowances for industry in the ETS will be phased out, and the Carbon Border Adjustment Mechanism (see below) will be phased in at the same rate as free allowances in the ETS will be phased out. The CBAM will start in 2026 and be fully phased in by 2034.

Impact: The revised ETS will provide incentives for building materials producers to switch to low-carbon fuels for their production processes, for contractors to purchase low-carbon products and for actors throughout the value chain to reduce their emissions. However, energy intensive industries and vulnerable households may be adversely affected by a higher carbon price. Building manufacturers affected by a higher carbon price could pass on higher costs to building contractors.

New self-standing carbon market for buildings and road transport (ETS II)

A separate new ETS II for fuels used in buildings and road transport will be established by 2027, putting a price on emissions from these sectors. Fuel for other sectors, such as manufacturing, will also be covered. Although it will be a 'cap and trade' system like the existing ETS, the ETS II will cover emissions upstream. The cap will be set to bring emissions down by 42% by 2030 compared to 2005 levels. ETS II could be delayed until 2028 to protect citizens if energy prices are exceptionally high[8]. Vulnerable households, micro-enterprises and transport users particularly affected by energy and transport poverty will be supported by the new ***Social Climate Fund (SCF)***[9]***,*** which will start in 2026, one year before the start of ETS II.

Impact: If properly implemented at national level, the ETS II will provide incentives for households to switch to low-carbon fuels for heating. However, the ETS II is expected to increase energy costs in the short to medium term, which the SCF can only partially mitigate due to its limited scope and size (EUR 86.7 bn in the first years).

[7] Electricity and heat, energy-intensive sectors such as steel, iron, cement, aluminium, metals, glass, ceramics, oil refineries, aviation and shipping.

[8] A new price stability mechanism will also be introduced to ensure that if the price of an allowance in ETS II rises above €45, 20 million additional allowances will be released. If energy prices are exceptionally high, the extension of the ETS can be delayed by one year.

[9] Following a national public consultation, EU countries will have to submit "Social Climate Plans" by 2025, covering two types of initiatives. Firstly, the fund will finance temporary direct income support measures to tackle the rise in road transport and heating fuel prices. It will also cover long-term structural investments, including building renovation, decarbonisation solutions and renewable energy integration, zero and low emission vehicle purchase and infrastructure, and the use of public transport and shared mobility services.

Carbon Border Adjustment Mechanism (CBAM)

The CBAM (European "carbon border tax system") has been set up to equalise the carbon price paid for EU products under the ETS and the price paid for imported goods. This will be achieved by requiring companies importing into the EU to buy so-called CBAM certificates to pay the difference between the carbon price paid in the country of production and the price of carbon allowances in the ETS. The legislation will incentivise non-EU countries to increase their climate ambition and ensure that EU and global climate efforts are not undermined by the relocation of production from the EU to countries with less ambitious policies. The CBAM applies since 1 October 2023, with a transition period during which the importer's obligations are limited to reporting. To avoid double protection of EU industries, the length of the transition period and the full phase-in of the CBAM is linked to the phase-out of free allowances under the ETS. Initially, the CBAM will apply to imports of, inter alia, cement, iron, steel and aluminium. If companies import these products, they must report the volume of their imports and the GHG emissions generated by their production. As these products include building materials, construction companies may also be affected if they import these goods[10].

Impact: The CBAM will make it more expensive to import carbon-intensive products, providing incentives for non-EU manufacturers of building materials to reduce the carbon footprint of their products in order to sell them at competitive prices. CBAM will also incentivise EU contractors to buy more low-carbon products. However, it will also increase the administrative burden and compliance costs due to new reporting requirements. The non-EU countries expected to be most affected in relative terms are Ukraine, Bosnia, Serbia, or Moldova, as well as some African countries.

B. Energy efficiency, renewable energy, taxation

Revised Energy Performance of Buildings Directive (EPBD)

The EPBD is the EU's main legislative instrument for setting energy efficiency requirements for buildings. The new EPBD takes a two-pronged approach to the renovation of buildings in the EU: For residential buildings, Member States must set their own national trajectories (*National Building Renovation Plans*) to reduce the average primary energy consumption of these buildings by 16% by 2030 and 20-22% by 2035. Member States are free to choose which buildings to target and what measures to take. National trajectories must ensure that at least 55% of this reduction is achieved by renovating the worst performing buildings.

For the non-residential building stock, the revised EPBD requires progressive improvement through minimum energy performance standards (MEPS). 16% of the worst performing buildings will have to be renovated by 2030 and 26% by 2033. For

[10] From 2026, importers will have to report annually on the volume of goods imported into the EU in the previous year and the GHG emissions generated. They will surrender the corresponding number of CBAM certificates. From 2033, 100 per cent of goods covered by the CBAM Regulation will be priced at import.

new buildings, Zero Emission Buildings (ZEBs) will be the new standard[11]. Member States will also have to ensure that new buildings are 'solar ready' and that the lifecycle global warming potential (GWP) of new buildings is calculated from 2028 for large new buildings and from 2030 for all new buildings and disclosed in the building's energy performance certificate (EPC)[12]. The EPBD also harmonises the system of EPCs and aims to phase out fossil fuels in heating and cooling by 2040.

Impact: If properly implemented at national level, the EPBD is expected to stimulate the renovation market and create new high-quality jobs in the sector – especially for local SMEs. Higher renovation rates will promote innovative, industrialised and digital solutions and practices. More generally, the EPBD will make buildings more climate resilient and energy efficient. The EPBD will also help to make buildings 'smart' and 'e-mobility ready', combat fraud, provide financial and technical support to households and pave the way for Member States to set national emission limits for buildings. In the construction sector, it will particularly benefit SMEs active in solar PV.

Revised Renewable Energy Directive (RED)

The third Renewable Energy Directive ("RED III") increases the share of renewable energy in the EU's final energy consumption to 42.5% by 2030, with the possibility of a further increase of 2.5%. It also sets sub-targets for transport, industry, buildings, heating and cooling. In the buildings sector, the indicative target is at least 49% renewable energy in 2030, while the heating and cooling targets should be increased gradually[13]. Countries will have to ensure that public buildings fulfil an exemplary role as regards the share of renewable energy used.

Impact: If properly implemented at national level, RED III is expected to further increase the uptake of renewable energy in industry and buildings, thereby contributing to the decarbonisation of the construction value chain and the EU's building stock, as well as speeding up the approval of renewable energy projects.

Revised Energy Efficiency Directive (EED)

The legislation sets energy savings targets for both primary and final energy consumption in the EU. Member States must collectively ensure a reduction in energy consumption of at least 11.7% at EU level by 2030 compared to 2020. This target will be accompanied by a robust monitoring and enforcement mechanism to ensure that Member States deliver on their national contributions to this EU target. Member States

[11] All new residential and non-residential buildings must have zero on-site emissions from fossil fuels from 1 January 2028 for publicly owned buildings and from 1 January 2030 for all other new buildings, with the possibility of specific exemptions.

[12] The European Commission will develop a common European methodology for calculating the GWP by 2026.

[13] By 0.8 percentage points per year until 2025 and 1.1 percentage points from 2026 to 2030.

will have to save an average of 1.5% per year until 2030. The savings targets should be achieved through local, regional and national measures in different sectors, including buildings. The scheme will particularly cover the public sector: Member States must ensure that at least 3% of public buildings are renovated each year into nearly zero energy or zero emission buildings. The EED also sets new requirements for efficient district heating systems and places a strong focus on alleviating 'energy poverty'. Finally, it encourages public authorities investing public funds through procurement to choose products, buildings, works and services with the best energy performance when awarding contracts and concessions. Member States are also encouraged to take into account the whole life cycle carbon emissions of buildings through public procurement.

Impact: If properly implemented at national level, the EED is expected to stimulate the market for energy efficient renovation and green public procurement, with a positive impact on employment in the energy efficiency and construction/renovation sector, provided the necessary skills are available.

Revised Energy Taxation Directive (ETD)

The revised but not yet adopted Energy Taxation Directive will introduce a new structure of tax rates based on the energy content and environmental performance of fuels and electricity - rather than on volume, so that the most polluting fuels are taxed most heavily - and remove current exemptions and reductions.

Impact: If properly implemented at national level, the ETD should encourage more efficient use of energy and provide incentives for households and businesses to switch to and invest in low-carbon fuels and 'green' electricity. The switch to electricity will be supported by the reform of the electricity market design, which will further protect consumers and businesses from sudden price shocks, for example through price interventions targeted at SMEs in the event of an 'electricity price crisis'.

The reform of the ***EU gas and hydrogen market*** will contribute to the decarbonisation of the gas sector by increasing the production of renewable gases and low-carbon hydrogen and facilitating their integration into EU energy networks. It will also stimulate investment in new hydrogen infrastructure.

C. Circular economy and sustainable products

Revised Construction Products Regulation (CPR)

The revised CPR is expected to accelerate the transition to more circularity and digital product information in the sector. It establishes new harmonised rules for the placing and making available on the market of construction products by laying down rules on how to express the environmental and safety performance of products in relation to

their essential characteristics, including life cycle assessment, as well as environmental, functional and safety product requirements for construction products[14].

Most importantly, the new CPR reforms the dysfunctional European standardisation system, obliges manufacturers to disclose the life-cycle environmental performance of products in the product's "declaration of performance" and introduces a new digital construction product passport system. “Green” public procurement will be encouraged through secondary legislation setting mandatory minimum environmental performance requirements for construction products[15]. Forthcoming potential revisions of EU waste legislation, an update of the non-binding ***EU Construction and Demolition Waste Protocol*** and possible end-of-waste criteria, are expected to complement the revised CPR in its efforts to provide regulatory incentives for circularity.

Impact: The CPR is expected to promote circular construction, improve the carbon footprint of key construction products, enhance standardisation, promote sustainable public procurement and stimulate the digitalisation of the sector. Contractors will have better access to a wide range of relevant product information. However, the CPR risks increasing planning uncertainty and hampering innovation, as many existing European harmonised standards will need to be updated during a long transition period from the existing to the new CPR.

D. Infrastructure, sustainable mobility, transport

Alternative Fuels Infrastructure Regulation (AFIR)

The AFIR sets concrete targets for deploying recharging points and alternative fuel refuelling points in the EU for cars, vans, heavy-duty vehicles, planes and ships that use them. It provides for specific deployment targets that will have to be met in 2025 or 2030[16].

Updated Trans-European Transport Network (TEN-T) Regulation

The revised Trans-European Transport Network (TEN-T) Regulation aims to build a sustainable and resilient TEN-T. This includes stronger incentives to increase the use of more sustainable modes of transport and to improve multimodality. The updated TEN-T sets binding targets: For example, major airports must be connected by long-

[14] It does not apply to products that are directly installed or dismantled, nor to products that are directly manufactured on the construction site.

[15] The CPR interacts with the ***Ecodesign for Sustainable Products Regulation (ESPR),*** which will act as a "safety net" in case of a regulatory gap in the CPR. The Ecodesign Regulation aims to improve various aspects of products throughout their life cycle. Specific product requirements will be set by the Commission. The Commission will identify several priority product groups, including iron, steel, aluminium and chemicals.

[16] For example, from 2025 onwards, fast recharging stations of at least 150kW for cars and vans need to be installed every 60 km along the EU’s main transport corridors, the so-called ‘trans-European transport (TEN-T) network’ and recharging stations for heavy-duty vehicles with a minimum output of 350kW need to be deployed every 60 km along the TEN-T core network.

distance rail. In addition, all 430 major cities along the network must develop *Sustainable Urban Mobility Plans* (SUMPs) to promote zero and low emission mobility.

The ***Regulation on tightening the CO2 emission performance standards for new passenger cars and new light commercial vehicles*** (LCVs) stipulates that from 2035, all new cars put on the market, including LCVs widely used by construction companies, must emit zero CO2.

The ***Regulation on the type approval and market surveillance of motor vehicles (Euro 7)*** will change the measurement of exhaust particles (to PN10 instead of PN23, which includes smaller particles). For buses and trucks, Euro 7 sets stricter limits for exhaust emissions measured in the laboratory and under real driving conditions. Euro 7 also sets limits for particulate matter (PM10) emissions from cars and vans.

The proposed revision of the ***CO2 emission standards for heavy duty vehicles*** will – if adopted – introduce stronger CO2 emission standards for heavy duty vehicles from 2030, compared to 2019 levels (in particular, decrease emissions per km from new HDV by 90% by 2040) and extend the scope of the regulation to cover smaller trucks[17].

Impact: These new initiatives are expected to stimulate commercial construction, including rail, marine and electric transport infrastructure, with a positive impact on employment in the longer term. They will also help reduce emissions from construction company fleets.

E. Nature restoration, biodiversity, pollution

Nature Restoration Law (NRL)

The Nature Restoration Law will oblige Member States to submit a *national restoration plan* and to take measures to restore nature with the aim of collectively covering at least 20% of land and 20% of marine areas by 2030, as a Union target. Renewable energy installations will be considered 'projects of overriding public interest'. Member States must have no net loss of urban green space in urban ecosystem areas[18] by 2030 compared to 2024, although several exemptions from these restoration measures are possible. In addition, when implementing restoration measures, Member States must take into account the foreseeable socio-economic impacts, critical resource projects and regional and local characteristics such as population density. Integrating urban green spaces into buildings and infrastructure will contribute to the climate resilience of

[17] Other new measures, such as the revised ***Ambient Air Quality Directive (AAQD),*** will set stricter limit and target values for 2030 for several pollutants, including particulate matter. Short-term measures to improve air quality may include temporary suspension of construction activities.

[18] (which may include the whole city/town/suburb or parts of the city/town/suburb, including in urban centres, clusters and peri urban areas, and with the possibility of combining the urban ecosystem areas of two or more adjacent cities/towns into one urban ecosystem area common to those cities/towns).

the urban built environment. The NRL is likely to be complemented by the Soil Monitoring Law (SML), which is still under discussion[19].

Impact: The NRL and SML are expected to improve climate resilience (mainly through natural carbon sinks) and quality of life in urban centers. The SML could have a positive impact on employment in the sector, particularly for companies providing decontamination services. However, both initiatives risk discouraging new development and increasing the number of court cases over 'land take' for construction.

F. Sustainable finance, reporting, sustainable supply chains and accountability

EU Taxonomy for sustainable activities ("EU Taxonomy")

The EU Taxonomy is a first-of-its-kind classification system for sustainable economic activities, which saw the light of day in 2020 with the entry into force of the Taxonomy Regulation[20].

The main objective of the EU Taxonomy is to help channel investment into sustainable activities and to support the EU economy in its transition towards a 'green', socially just and modern way of planning, manufacturing, building, maintaining, operating, recycling and re-using resources. It also aims to combat 'greenwashing' by providing clear, quantitative, detailed and common definitions of what is considered 'sustainable'. The Regulation sets out six environmental objectives[21]. For each objective, the Taxonomy sets out technical criteria in so-called secondary legislation ("delegated acts"). To date, four Delegated Acts have entered into force, three of which set out technical screening criteria. These technical criteria largely cover construction or construction-related activities, ranging from the construction of new buildings, the renovation of existing buildings or the installation, maintenance and repair of energy efficiency equipment to the maintenance of roads and motorways, the demolition of buildings and the construction of water supply networks and desalination plants.

To be considered "environmentally sustainable", an economic activity must meet at least one of the six environmental objectives without significantly harming the other objectives, while respecting minimum social safeguards. Under the Taxonomy, certain non-financial entities (companies) are required to report on their compliance ("alignment") with the technical criteria[22].

[19] The Soil Monitoring Law aims to address key soil threats such as erosion, floods and landslides, salinisation, contamination, or soil sealing. It will establish a harmonised monitoring framework for all soils across the EU, introduce soil management practices and 'land take mitigation principles' and require Member States to identify and remediate contaminated sites.

[20] From 2020, a platform of industry experts ("Platform on Sustainable Finance") advised the European Commission on the technical criteria and FIEC was a member of this platform until 2022.

[21] Climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems.

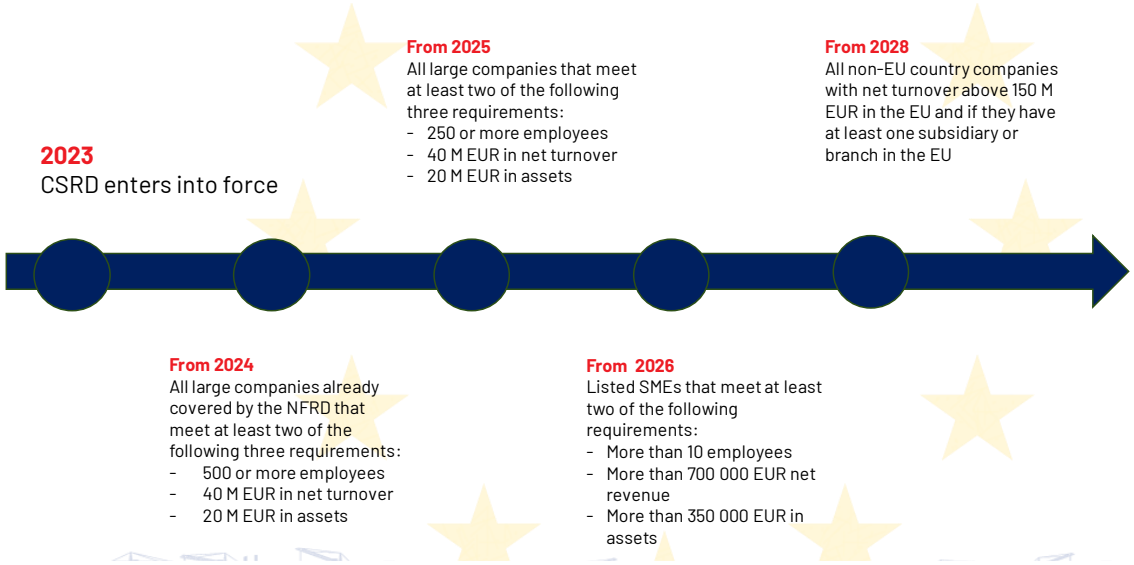
[22] Credit institutions are also required to publish several KPIs, including the Green Asset Ratio (GAR), which provides insight into the extent to which their operations are environmentally sustainable. The GAR measures the proportion of the credit institution's balance sheet exposures aligned with the Taxonomy as a percentage of total eligible exposures.

The principles of Taxonomy can also be found in other EU legislation. The ***European Green Bond Standard*** is aligned with the EU Taxonomy. The voluntary standard[23] provides a common set of requirements for bond issuers to demonstrate that they are financing legitimate green projects in line with the Taxonomy. Companies and investors will be able to use EU green bonds to raise funds on the capital markets to finance investments in sustainable activities.

Corporate Sustainability Reporting Directive (CSRD)

The CSRD requires EU companies in scope - including qualifying EU subsidiaries of non-EU companies - to disclose their environmental and social impacts and how their environmental, social and governance (ESG) policies affect their business. It significantly expands the scope, sustainability disclosures and reporting requirements of its predecessor directive, the *Non-Financial Reporting Directive* (NFRD). Compliance with the CSRD will be phased in between 2024 and 2029, based primarily on the legacy of the NFRD or the size of the company (see below).

Timeline of the CSRD



The detailed reporting standards ("***European Sustainability Reporting Standards***" or ESRS) will be laid down in secondary legislation ("delegated acts") - the first set of which was adopted in 2023 - and will also include sector-specific standards[24], including for construction, and voluntary standards for unlisted SMEs. The required sustainability information must be reported as part of a company's management report. The ESRS due diligence disclosures are the reporting side of the due diligence obligations of the Corporate Sustainability Due Diligence Directive.

Corporate Sustainability Due Diligence Directive (CSDDD)

The first-ever European Due Diligence Framework establishes a framework to promote sustainable and responsible business conduct and to integrate human rights and

[23] Will enter into force in December 2024.

[24] The Commission decided in 2023 to postpone the deadline for the adoption of sectoral ESRS.

environmental considerations into companies' operations. It applies to both EU and non-EU companies with an assessed worldwide net turnover of at least €450 million (non-EU companies must have at least €450 million of net turnover generated in the EU) and more than 1,000 employees. It therefore applies to about 0.05%[25] of the total number of companies in the EU[26].

From a climate change perspective, the CSDDD obliges companies within its scope to adopt and implement a climate transition plan to mitigate climate change in line with the Paris Agreement and the European Climate Law, including its interim targets[27]. Companies that are included in their parent company's transition plan will be deemed to be in compliance with the CSDDD. The content of the plans must be consistent with the CSRD and, in order to avoid duplication of reporting obligations, companies complying with the CSRD would be exempted from the obligation to adopt a climate transition plan under the CSDDD.

Member States shall also ensure that compliance with the obligations resulting from the national measures transposing the CSDDD, or their voluntary implementation, qualify as an "environmental or social aspect" that contracting authorities may take into account as part of the award criteria for public contracts and concessions, and as an "environmental and social condition" that contracting authorities may lay down in relation to the performance of public contracts and concessions.

The new ***Regulation on deforestation-free products*** lays down rules regarding the placing and making available on the Union market as well as the export from the Union of relevant products that contain or have been made using relevant commodities, including wood, with a view to minimising the EU's contribution to deforestation and forest degradation worldwide and reducing the EU's contribution to GHG emissions and global biodiversity loss. The framework sets out rules for economic operators to exercise due diligence with regard to wood supplied by each particular supplier[28].

The updated ***Environmental Crimes Directive (ECD)*** expands the list of environmental offences and sanctions at the EU level, including offences comparable to 'ecocide' with catastrophic results such as widespread pollution[29].

Impact: The Taxonomy Regulation is a huge (financing) opportunity for construction companies: Construction activities are largely covered by the technical screening criteria and companies aligned with the Taxonomy have the opportunity to successfully enter the sustainability market. As it is a 'dynamic

[25] About 5,400 large EU companies.

[26] Companies with more than 5,000 employees and a turnover of €1.5 billion have three years from the entry into force of the CSDDD to comply; companies with 3,000 employees and a turnover of €900 million have four years; and companies with more than 1,000 employees and a turnover of €450 million have five years. There are potentially high penalties for non-compliant companies.

[27] The plan should also address the company's exposure to fossil fuel-related activities. Such requirements will be understood as a commitment to means and not to results.

[28] This due diligence includes the collection of information, documents and data which demonstrate that the relevant products comply with specific conditions, risk assessment measures, and risk mitigation measures.

[29] Individuals, including company representatives, who commit offences can be sentenced to imprisonment, fines, obligations to restore the damaged environment or to pay compensation for the damage caused. Companies may face the same sanctions, as well as other sanctions such as the withdrawal of licences.

framework' and will be regularly updated based on the latest scientific knowledge, it is expected to gain acceptance among investors in the future and reduce 'greenwashing' in the long run. However, it risks creating an uneven playing field between aligned and non-aligned companies. The reasons for non-compliance may vary, e.g. access to secondary material, sufficient staff to meet reporting requirements, etc.

The Due Diligence Directive, despite its limited scope, is expected to have a far-reaching impact on the value chain and on the civil liability of large companies, although a company cannot be held liable for damage caused solely by its business partners in its chain of activities. The CSDDD could prove problematic for the international competitiveness of larger European contractors, who will have to compete with companies based in jurisdictions with less stringent regulations. Mapping the entire supply chain means a lot of additional administrative work and is questionable in terms of feasibility. SMEs could be indirectly burdened in their role as business partners of larger companies throughout the supply chain.

The CSRD is expected to dramatically increase the transparency of companies' practices and the amount of sustainability/ESG information they have to make available to lenders, investors, auditors and authorities. Medium and smaller construction companies may face high administrative burdens as the interest of lenders in sustainability information will remain high due to ESG-related regulatory requirements that they themselves have to comply with. On the other hand, sustainable companies will become more attractive to investors. With new instruments such as the EU Green Bond Standard, construction companies also have a new opportunity at their disposal to raise funds for the transition to sustainability.

G. Industrial policy

Critical Raw Materials Act (CRMA)

The CRMA, proposed as part of the Green Deal Industrial Plan, establishes a European framework to ensure a secure and sustainable supply of critical raw materials. The CRMA will provide economic incentives and a more stable and secure business environment for the development of mining, processing and recycling projects, with faster and simpler permitting procedures, and will establish strategic partnerships between the EU and third countries on critical raw materials. In addition, the CRMA focuses on research and innovation into substitute materials and production processes that could replace raw materials in strategic technologies. The CRMA also sets circularity targets to promote the extraction of more strategic raw materials from waste products. Some metals that are widely used in construction, such as aluminum and copper, are considered strategic and critical under the CRMA.

Net Zero Industry Act (NZIA)

The Net Zero Industry Act sets a target for Europe to produce 40% of its annual deployment needs in net zero technologies by 2030, based on *National Energy and Climate Plans* (NECPs), and to capture 15% of the global market value for these technologies. The NZIA provides a single list of technologies to be supported, including technologies with high relevance to the decarbonisation of the construction and building

value chain or buildings themselves[30]. National support schemes aimed at accelerating the uptake of technologies by households and consumers will have to take into account sustainability and resilience criteria.

Impact: The CRMA and NZIA are expected to secure the supply of critical raw materials in the EU and better equip it to anticipate supply (chain) risks and disruptions. They will increase the EU's strategic independence by creating a European market for net-zero technologies and products. Moreover, they will speed up approval procedures of projects, promote circularity in the construction value chain, and create new jobs in the 'strategic' sectors.

Conclusion and outlook

The European Green Deal will have a strong steering effect on sustainable construction practices, promoting circular and life-cycle thinking, fossil-free energy, energy-efficient renovation and climate-friendly commercial construction, and sustainable mobility. It will also strengthen sustainable public procurement practices and open up new sustainable financing opportunities. Overall, the Green Deal is expected to have a positive impact on employment in our sector and will also require massive up-skilling or re-skilling. But the Green Deal already faces a huge investment gap. The European Commission has estimated in a report that an additional €620 billion of investment per year will be needed to meet climate change targets. A major bottleneck in implementing the Green Deal 'on the ground' is the lack of skilled workers. The coming years are also likely to see an intense debate on the future of Green Deal financing, and difficult trade-off decisions may be required.

Given the significant costs of the transition to sustainability for construction companies and their customers, we recommend that members push for a business-friendly implementation of the various Green Deal measures at national level, engage with administrations and authorities at an early stage - especially in view of the upcoming national public consultations on the *National Building Renovation Plans*, the *Social Climate Plans* and the *Nature Restoration Plans* - and continue to advocate the crucial role of the construction sector as an enabler of the sustainable transition.

What can we expect in the coming years? In 2024, the European Commission has already tabled proposals for an interim climate target to reduce greenhouse gas emissions by 90% by 2040 compared to 1990 levels. These proposals take due account of the essential role of CCU/S technologies in achieving carbon neutrality. Recent months have also seen renewed discussions on how to make the EU economy more competitive again and to develop ambitious policies to make the Union as a whole more resilient to climate change, especially with regard to water stress and other extreme weather events.

[30] Solar technologies, onshore wind and offshore renewable technologies, heat pumps, hydrogen technologies, sustainable alternative fuels, or carbon capture and storage and CO2 transport and utilisation technologies.