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Fit for ~~Flop~~ 55

Lessons from the National Energy and Climate Plans to achieve a climate-neutral Europe

European Climate Foundation

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Executive Summary

If Europe genuinely wants to be a frontrunner in the fight against climate change, substantial reductions in carbon emissions are required across sectors of the economy. Since the EU launched its Green Deal in December 2019, the Clean Energy Package (2018) which includes the Governance Regulation and the Effort Sharing Regulation, has quickly become out of date. This report by PlanUp gives recommendations on the revision of the two regulations, to ensure coherence with the Fit for 55 package and more broadly the objectives of the Paris Agreement.

The Governance Regulation requires each Member State to establish 10-year National Energy and Climate Plans (NECPs). It was a strong regulation for mid-long-term energy and climate strategies, but is now outdated and should be strengthened to be more effective moving forward.

The LIFE PlanUp project was set up in 2018 to track the development of the NECPs and to support five European nations in their conquest for zero carbon economies and strong climate mitigation. Coming towards its end, the project advises the following measures for rapid action.

Firstly, it must be made mandatory to update the plans in line with the new, 2030 climate reduction targets. The Governance Regulation should also require Member States to provide a timeline of their drafting process, giving long-term pathways and milestones and consulting the public throughout the process to further improve transparency, accessibility and engagement.

The current voluntary nature of article 11 of the regulation should be tightened. A mandate on the creation of multi-level stakeholder dialogues would create the climate debates needed to incentivise change. The scope of article 11 should also be extended to cover cooperation between local, regional and national authorities and give guidance to Member States on how to do this.

The **Effort Sharing Regulation** (ESR) sets nationally binding targets for each Member State for sectors not included in the EU Emissions Trading System (EU ETS) (road transport, agriculture, waste and smaller installations), accounting for nearly 60% of the EU's greenhouse gas emissions. Those with higher GDP's are expected to aim for higher targets, so those less wealthy can transition in a fairer way. The ESR is also compiled in the NECPs and therefore, must be updated in tandem with the EU's new energy and climate commitments - higher ESR targets would consequently compel countries to update their NECPs. The main recommendations for the ESR include mandating higher nationally binding emissions reduction targets whilst keeping the law very much at the forefront of climate action. To strengthen it, loopholes such as the flexibility to trade emissions should be phased out and fines for non-compliance should be introduced in line with the cost of the necessary changes. It will be particularly important to incorporate strong greenhouse gas emission reductions in agriculture - imperative considering agriculture causes for example 54% of the EU's methane emissions.

Finally, as suggested by evidence collected during the PlanUp project, both renewable energy and energy efficiency targets should be made legally binding. These two components would work complementary to one another to ensure synergies develop and all economic sectors contribute to achieving energy targets.

Introduction

The impacts of climate change are already being adversely felt across the globe. Tackling this challenge within Europe and beyond requires substantial reductions in carbon emissions across all sectors of the economy.

The EU's first major comprehensive regulatory framework to address the climate challenge was the 20-20-20 **Climate and Energy Package** adopted in 2009 which included the goal to reduce emissions by 20% by 2020. The package was reviewed between 2015-2018 after the EU leaders in 2014 had agreed to increase this target to at least -40% GHG emissions for 2030.

The package included the EU Emissions Trading System (ETS), the Effort Sharing Regulation (or Climate Action Regulation), the Directives for promoting Renewable Energy and Energy Efficiency, and sectoral policies that address emission reductions linked to specific economic sectors such as agriculture (Regulation on Land Use, Land Use Change and Forestry – LULUCF) and transport (Regulation on CO_2 Performance Standards for Light and Heavy Duty Vehicles).

A major change in the Energy and Climate regulatory framework was introduced with the **Clean Energy Package** of 2018, namely the governance system for the Energy Union ("**Governance Regulation**"), under which each Member State is required to establish 10-year **National Energy and Climate Plans** (NECPs) for 2021 to 2030 (and to be revised for the decades to come). It is the first time that EU governments have been required to prepare integrated plans, outlining strategic national policies and measures on how they will achieve the climate and energy targets they are bound to under the EU legislation.

The headline climate ambition level for 2030 was set at -40% in 2014. But a lot has changed since then. First and foremost, the Paris agreement was concluded in 2015, enshrining the international efforts to limit global warming to 1.5 °C. This goal was underpinned by a special report by the IPCC, the UN climate science body, on the impacts of global warming of 1.5 °C and related global greenhouse gas emission pathways. In parallel, the public demand and support for more urgent and bolder action to fight the climate crisis increased dramatically. In response to this, in 2019 EU leaders agreed that Europe must become climate-neutral by 2050. To achieve this major goal, the European Commission launched the European Green Deal in December 2019, a master plan for Europe to become the first climate-neutral continent in the world by mid-century.

Achieving this long-term goal requires daring short-term action. In December 2020, EU leaders adopted a new 2030 climate goal of "at least 55%" net reductions. The higher climate target requires the revision of all the relevant EU climate and energy legislation. The revised legislative proposals are scheduled to be presented in July 2021, under the so-called **"Fit for 55" Package**.

A higher 2030 climate target means that the update of the national energy and climate plans foreseen in 2023 will need to be aligned to match this ambition level.

The coronavirus pandemic has changed the entire decision-making landscape in Europe and beyond. The health crisis and measures taken to address it have led to job losses, psychosocial issues and economic downturns. To help Member States deal with the crisis and emerge from the economic slowdown caused by the pandemic, in summer 2020, the EU agreed to establish a €750 billion fund - the **Recovery and Resilience Facility**. To access these resources, EU governments must submit recovery plans outlining how they intend to make use of the resources made available to them. Countries' recovery plans must be in line with the EU's objectives for a green and digital transformation.

Despite the health crisis, climate action has remained firmly a priority on the political agenda. The need to tackle the climate crisis continues to have broad public support.

› The PlanUp project

Started in 2018, the LIFE PlanUp has tracked the development of national energy and climate plans in five EU Member States: Spain, Italy, Poland, Romania and Hungary. To support rapid decarbonisation in Europe, the project promotes good practices in the transport, agriculture and building sectors and fostered dialogue on low-carbon policy making between local, regional and national authorities, civil society organisations and academia.

PlanUp's primary goal is to ensure increased transparency and support for ambitious climate and energy policies in the five target countries. To achieve this, the project helps local authorities and civil society organisations to engage in the development and implementation of NECPs and facilitates their cooperation on climate mitigation actions.

PlanUp also collects and disseminates good practices and promotes well designed, climate-friendly sectoral policies to facilitate the development of NECPs and increase public understanding of countries' different actions.

PlanUp's work has generated invaluable experience and lessons for future iterations of the NECPs as well as for the upcoming developments in energy and climate policies at EU level.

This publication draws on those lessons, providing recommendations for the upcoming revision of the EU climate and energy legislation in the framework of the Fit-for-55 package.

Governance Regulation

The Regulation for the Governance of the Energy Union (Governance Regulation) sets out the main planning and reporting duties on energy and climate targets for all EU Member States.

Revised in 2018, the Governance Regulation was designed to check whether the EU is on track to meeting its commitments under the Energy Union Strategy and the Paris Agreement. Whereas previously responsibilities for climate and energy policies were accounted for under different laws such as the Renewables Directive and the Energy Efficiency Directive, this Regulation brings all of these actions together.

To facilitate Member States' planning and reporting duties, the Governance Regulation requires them to develop Integrated National Energy and Climate Plans (NECPs). The NECPs are 10-year strategies that outline EU countries' individual energy and climate targets as well as policies and measures to achieve them. To ensure the harmonisation and comparability of the NECPs, the Governance Regulation sets out a clear framework, including a template that governments are required to follow when drafting their plans.

The first iteration of the process to compile the NECPs ended in early 2020 when all Member States had submitted their final plans to the European Commission. The plans are meant to be implemented as of 2021 and are valid – with possible changes and periodic revisions – until 2030.

The current NECPs are based on the 2030 climate and energy framework as established in 2018 and aim to collectively achieve a 30% emission reduction by 2030 compared to 2005 levels. The Governance Regulation is not among the pieces of legislation that will be reviewed and updated as part of the Fit-for-55 package in June 2021, which means that there's a risk the plans will become disconnected from the EU's new climate target in the next two years.

The decision not to reopen the Governance Regulation and require Member States to update their plans to reflect the new 2030 climate ambition should be reconsidered. The NECPs crucially integrate the entirety of EU countries' energy and climate policy into one document and provide clear goals and a firm direction of travel for the next ten years. The implementation phase meant to start in 2021 should not be based on outdated targets and policies that are not strong and stringent enough to achieve a higher emission reduction target.

Moreover, during the first iteration of the development of NECPs, the PlanUp project identified other gaps and weaknesses of the Governance Regulation which would also warrant its revision.

Below is a list of the key elements of the Governance Regulation and recommendations to strengthen it.

Include more stringent provisions for public participation

The main provisions for public participation are outlined in Art. 10 of the Governance Regulation. This article stipulates that Member States shall ensure that the public "*is given early and effective opportunities to participate*" in the preparation of both draft and final NECPs, as well as in the countries' long-term climate strategies (LTS).

With regard to the final NECPs, it is further stated that public participation in the preparation of the final plans has to occur "*well before its adoption*". Art. 10 also requires Member States to inform the public about their energy and climate plan in a reasonable timeframe that allows for sufficient time for the public to be informed, to participate and to express its views. Finally, Member States are obliged to include a summary of the public's views to their NECP when submitting it to the Commission.

Art. 10 also links to the EU Directive regulating the Strategic Environmental Assessment (SEA), which is a systematic process for evaluating the environmental implications of a proposed policy, plan or programme. The consultation process organised under the SEA procedure on the NECP also has to comply with the requirements of Art. 10 of the Governance Regulation.

› An assessment of the current provisions

The PlanUp NECP assessments found mixed results when it comes to the early and effective participation of the public in the first NECP drafting cycle in Member States. Key findings are listed below.

What worked?

Member States enabled the public and/or stakeholders to participate to some extent in the preparation of their draft and/or final NECPs:

In general, all Member States complied with the bare minimum requirements of Art. 10 of the Governance Regulation. They provided the opportunity to the public and/or their stakeholders to contribute to at least their draft or their final NECPs. Overall, the preferred format of public participation done by Member States in this regard was (online) public consultations or questionnaires on their draft/final NECPs. In some instances, such as in Sweden and the Netherlands, stakeholders could provide overall statements on the plan, without being constrained to the corset of predefined questionnaires (i.e. multiple-choice) or consultation documents focusing only on specific areas of the plans. Some Member States, like Romania, enabled the public and stakeholders to participate in public consultations on the draft and the final NECP. However, the timeframe for public participation was very limited.

What didn't work?

Governments didn't provide enough time for the public and stakeholders to be informed, participate and express their views in the NECP process

While Member States generally set up public consultations on their NECPs, the consultations did not comply with the specific requirements of the public participation provisions of the Governance Regulation. The consultation periods were often extremely short, considering the length of the documents (often several hundred pages). For example, Poland only opened public consultation for a month while Romania consulted the public on its draft plan for three weeks, before submitting it to the EU Commission a few weeks later. Italy and Spain both gave the public and stakeholders two months to respond to the consultation.

The NECPs are highly strategic and complex planning documents. Such short timeframes cannot be considered as reasonable to inform and allow for sufficient time for the public to participate and express its views. Furthermore, holding public consultations on NECPs right before submitting them, as in the case of Romania, cannot ensure that the views of the public can be properly taken into account in the NECPs.

Summary of public's views either incomplete or not included at all in Member States' final NECPs

Even if Member States enabled the public/stakeholders to participate in their NECP drafting process, not all of them included a summary of these views in their final NECPs submitted to the EU Commission. Hungary for example only mentions the (selected) stakeholders it reached out to for its NECP, but does not provide a summary of their views, nor to what extent these were included in the final plan. This lack of transparency is in infringement on the obligation of Art. 10 to include a summary of the public's views. Other Member States included a summary of the public's views, but only to a varying degree: while France, Germany, Sweden, Finland, Italy, Spain and Poland included a summary and explained to what extent the public's views were integrated in their NECPs, Romania, Czechia and Greece only provided a summary of the views, without going into detail on how they were accounted for in its final plan.

Selective and intransparent public participation processes

In rare cases, governments did not invite the public (i.e. citizens) to contribute to the NECP drafting process at all. For example, the Hungarian government sent out a questionnaire to selected stakeholders only. In addition to this, the stakeholders selected to participate in the NECP process were not made aware that they were contributing to the country's energy and climate plan. The questionnaire only included general information about a new planning document, but not the draft plan itself. Hungary rectified this issue at least to some extent when consulting on its final NECP (again, with selected stakeholders) by attaching the full plan to the questionnaire.

› Why the current provisions are not enough?

Taking the aforementioned into account, it is clear that the current public participation provisions for the NECP in the Governance Regulation are insufficient and need to be strengthened for future NECP drafting cycles. First of all, the provisions under Art. 10 of the Governance Regulation do not define a minimum duration on what constitutes a sufficient time for the public to be informed, participate and express its views. This can lead to Member States holding public consultations that only last a few weeks or 1-2 months, which is an extremely short period for such complex and comprehensive planning documents as the energy and climate plans.

There is also no provision requiring Member States to consult the public "well before the adoption" of the draft NECP, but only for the final plan. In the first NECP drafting cycle, this led to many Member States only consulting on their final NECP, but not on the draft.

Finally, the provisions lack stringency on enforcing transparency in the overall public participation process: Member States are not obliged to provide an easily accessible and clear timeline of their draft and final NECP process. Enforcing transparency would be indispensable to providing early and effective opportunities for the public and stakeholders to participate in the NECP drafting process. The public and other stakeholders must be aware of the timing and format well in advance of the public participation process, to be able to fully participate and express their views on the NECPs.

› Key recommendations

- Require Member States to provide an easily accessible and clear timeline of their NECP drafting and update process to improve overall transparency.
- Specify a minimum duration on what constitutes a sufficient time frame for the public to be informed, participate and express its views.;
- Align the public participation provisions between draft and final NECPs, to also oblige Member States to consult the public "well before the adoption" of the draft NECP.

Include a more structured approach to multi-level stakeholder dialogues

While Art. 10 of the Governance Regulation focuses on public participation, its Art. 11 constitutes the cornerstone of ensuring appropriate stakeholder engagement in the NECP process. Specifically, Art. 11 requires Member States to establish so-called multilevel climate and energy dialogues:

"Each Member State shall establish a multilevel climate and energy dialogue pursuant to national rules, in which local authorities, civil society organisations, business community, investors and other relevant stakeholders and the general public are able actively to engage and discuss the different scenarios envisaged for energy and climate policies, including for the long term, and review progress, unless it already has a structure which serves the same purpose. Integrated national energy and climate plans may be discussed within the framework of such a dialogue"

Local and Regional Authorities (LRAs) and Civil Society Organisations (CSOs) are explicitly mentioned as stakeholders to be involved through "*multilevel climate and energy dialogues*". It is also binding for Member States to establish such a dialogue, unless they can justify that they already have this structure in place. However, Art. 11 does not oblige Member States to discuss their NECPs in the framework of their multilevel climate and energy dialogues. Nevertheless, the Governance regulation makes it clear that the governance framework of multilevel climate and energy dialogues is suited to discuss the NECP.

› An assessment of the current provisions

While Member States to at least some extent applied the public participation provisions of Art. 10 of the Governance Regulation in their NECPs, they mostly ignored the Art. 11 provisions on multilevel climate and energy dialogues. For example, none of the LIFE PlanUp focus countries Romania, Italy, Spain, Hungary and Poland even put in place such dialogues, let alone use this framework to discuss their draft or final NECPs with stakeholders. This has become clear from feedback by the LIFE PlanUp national affiliates and discussions with LRAs from the focus countries in the political roundtables and multi-stakeholder dialogues organised by the project. It is thus not possible to assess how multilevel climate and energy dialogues worked in the NECP drafting process, since they were not carried out at all.

As one of few Member States, Spain stated in its plan its willingness to establish a multilevel climate and energy dialogue for the implementation of measures of its plan, which would involve citizens, local and regional authorities and all sectoral stakeholders. However, even Spain has not yet put this intention into action, and has also not provided any details on how the participatory process would occur.

Only some Member States actually put in place a multilevel climate and energy dialogue for their NECP. One of them is the Netherlands, which used its climate agreement (the Dutch equivalent of a multilevel climate and energy dialogue) to involve LRAs, CSOs and all stakeholders in co-defining key elements of its NECP, such as its 2030 GHG emission reduction target of -55% and how emission cuts would be split and delivered across all sectors and governance levels.

It is unsurprising that in its assessment of the final NECPs, the European Commission recommended that nearly all Member States - including the LIFE PlanUp focus countries - start leveraging the multilevel climate and energy dialogue provision for their future NECPs:
"... is also invited to exploit the potential of the multilevel climate and energy dialogues to a greater extent, by actively engaging with regional and local authorities, social partners, civil society organizations, the business community, investors, and other relevant stakeholders, and to discuss with them the various scenarios envisaged for its energy and climate policies".

There are several reasons why the multilevel climate and energy dialogue provision did not work in the first NECP drafting cycle. First and foremost, Art. 11 does not legally require Member States to discuss their NECPs in such a framework. The first NECP process has reinforced the impression that when Member States don't have an obligation to implement a provision, they rarely do so voluntarily. Secondly, Member States could avoid setting up a multilevel climate and energy dialogue, if they could prove that they already had a structure in place that serves the same purpose. This provision of Art. 11 of the Governance Regulation did not pressure Member States to establish new multilevel climate and energy dialogues specifically for their NECPs. The EU Commission recommendations on the draft NECPs also did not focus on the lack of multilevel climate and energy dialogues among Member States' NECPs, which added another layer to the weak enforcement of this provision. Thirdly, the language of the multilevel climate and energy dialogues remained rather vague on the purpose of these governance instruments. While debating different scenarios and reviewing progress are valid components for the NECP drafting process, Art. 11 left out other key elements that could have strengthened this provision in particular in view of involving LRAs and CSOs, such as the role of multilevel cooperation in meeting NECPs objectives and targets, and how citizens (through CSOs) could be mobilized to contribute to a more effective delivery of the plans.

All in all, the multilevel climate and energy dialogue provision of the Governance Regulation was insufficiently detailed and stringent to play a significant role in the first NECP drafting cycle of Member States. This is the main lesson learnt from the application of Art. 11 in the NECPs, and shows the need for a more structured approach of this provision in the future update of NECPs.

› Key recommendations

- Require Member States to discuss their NECPs, as well as their long-term strategies, in the framework of multilevel climate and energy dialogues.
- Extend the scope of the Art. 11 to cover multilevel cooperation between local, regional and national authorities to meet the objectives, targets and contributions set out in the NECP and LTS.
- Provide guidance to Member States on how to set up a multilevel climate and energy dialogue, to follow up on its recommendations for the final NECPs.

Revise the planning template to ensure that Member States include policy plans with long-term pathways and milestones

To facilitate Member States' planning and reporting duties and ensure the harmonisation and comparability of the National Energy and Climate Plans (NECPs), the Governance Regulation sets out a clear framework and provides a mandatory template (Annex 1 Governance Regulation).[1]

According to the template, the NECPs should include five main sections. In these sections, Member States should provide details on the plan's development process, including stakeholder consultations, national objectives and targets, national policies and measures implemented to achieve said objectives and targets, a description of the current situation and future projections, and finally, an assessment of the expected impact of planned policies. Each section is divided into the five dimensions of the Energy Union: decarbonisation, renewable energy, energy efficiency, energy security, internal energy market, and research, innovation and competitiveness.

This template is meant to give as much guidance as possible to governments as they draft their NECPs. It is also meant to render them easily readable and comparable, and facilitate the extrapolation of data to carry out an aggregated analysis.

› An assessment of the current template[2]

What worked?

In theory, the template could have facilitated Member States' efforts in developing the plans as well as the accessibility of the plans for the European Commission and the general public. However, the reality was more mixed.

What didn't work?

The template provides suggestions for key elements that should be included in each section but does not mandate a minimum level of depth, both qualitative and quantitative, for the description of the planned policies and measures.

These shortcomings in the template are likely to have had a negative impact on the quality of the plans and do not allow for a proper comparison across countries.

Depending on the country, NECPs' lengths varied from 150 pages (like the Latvian NECP) to more than 400 pages (in the case of Spain and Czechia). This clearly shows that the comparability that was sought did not materialise, which to some extent undermined having standardised information for all Member States required in order to properly assess the content of the plans.

Moreover, expectations regarding detailed and quantified policies and measures in the NECPs were not met, in spite of the length of the documents. The Hungarian NECP for example includes lists of planned policies that are not properly described, nor quantified and provide no details on how they are going to be implemented, how they are going to be financed and what the impact on the overall emission reduction efforts will be.

Even more elaborated plans, like that of Italy and Spain, which contain more detailed descriptions of policies and measures still lack the quantitative data to corroborate the expected results.

This finding is corroborated by the European Commission's assessment of the final NECPs. For example, in its analysis of the decarbonisation dimension of the Italian NECP, the European Commission comments "*the lack of data, including the unclear assumptions behind the impacts of policies and measures, makes it difficult to evaluate if the GHG emission reductions will be fully achieved*".

Too often, details on policies and measures were lacking, in particular with regards to decarbonisation but not only. The European Commission's assessment highlighted as well that the lack of data in some plans do not allow to compare or add up the total investment needs for energy and climate objectives.

For example, the Spanish NECP includes several measures aimed at decreasing emissions in the transport sector. For two of the main measures, namely the development of electromobility and the implementation of low emissions zones (LEZ), not enough details were provided especially on their development, implementation and financing.

In the case of Romania, it is often not clear whether the policies and measures listed in the plan are firmly planned or only potential measures or objectives.

The Polish NECP includes an indicative trajectory with milestones to achieve a rather modest renewable energy target but provides virtually no details regarding policies and measures on how to actually achieve it.

› Why is the current template not enough?

Because guidance was not provided by the template of the Governance Regulation on the depth and granularity required to describe the measures planned in the NECPs, countries included widely different policy descriptions and levels of detail. The Commission should ensure that Member States fill out all required sections at similar and sufficient levels of detail.

To give a proper explanation of the measures described, the template should require that the plan go beyond simply outlining the policy, regional cooperation and the applicability of State Aid. It is important that each measure is explained in detail and information such as impact, geographical applicability, consistency with other policies, long-term decarbonisation pathways and intermediary milestones as well as investment needs, implementation plans, and infrastructure are included.

› Key recommendations

- Provide clearer guidance in the Annex I of the Governance Regulation on the level of detail required in the description of policies and measures.
- In particular, more sub-headings containing requirements for additional information should be added to the decarbonisation dimension under section 3 "Policies and measures".

Effort Sharing Regulation

The Effort Sharing Regulation (ESR) - also known as the Climate Action Regulation sets nationally binding targets for GHG emissions reductions for each EU Member State. It follows on from the Effort Sharing Decision (ESD) and applies to the sectors that do not fall under the EU Emissions Trading System (EU ETS): transport (excluding international aviation and shipping), agriculture, buildings, waste, and smaller installations; which together account for almost 60% of the EU's GHG emissions.

Each EU Member State's emission reduction target for the year 2030 is based on their capacity to reduce GHG emissions, according to their GDP per capita. Together, the national targets are set to achieve EU-wide GHG emissions reductions of 30% compared to 2005 for the non-ETS sectors.

The ESR applies to the 2021-2030 period, which follows the approach of the previous framework for 2013-2020. Within that, countries had national targets assigned for the year 2020, which would contribute to the EU-wide ESR sectors GHG reduction target of 10% compared to 2005.

The ESR sets the ending point for each country, which they each need to achieve to collectively contribute to the EU decarbonisation efforts. The policies and measures that Member States put in place to achieve their respective targets are compiled in the National Energy and Climate Plans (NECPs). These plans are updated and reviewed as climate and energy commitments evolve.

Below is a list of the key elements of the Effort Sharing Regulation and recommendations to strengthen it.

Keep and strengthen nationally binding emission reduction targets

› Assessment of the current framework

The EU has increased its climate objectives through the EU Green Deal, in which Europe commits to climate neutrality by 2050. This means that the current climate and energy policies need updating. To do so, the EU is working on its "Fit for 55 package"- a set of legislative proposals that review the current energy and climate laws, including the ESR.

However, in the Impact Assessment[3] accompanying the Communication of September 2020 on raising the EU's 2030 Climate Target, the European Commission announced that among the various options to increase climate ambition, they were evaluating the extension of the ETS to road transport and buildings. This could mean removing the road transport and buildings sectors from the ESR and, eventually, repealing the ESR altogether.

The ESR is one of the main pillars of the EU's climate policy framework and scrapping it would be irresponsible. It would discourage governments from taking national climate action and risk becoming a distraction from existing climate policies in sectors currently covered by the ESR.

It is important that the ESR remains a key pillar of the EU's 2030 climate architecture, and that national binding targets are increased because:

- They have been and are set to continue to be a **key driver for national policies**. Mandatory targets oblige Member States to put in place policies and measures to ensure that the targets are reached. This is demonstrated in the National Energy and Climate Plans which also show that the variety of measures is infinite and each Member State is free to choose policies that are best suited for the specific country. For example, Sweden plans to rely heavily on taxation both to reduce carbon emissions and increase energy efficiency (by reducing consumption), as this has proven to be an effective way to incentivise the clean transition. Other countries like France, Italy, Spain rely on a wider variety of measures, including subsidies i.e for boosting clean mobility and renovation of buildings, and major public investments in infrastructure projects. The EU-27 is on track to exceed its -10% 2020 target for the Effort Sharing sectors. The EU wide Commission's assessment of Member States' National Energy and Climate Plans (NECPs) shows that by 2030, the existing and planned national policies would deliver an aggregated reduction of -32%, thereby surpassing the current ESR target for 2030.[4] Nationally binding targets are the backbone of the NECPs, which collect all the measures to achieve those targets. Without them, countries would not have a reason to attain those planned reductions.

- They **hold governments to account**. National targets create public scrutiny, make headlines and feature in election manifestos. If the majority of the efforts from national policies was shifted towards a carbon market, this public pressure would disappear. In a system where everyone is responsible, ultimately no one can be held accountable. The development of National Energy and Climate Plans rendered public scrutiny even more important and prominent. The combination of setting nationally binding targets and requiring governments to put forward clear and public plans to achieve them, increases transparency and makes countries responsible for their policies and the attainment of the climate goals. In some

instances, as observed in the case of Romania and Hungary, this process has ensured that historically less climate ambitious countries have laid down concrete plans outlining policies and measures to achieve their goals corroborating their commitments. The process and nationally binding targets have proven crucial to maintain and raise climate ambition in the EU.

- They **ensure that all sectors and all Member States contribute** to the 2030 target and to the trajectory towards climate neutrality. The time where some Member States or sectors could overachieve while others tread on the spot is over. As shown by the NECPs, Member States have different levels of ambition. Some countries like Italy, Poland, Romania and Hungary planned policies and measures to attain the required target as set in the ESR. Others, like Spain, Denmark, Portugal and Slovenia, set more ambitious targets, going beyond the requirements of the ESR. Having binding national targets in place means that no country can decide not to contribute to the EU's climate efforts. A minimum level of action is required by all Member States and it is proportionate to the capacity of each country to implement such policies. Repealing the ESR would let countries off the hook and potentially allow some of them to maintain current levels of emissions or even increase them, thereby jeopardising all efforts to decrease emissions in line with the commitments under the Paris Agreement.
- They **create incentives for ambitious sectoral policies at EU level**. Several EU instruments already exist today to help deliver emission reductions in the sectors covered under the ESR (e.g. CO_2 standards, Alternative Fuels Infrastructure Directive, Energy Performance of Buildings etc.). As national targets are increased, so can the ambition level of such European sectoral policies. The EU could also adopt new sectoral measures. One such new measure could be a carbon pricing instrument for road transport and buildings, separately from the existing EU Emissions Trading System.
- The system is already in place and thus **immediately operational**. It includes provisions for monitoring, reporting and compliance. This is not the case for emissions trading for road transport and buildings, which could take until 2025 to set up.

› Key recommendations:

It is fundamental to keep the Effort Sharing Regulation in place and increase the nationally binding GHG emission reduction targets. To increase the effectiveness of the regulation, additional improvements to the governance of the ESR should be made, most notably:

- A monetary penalty should be introduced, as is already the case under the EU ETS and the car CO_2 legislation. Fines should be set at least at the level of the average marginal cost of reducing emissions within the ESR. This would stimulate Member States to always prefer taking domestic action or exploring intra-EU flexibilities.
- The European Commission's role in supervising non-compliant Member States should be enhanced. The Commission should be authorised to take action against a Member State in question, if its corrective action plan is inadequate. Procedures could be similar to those adopted under the European Semester.
- There should be an automatic adjustment mechanism every five years. This would allow streamlining the ESR with potential new EU or global climate targets. A pre-established formula to divide efforts between Member States would allow for an automatic increase of national targets.

Keep road transport and buildings sectors in the scope of the ESR

As explained above, emissions from the transport and the buildings sectors are regulated by the Effort Sharing Regulation. Emission reductions in these sectors are included in the binding "aggregate" national targets, together with those for agriculture, waste and industry not covered by the EU ETS. These sectors together account for almost 60% of total domestic EU emissions. Being aggregate, the national targets do not indicate a specific target contribution for each of the sectors covered. Member States have therefore ample flexibility when it comes to the measures needed to achieve the national target and on how the contribution is distributed among the sectors. As a consequence, the landscape at national level is very heterogeneous and the PlanUp project in its NECP assessments has found that countries often focused on certain sectors while others, notably the agricultural sector, received less attention.

› Transport

Transport is the biggest emitter among the ESR sectors. In 2019, it was responsible for 36% of the emissions within the regulation's scope. The ESR includes surface transport, i.e. road, rail. It excludes aviation (which is partially part of the EU ETS) and international shipping.

The ESR is a key driver of climate action in the transport sector, but there are also other EU regulations to reduce emissions in this sector. The flagship legislations are the EU CO_2 standards for passenger vehicles and the CO_2 standards for heavy duty vehicles. These laws ensure that carmakers improve their GHG performance based on CO_2 targets, which also incentivises the market penetration of low emission vehicles such as electric vehicles.

Beyond these EU laws, Member States can implement further measures to deliver on the ESR targets. These are set out in the NECPs, and PlanUp analyses have found that some measures that are popular among many of the governments are in fact not set by the EU. These include the set-up of low and zero emissions zones in cities, incentives for purchasing electric vehicles, as it is the case in the Spanish NECP, and electrification of public transport fleets.

› Buildings

According to the European Commission's "*Renovation Wave*" Communication,[5] the buildings sector is one of the largest energy consumers in Europe and is responsible for more than one third of the EU's emissions. But only 1% of buildings undergo energy efficiency renovation every year, so effective action is crucial to making Europe climate-neutral by 2050. Currently, roughly 75% of the building stock is energy inefficient, yet almost 85-95% of today's buildings will still be in use in 2050. Overall, buildings are responsible for about 40% of the EU's total energy consumption, and for 25% of its greenhouse gas emissions from energy.[6]

Emissions in the buildings sector are mainly regulated at EU level by the Energy Efficiency Directive and the Energy Performance of Buildings Directive (both these directives will be revised in the Fit for 55 package). Member States have to implement these Directives by developing policies and measures to contribute to the achievement of their binding national targets under the ESR. However, the effectiveness of the national tools and measures, their level of ambition and the financial support and incentives vary across the Union. In its final EU-wide assessment of the NECPs in September 2020, the European Commission

concluded that there is a gap compared to the Union's 2030 energy efficiency target of at least 32.5%, which still stands at 2.8 percentage points for primary energy consumption and at 3.1 percentage points for final energy consumption. It is clear that Member States are not exploiting the full potential of energy efficiency measures.

› Extending the EU ETS to transport and buildings?

The inclusion of the transport and buildings sectors in the ETS raises many concerns not only as to whether it is the right tool to achieve the desired target (decarbonising the sectors in a cost-effective way), but also as to its technical complexity - including interactions with the existing ETS framework - and its potential social costs. The buildings sector is too slow to react to price changes and has some inherent specificities. Citizens risk being obliged to pay higher prices without having the possibility of choosing cleaner and more efficient alternatives. Moreover, this measure will not help address market-barriers such as split incentives between those making the investments (i.e. home-owners) and those paying energy bills (i.e. tenants), as well as the inability to come up with high upfront costs and a lack of information on renovation opportunities and financing options. These are all barriers that PlanUp has identified in the analyses of the NECPs.

The transport sector faces some of the same challenges. Unlike industries covered under the existing ETS, consumers are not rational and do not factor in future price signals when making investment decisions. Upfront investment costs and the image of what they buy plays a much bigger role than the total cost of ownership. Consumers are often 'locked-in' to a high-carbon technology. Prices would need to go very high to trigger the technological and/or behavioural changes that are needed to reduce emissions.[7] [8] Tying increased climate ambition to such high prices risks undermining public support for the EU Green Deal. Additionally, carbon pricing does not tackle non-market barriers. There are not always easy alternatives available to driving a car or, as discussed above, heating a house. Often these alternatives require infrastructure developments (e.g. public transport, charging stations) that have significant lead times and are beyond the control of the consumer. Finally, adding an EU-wide uniform ETS price on top of the existing major tax and income level differences across Member States will create significant distortions.

There are other solutions that are much more effective in curbing emissions from transport and buildings. Standards impacting investment decisions on the supply side (such as the already existing EU CO_2 emission standards for new vehicles) could be much more impactful.

In the buildings sector, energy labelling and eco-design standards are effective regulatory measures and have helped deliver one quarter of emissions reduction targets and half of the energy savings set by the EU for 2020, while generating 490 Euro of savings on household energy bills each year.[9]

Crucially, removing the transport and building sectors from the ESR – and repealing the ESR altogether – go against one of the main observations drawn from the PlanUp NECP analyses: a binding national target and regulatory framework is the strongest driver for Member States to pursue measures and investments they would not otherwise undertake.

The ESR is a proven and robust system. National governments are and should remain the cornerstone of climate policies impacting our everyday life's activities such as road transport and buildings. They can tailor policies to investment needs and socio-economic realities on the ground, allowing for a much more impactful and a much more just transition.

Shifting the responsibility for reducing emissions in the road transport and buildings sectors from the Member States to an EU-level carbon pricing scheme on the other hand would face serious shortcomings and risks to be socially unfair.

› Key recommendations

- Maintain the transport and building sectors within the scope of the Effort Sharing Regulation.
- Do not include the transport and building sectors in the Emissions Trading System.

A strong legislative framework to tackle carbon emissions from agriculture

Agriculture is a major driver of climate change. It is estimated that methane emissions from the sector have contributed 24% of the global warming effect to date. According to the European Environment Agency, while agriculture is the third largest source of emissions in the ESR sectors, its emissions have been constant since 2005 and the sector has hardly contributed to the reductions under the ESR. In the EU, agriculture is responsible for 54%[10] of anthropogenic methane emissions.

There is currently no specific reduction target for agricultural emissions. Agricultural non-CO_2 emissions (from the use of fertilisers and livestock farming) are covered by the ESR alongside the waste, transport and residential sectors. As explained above, the aggregate nature of the law has allowed countries to mostly ignore these emissions in the climate and energy planning. Agricultural CO_2 emissions stemming from farming on drained peatlands and poor management of grasslands or their conversion to cropland are covered in the Land Use, Land Use Change and Forestry (LULUCF) sector, where emissions have been easily hidden by removals from forestry. As a consequence of this weak legislative framework, agricultural emissions have stagnated for the last 15 years, and EU governments are not projecting any significant reduction by 2030.[11]

› Agriculture in the national energy and climate plans

The weak legislative framework also partly explains the lack of attention given to the sector in the NECPs as highlighted by the PlanUp project. Planned measures in the agricultural sector are consistently the weakest part of the NECPs. In Romania's NECP for instance, there are no specific measures to reduce direct emissions from the sector (intensive agriculture and livestock rearing) and the few measures adopted only address indirect emissions (energy consumption). The Spanish NECP does not properly cover the agricultural sector and the proposed measures ignore several sources of greenhouse gas emissions, such as pesticide production, fertiliser use and intensive farming. The Swedish plan describes existing policies in agriculture and measures to promote decarbonisation and energy efficiency under the 2014-2020 rural development programme. However, it does not give any information on the expected emission reductions resulting from these measures.[12]

Overall, the conclusion is that most countries rely on the EU's Common Agricultural Policy (CAP) for climate action in the farming sector. This is highly problematic, as the current CAP, which will stay in place until December 2022, has been found to have a negative or at best neutral impact on GHG emissions. The current proposal to reform the CAP[13] also fails to address climate concerns.

This strongly jeopardises the achievement of the Paris Agreement targets and must therefore be addressed through a much more ambitious climate framework covering agriculture and LULUCF. Moreover, agriculture consumes nearly half of the EU budget. Yet it has made virtually no climate progress to date. The Common Agriculture Policy (CAP) is the biggest potential driver for a wholesale shift away from industrial agriculture. Half of the CAP budget should be directed towards incentivising and rewarding farmers for helping achieve our environmental and climate objectives. Farming subsidies should support agricultural practices that sequester carbon in soils, for example, such as conservation agriculture (no-tilling, constant soil cover and complex crop rotation) and agroforestry (integrating trees with arable farming or pasture).

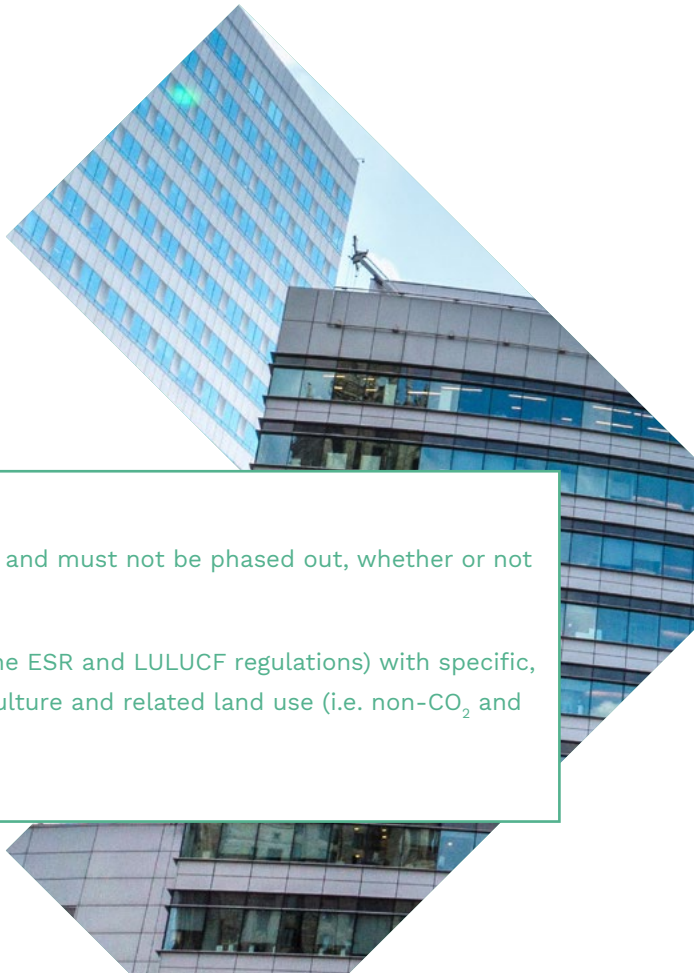
› What didn't work?

Agro-ecological farming cuts emissions and pollution, rehabilitates shattered wildlife populations, rebuilds wrecked soil, builds food security during climate shocks and can even absorb carbon. Agriculture and climate policies should be better joined-up to ensure action in one policy area is compatible with other areas. For example, agriculture and energy should not compete for biomass. Agricultural lands can absorb carbon from the atmosphere and store it in soils and plants when managed adequately. Yet, EU croplands and grasslands are currently a net source of emissions. Overgrazing, ploughing, and soil degradation reduce soils' ability to store carbon.The emissions attributed to agriculture are primarily methane and nitrous oxide from livestock farming and fertiliser use. Because they are caused by biological processes, they are to some extent inherent to food production, but significant reductions are possible and necessary.

The PlanUp analyses of ten NECPs found that Member States have generally overlooked most, if not all, of the above measures to reduce emissions in the agriculture sector. Most Member States did not set any emissions reduction targets, and many did not even put forward new measures to reduce agricultural GHG emissions.

This lack of action is mirrored in the European Commission's Final assessment[14] of the NECPs in September 2020, which found very limited measures to tackle emissions in agriculture and notes that "Member States refer to the Common Agricultural Policy (CAP) and its rural development programmes as the main tool for supporting measures to reduce agricultural emissions and enhance sustainable forest management, as well as afforestation and forest resilience" (page 11).

However, as mentioned above, the CAP is doing no good to climate. The European Court of Auditors has heavily criticised the European Commission's way of calculating how much CAP money is spent on climate mitigation, arguing that spending is not related to actual results. Emission reductions should be the only basis to count EU spending towards climate actions, backed by a transparent methodology. Therefore, the revision of the 2030 climate and energy framework offers a crucial opportunity to start a real decrease of the emissions from agricultural activities and related land use through the revision of the ESR and LULUCF regulations.



› Key recommendations

- The ESR and its binding national targets are key climate tools and must not be phased out, whether or not agriculture remains included in the ESR.
- Harmonise and integrate legislation (through the revision of the ESR and LULUCF regulations) with specific, binding EU-level and national GHG reduction targets for agriculture and related land use (i.e. non-CO_2 and CO_2 emissions from agriculture).

Phase out flexibilities under the ESR

As outlined above, the Effort Sharing Regulation prescribes the amount of greenhouse gases a Member State is entitled to emit annually. This is called the Annual Emission Allocation (AEA). Under the ESR, the carbon budget for the 2021-2030 period (the total amount of allowed GHG emissions or AEAs) is determined by a trajectory from the starting point to the reduction target for the year 2030. The starting point is determined on the basis of the country's average emissions in the years 2016-2018; the starting date for the linear trajectory is set at 1 June 2019 or 2020 (whichever was lower).

According to the ESR, Member States have an obligation to keep their GHG emissions below their AEAs. To make it less costly to comply with these climate targets, Member States are allowed to make use of different flexibilities. However, these flexibilities amount to loopholes if they allow Member States to avoid taking action in the transport, buildings and waste sectors.

Flexibility over time: Member States can borrow AEA units from following years for up to 10% of their annual target in the 2021-2025 period and up to 5% in the years 2026-2029. They can moreover bank overachievement of the target in a certain year for use in a future year (for up to max. 30% of a country's Annual Emission Allocation).

Flexibility between countries: Member States can trade emission reduction units with each other: They can transfer any surplus as well as a part of their Annual Emission Allocation (5% of its AEA in 2021-2025 and 10% of its AEA in 2026-2030) to other countries.

Flexibility with the EU Emissions Trading System (EU ETS): Each year, certain Member States can use a limited amount of the EU ETS allowances to offset emissions under the ESR (for 9 Member States and up to a total of 100 Mt CO_2e). If a country chooses to make use of this flexibility, the ETS allowances will be subtracted from its auctioning volumes, leaving it with fewer revenues. This will not impact the functioning of the Market Stability Reserve under the EU ETS.

Flexibility with the land use sector: Each year, all Member States are allowed to use a limited amount of forestry and land use (LULUCF) credits if these sectors absorb more carbon from the atmosphere than they emit (up to a total of 280 Mt CO_2e).

Flexibility allowing the use of pre-2020 surplus: Some Member States may benefit from a so-called 'safety reserve' (up to a total of 105 Mt CO_2e) in the 2026-2030 period which should in principle be not more than 20% of the country's pre-2020 surplus. Only Member States that meet certain criteria are eligible. The reserve can only be used provided that it does not jeopardize the achievement of the EU's 2030 climate target.

› What hasn't worked?

The ESR flexibilities are meant to allow Member States to meet their climate targets more cost-effectively. Some of them, however, rely on carbon offsets from other sectors or from past emission reductions and undermine the carbon-free transition of the non-ETS sectors by allowing more greenhouse gases to be emitted in these sectors up to 2030. This applies for example to the flexibilities with the EU ETS and the land use sector, and the flexibility that allows the use of pre-2020 surplus. In this case, the flexibilities' policy objective of "cost-efficient achievement of the targets" in reality becomes a barrier to reduce the reliance on fossil fuels in the non-ETS sectors like buildings and transport. Another negative side-effect of these flexibilities is that they create a distraction from the NECPs process where Member States should identify existing and planned policies and measures and how they intend to meet the requirements set by the ESR climate targets.

If a country fails to meet its climate target, after taking the flexibility mechanisms into account, it will be faced with a penalty. This penalty takes into account the environmental cost of delaying emission cuts: the excess emissions are multiplied by a factor of 1.08 and added to the emissions of the following year, so that this target becomes more stringent. Every five years (in 2027 and in 2032), the European Commission checks if the Member States complied with their annual targets. If not, a penalty will be applied to the future Annual Emission Allocations. This mechanism is a good basis, the only shortcoming is that by delaying the first compliance check until 2027, Member States risk to be off-track for a lengthy period of time before corrective action is required.

In the National Energy and Climate Plans, Member States are required to report their intention to use ESR flexibilities to meet their greenhouse gas emission reduction targets.

In the five NECPs that the PlanUp project analysed, the reporting on the use of ESR flexibilities varies.

The only country that stated its intention to use the flexibilities available under the Effort Sharing Regulation (if necessary) was Poland. However, the Polish plan also provides little information on policies and measures that would generate land use, land use change and forestry (LULUCF) credits that Poland could use to comply with its national GHG emission target.

At the opposite side of the spectrum sits Spain, which in its NECP declared that it does not intend to use the LULUCF flexibility for ESR compliance. This is positive and indicates that the Spanish government will focus on in-sector emission reductions to meet its ESR target.

Romania, Italy and Hungary do not mention and thus fail to report, as is required by the Governance Regulation, their intention to make use of flexibilities for compliance purposes.

While the ESR flexibilities aim to allow targets to be met more cost-effectively, some of them undermine the carbon-free transition of the non-ETS sectors. These loopholes should be phased out. In the case of the land-use sector, the promotion of LULUCF sinks should be kept separate from emission reduction efforts by Member States in other sectors. Natural sinks are not equivalent in any way to emission reductions, and fungibility between the two should be avoided.

The EU climate framework should not allow for any '*out of sector*' flexibility mechanisms. The National Energy and Climate Plans should instead serve to plan real policies and measures that contribute to the attainment of real targets and lay out decarbonisation pathways for all the sectors covered in the plan.

› Key recommendations

Remove flexibilities with ETS sectors and land-use sector from the Effort Sharing Regulation

Other key issues

Include nationally binding targets for RES and EE in the Fit-for-55

The 20-20-20 Climate and Energy Package contained nationally binding renewable energy targets and indicative national energy efficiency targets. The latter were set by the Member States and were based on either primary or final energy consumption, primary or final energy savings, or energy intensity.

Member States have historically always opposed national binding energy efficiency targets. During the negotiations of the 2030 Climate and Energy Package in 2018 ("*Clean Energy for all Europeans*"), due to strong pressure by the Council, it was agreed that both targets, renewable energy and energy efficiency, be binding only at EU level to recognise national specificities and guarantee maximum flexibility.

The Regulation on the Governance of the Energy Union was adopted to ensure that Member States would contribute to achieving the EU GHG, renewable energy and energy efficiency targets and that their contributions would be set out in their National Energy and Climate Plans. Through the NECPs, the European Commission is able to perform an aggregate data analysis and assess whether the targets on energy efficiency and renewable energy are collectively met by Member States. Moreover, the Commission maintained the initiative to take measures at EU level in order to ensure the collective achievement of those objectives and targets (thereby closing any '*ambition gap*').

Quote: *Should progress made by the Union towards those objectives and targets be insufficient for their delivery, the Commission should, in addition to issuing recommendations, propose measures and exercise its powers at Union level or Member States should take additional measures in order to ensure achievement of these objectives and targets (thereby 21.12.2018 EN Official Journal of the European Union L 328/9 closing any 'delivery gap').*

› What hasn't worked?

Three years since its coming into force, the Governance Regulation has shown its weaknesses. Member States make the most of the flexibility allowed under the governance framework and do not put in place the necessary regulatory measures and financial instruments. Shifting the burden of reaching the EU targets to other “better off” countries has become the general rule. The ambition and the potential of the NECPs is therefore reduced, since most of the policy measures have a short life-span and lack a strategic long-term vision.

This is true for instance for energy efficiency measures in Romania, where regulatory and market barriers still persist and hinder a better uptake of energy saving schemes and a national market for heat pumps as well as deeper renewable energy expansion. In Spain, improving buildings’ energy performance is delayed by the lack of a comprehensive strategy reaping the benefits of natural materials and new technologies. In Italy, the persistence of various forms of subsidies to fossil fuels for heating plays against a faster and deeper decarbonisation of the building sector. In Poland, the energy efficiency programmes need a longer timeline and stable finance mechanisms as well as consistency with the Renewable Energy Directive and a strategy to phase out subsidies to fossil fuels.

It is clear that the cancellation of nationally binding targets for renewable energy has not incentivised the uptake of renewable energy sources across member states. It is crucial that the revision of the ESR reintroduce mandatory targets for RES as well as for energy efficiency.

› Key recommendations

- Make both renewable energy and energy efficiency targets binding at national level and revise the Governance Regulation accordingly.
- Set up a coherent and consistent energy policy and regulatory framework to make the most of the synergies between energy efficiency and renewable energy.
- Make sure all economic sectors contribute to the achievement of the energy targets.

Conclusions

The EU's new climate target is not in line with Europe's fair share of global climate action to keep temperature rise below 1.5 degrees. To avoid the worst impacts of the climate crisis, the EU should reduce its emissions by at least 65% emission cuts by 2030.

It is therefore crucial that the revision of the climate legislation framework lead to more effective and strengthened regulations, in particular the Effort Sharing Regulation and the Governance Regulation.

The Governance Regulation, which has been the backbone structure to enact the climate and energy targets nationally, would benefit from targeted improvements. Particularly when it comes to the level of detail of the information required in the NECPs, the regulation **should have stronger requirements that would make the plans more tangible and comparable**. The regulation should require Member States to fully explain each measure and include more detailed information such as impact, geographical applicability, consistency with other policies. Long-term decarbonisation pathways and intermediary milestones as well as investment needs, implementation plans, and infrastructure needs should be also included.

The regulation should also mandate stricter provisions for early and effective public participation as well as specific requirements for enhanced harmonisation on stakeholder engagement practices across Member States.

This would entail amending art. 10 of the Governance Regulation so that it requires governments to provide an easily accessible and clear timeline of their NECP drafting and update process to improve overall transparency. It should also specify a minimum requirement for the duration of public consultations that allows sufficient time for the public to be informed, participate and express its views. Lastly, it should align the public participation provisions between draft and final NECPs, to also mandate Member States to consult the public "well before the adoption" of the draft NECP. This would dramatically increase transparency, accessibility and engagement of public stakeholders thereby also ensuring much higher support for the final policies and measures included in the plans.

Article 11 of the Governance Regulation introduced the idea to establish so-called multilevel climate and energy dialogues with the aim to facilitate transparent and inclusive exchanges among stakeholders on climate and energy policies, including the NECPs. To strengthen this valuable component, the regulation should mandate the creation of multi-level stakeholder dialogues and require Member States to discuss their NECPs, as well as their long-term strategies (LTS), in this framework. The scope of Art. 11 should also be extended to cover multilevel cooperation between local, regional and national authorities to meet the objectives, targets and contributions set out in the NECPs and LTSs. Finally, the European Commission should provide guidance to Member States on how to set up a multilevel climate and energy dialogue, to follow up on its recommendations for the final NECPs.

The Effort Sharing Regulation (ESR), which sets nationally binding greenhouse gas reduction targets to member states, should keep regulating non-ETS sectors and increase its targets in line with a 65% emission reduction objective by 2030.

Moreover, to increase its effectiveness, the regulation should include a monetary penalty and grant the European Commission a bigger role in supervising non-compliant Member States.

It is crucial that this regulation is not scrapped in favour of a carbon pricing system for the transport and building sectors. Shifting the responsibility for reducing emissions in these sectors from the Member States to an EU-level carbon pricing scheme would face serious shortcomings and risks being socially unfair.

With regards to agriculture, the ESR should include a specific target for emission reduction in the sector. The regulation, together with the LULUCF regulation, should introduce binding EU-level and national GHG reduction targets for agriculture and related land use (i.e. non-CO_2 and CO_2 emissions from agriculture).

Retaining and strengthening nationally binding GHG emission reduction targets for the transport, building and agriculture sectors would ensure that each Member State contributes to their specific target and implements policies in a holistic and transparent manner, tackling emissions from all three sectors equally and effectively.

Another important flaw of the ESR that should be addressed in the next revision is that of flexibilities. Some of them undermine the carbon-free transition of the non-ETS sectors by allowing more greenhouse gases to be emitted in these sectors up to 2030, which is the case for flexibilities with the EU Emissions Trading System and the land-use sector. These loopholes should be phased out. The EU climate framework should not allow for any '*out of sector*' flexibility mechanisms.

Lastly, the Fit-for-55 package should bring about reforms to other key pieces of legislation such as the Renewable Energy Directive and the Energy Efficiency Directive. The upcoming revision should make both renewable energy and energy efficiency targets binding at national level, set up a coherent and consistent energy policy and regulatory framework to make the most of the synergies between energy efficiency and renewable energy and ensure all economic sectors contribute to the achievement of the energy targets.

Only a robust and ambitious revision of the climate and energy framework will ensure that Europe acts in the short term to achieve climate neutrality and avoid the worst consequences of climate change.

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