

Position

# The EU's „Fit for 55“-package

Perspectives of the German automotive industry



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## Introduction

### Our perspective: climate neutral transport by 2050 at the latest

The German automotive industry is committed to achieve climate neutral mobility by 2050 at the latest, in line with the Paris climate agreement. To be successful, the focus of producers and suppliers alike is on innovations and technologies. The rapid ramp-up of electric mobility (BEV & PHEV) is our clear priority until 2030. This applies in particular to passenger cars and light commercial vehicles. The industry invests over €50 billion in electrification over the next few years to address this challenge. In order to reach climate neutral transport by 2050 at the latest, alternative powertrains and renewable fuels, such as e-fuels and hydrogen, will have to be part of the solution. They allow to address the existing vehicle fleet and defossilise modes of transport for which electrification solutions are not practicable.

In Germany, the objective of greenhouse gas neutrality will be preponed to 2045. In addition, a national climate target for 2030 of minus 65% is planned, in line with the new EU climate target for 2030 of minus 55%. This requires to make the whole vehicle value chain climate neutral five years earlier. Correspondingly, measures needed to transform transport towards climate neutrality must be accelerated. This requires that electricity and all other energy carriers are completely climate neutral by 2045. Further, the infrastructure must enable charging throughout Europe for all electrified vehicles from passenger cars to heavy commercial vehicles. Moreover, fuels must be fully defossilised. Finally, the efficiency of the transport system must increase significantly through digitisation and networks as well as innovative technologies such as automated driving.

Great goals require strategic planning and focused investments. For this, the upcoming „Fit for 55“ package must create a sound and lasting framework. Therefore, the „Fit for 55“- package must focus on the triad of innovation, investment, and infrastructure for the whole of Europe.

## Our mission statement: sustainable individual mobility

Climate neutral mobility, growth, and individual mobility will only be possible with the automobile - in the present and in the future. Individual mobility enables social interaction. It is the cornerstone of sustainable and lasting growth. In the future, the development of sustainable mobility will be characterised by a more diverse technology landscape and more intermodality particularly. The German automotive industry will drive this development. This includes pushing for a climate neutral value chain, an issue that manufacturers and suppliers have been tackling for years. Our mission is clear: the German automotive industry drives climate neutrality through investment and innovation.

## The „Fit for 55“-package: opportunity for a coherent regulatory approach

The European Green Deal offers the opportunity for a comprehensive reassessment of all climate protection instruments. A European regulatory framework is needed that provides for a stable long term perspective and is technology open. By focusing on the entirety of the relevant regulatory elements at the same time, the European Commission can lay the foundation for a coherent regulatory system that can be the basis for climate neutral transport by 2050 at the latest. One important aspect which has to be better coordinated with regulatory requirements such as CO<sub>2</sub> standards is the development and expansion of infrastructure. This is a long-term project and requires resources and planning capacity, for example to establish and expand relevant networks and production capacities for renewable electricity as well as renewable fuels. Currently, the prerequisites for this are not yet met for all areas.

## Technology and innovation are the basis for climate protection and prosperity

The transformation will only succeed if investments, innovations, and infrastructure can fully contribute to the goal of climate protection: Swift and decisive action is required by companies as well as political actors at all levels. The transformation cannot succeed without a longterm stable framework and massive public investments in infrastructure and innovations for all relevant technologies. The „Fit for 55“-package must create the foundation for this and define realistic requirements for the transformation of value chains and production facilities.

## Jobs and the role of the automotive industry for the society

Various studies suggest that in Germany alone at least 100,000 direct employees in the automotive industry could be lost by 2030 as a consequence of the transformation. Securing jobs all over Europe and in affected regions in particular is a key task for industrial policy to make the green transition a fair transition. The „Fit for 55“-package must provide specific answers to this challenge. The objective must be a successful transformation of the value chains.

## 2030 emission performance standards have to be based on a thorough impact assessment

Emission standards: Focus on longterm climate target, balanced

## impact assessment the basis

Future emission standards must be designed in a way that the climate targets for 2030, but above all for 2050 or an earlier date, can be safely achieved. They must be aligned with an overarching regulatory framework, achievable for businesses, and acceptable for society. The achievability of ambitious emission standards also depends on preconditions that the automotive industry cannot wholly create on its own.

Future emission standards must help to drive the transformation. However, the varying market success of electric mobility across different member states must be considered. The market success of electric mobility relies on a multitude of factors, such as the various conditions in terms of infrastructure and incentives, but also purchasing power and usage habits. The slower the market ramp-up in other member states, the higher the necessary new registration rate in Germany. A tightening of targets requires to balance these disparities with measures that are coordinated across the EU but tailored to the national situation. Ambitious fleet targets cannot be achieved as long as electric mobility is successful only in a few member states.

## No new short-term target for 2025

The development of the automotive industry's product portfolio for the next few years has already been completed. Therefore, the targets for 2025 should not be tightened. Annual targets would reduce the flexibility of compliance strategies. The established 5-year cycle should be continued in order to ensure planning security and the necessary room for adaptation to market or technology developments.

## Tighter targets for 2030 require conditionalities and flexibilities

The current targets for 2030 are very ambitious already. If the EU decides to further tighten those targets, additional measures should be examined - depending on the results of the impact assessment. Additional measures are needed to improve the economic efficiency of the path towards achieving the targets on one hand without compromising climate protection on the other. Furthermore, the progress in developing the charging infrastructure must be taken into account. Ambitious emission standards must be linked to the development of the infrastructures for charging and refueling. This is the only way to ensure the accelerated ramp-up of the alternative powertrains which are needed to achieve climate targets.

## Binding targets for the development of charging and refueling infrastructure

The AFID should be developed into an instrument that provides to the Member States a binding framework for the expansion of the charging and refueling infrastructure. The member states should not only be obliged to achieve certain targets but should also adopt comprehensive programs for a nationwide expansion of the public and private charging infrastructure, including for fast-charging. A CO<sub>2</sub> standard of minus 50% would require 60 million private and 6 million public charging points. For each additional percentage point, 200,000 more public charging points are needed. For the heavy-duty transport segment, 42,000 supplementary charging points are needed by 2030. The expansion of the hydrogen refueling infrastructure must enable the ramp-up of this technology. We anticipate a need for 1,000 hydrogen refueling stations by 2030. It is important that

the development is driven forward in a reliable manner in all member states. A mechanism must be provided so that CO<sub>2</sub> standards can be adjusted if the expansion targets are not met. A periodic review clause would be a good starting point.

## The current ZLEV incentives are important and should be retained

The system of ZLEV benchmarks sets target-oriented incentives and should be retained. In particular, the ZLEV threshold should not be lowered as this would exclude individual technologies. Without the contribution of PHEVs in particular, CO<sub>2</sub> standards are not achievable. PHEVs are paving the way for the market breakthrough of electric mobility and the successful transformation of value chains. With increasing electric ranges and transparent communication with customers, PHEVs can bring a long term contribution to climate protection.

## A bonus-malus system does not deliver any additional climate protection

As the climate protection efforts for each manufacturer are set by CO<sub>2</sub> standards, the introduction of a bonus-malus system does not deliver any additional climate protection.

## Recognition of eco-innovations should be improved

Eco-innovations allow for advanced technologies to contribute their savings potentials on the road despite them not being considered in 2030 emission performance standards have to be based on a thorough impact assessment the test-cycle. Procedures should be streamlined to improve manageability and create incentives for a higher penetration of eco-innovations.

## Pooling should be simplified

The regulations on pooling have shown to be effective and increase the efficiency of achieving the targets. The possibility of balancing between passenger cars and light commercial vehicles is important and desirable in order to better compensate for unforeseeable fluctuations in demand. In addition, simplified monitoring and reporting would help reducing bureaucracy.

## Exemptions for small manufacturers should be retained due to their market situation

Niche manufacturers make an important contribution to diversity on the roads and enable special purposes to be taken into account (vehicles for the disabled, special protection vehicles, etc.) and should therefore remain subject to exemptions.

## Penalty payments should be earmarked for climate protection measures

In order to turn the enormous CO<sub>2</sub> avoidance costs in the automotive sector into progress in the

transport sector, any penalty payments incurred within the transport sector should be earmarked for climate protection measures (e.g. refueling and charging infrastructure as well as renewable fuels).

## Climate neutral fuels: the future begins now

### The future of fossil fuels is finite

Climate neutral transport is only conceivable if fossil fuels and fossil electricity are phased out fast. The course must be set now. The „Fit for 55“-package offers the opportunity to create a world without fossil fuels by setting clear and reliable long-term targets.

### RED: increase European quota for renewable energies to 30% - provide sub-quota of 5% for e-fuels and hydrogen

The German government has done good in setting an additional GHG reduction quota of 25% adding to the European targets for the share of renewable fuels. However, in order to achieve the climate targets in the transport sector, much more ambitious targets are needed at the European level with a comparable level of ambition to the fleet legislation. The EU should therefore introduce a 30% quota for renewable energies as a minimum target for 2030. If multiple counting is to be continued, this should be taken into account by further raising the quota. In addition, a fundamental redesign of the tax and levy system along the fossil CO<sub>2</sub> content of energy sources should be examined.

### Adjustment of the calculation method for CO<sub>2</sub> standards

Currently, a uniform CO<sub>2</sub> value for fuels is used to calculate the fleet limits (Directive 80/1268/EEC). With progressive defossilisation of fuels, this value must be adapted to the actual progress achieved; double counting must be avoided.

## Creating long-term reliability with „post 2030“-targets

### Holistic approach required

The Commission intends to present proposals for the development of CO<sub>2</sub> standards after 2030 as part of the „Fit for 55“-package. In doing so, it should take a holistic approach looking equally at all aspects of the regulation, including in particular the framework conditions.

Any further tightening of CO<sub>2</sub> standards must consider the reality of the electric mobility markets. Therefore, proposals for more stringent targets should be subject to a regular review based on objective criteria, which above all accounts for the expansion of the charging infrastructure, the design of suitable funding instruments and the relevant industrial policy background. In addition, the development of costs for the relevant technologies must be considered. Individual mobility must remain affordable.

### Technology bans are not a solution

The discussion about a phasing-out date for the internal combustion engine is not helpful.

The framework conditions are the decisive factors for a successful ramp-up of e-mobility. This includes a consistent expansion of the private and public charging infrastructure in all member states. We therefore firmly reject an end date for certain technologies as well as direct or indirect bans.

## Transformation to be supported by focused industrial policy

In order to accompany the transformation at European level, a supportive industrial policy framework is necessary for both the period before and after 2030. This includes measures to promote investment in innovation and transformation in products and production, policies to promote upskilling and reskilling of employees, the significant strengthening of research programs for innovative technologies and concepts in transport, and measures to strengthen key technologies such as the production of cells and batteries, hydrogen, and e-fuels in Europe. It is better to develop existing strengths than to repair negative effects of disruption after the fact.

## Adapt EU state aid law to the new challenges

EU state aid law sets essential framework conditions for the support of transformative measures and ensures that funding can be used in a targeted manner and distortions of competition are avoided. However, state aid law is ill-adapted to the requirements of a nationwide transformational challenge because it makes it difficult or impossible to support transformative measures at existing locations, depending on the classification of the region. The EU should adapt the state aid framework so that investments in transformative measures at existing locations are equally possible in all regions of Germany.

## Setting the course for the integration of the transport sector into the EU emissions trading scheme (EU ETS)

### The dual role of the EU ETS

We welcome that the EU Commission is considering the extension of the emissions trading system to fuels in the transport sector. In doing so, we advocate a volume-based and cross-sectoral CO<sub>2</sub> pricing system. The EU ETS should be the lead instrument for ensuring climate neutral transport.

- CO<sub>2</sub> price on fossil fuels as an investment signal

A relevant CO<sub>2</sub> price sets clear investment signals. If this price is formed based on a reliable quantitative cap, it steers investments in the long term and creates an important price signal for consumers. In the transport sector, an „upstream“ model is best suited for this.

- CO<sub>2</sub> price as a driver of the defossilisation in the value chain

The EU ETS is of central importance as an instrument to accelerate defossilisation of value chains. With a uniform price signal, all actors in the supply chains - from raw materials to fuel to recycling - are equally involved in achieving the climate targets. Also, consumers receive a clear price signal. In this way, the EU ETS can act as a lead instrument for climate neutrality in the transport sector, also with a focus on value chains.

## Shaping the integration of transport into the EU ETS

Several challenges need to be solved for the integration of the transport sector into the EU ETS: Due to the very different avoidance costs in the sectors, there is a risk that immediate full integration will cause a price increase that is too fast for the current EU ETS sectors. In addition, the social impacts need to be considered from the outset.

To solve these organizational tasks, a phased strategy makes sense. This could be designed as follows:

- In a first phase, a specific EU ETS for the transport sector would be introduced in Europe for a defined period of time. This would allow to gain experience and ensure practicability. Pricing should be based on the market principle. In a transitional phase, the convergence of price paths can be facilitated, for example, by a „membrane system“, i.e., one-way permeable allowance trading or a price corridor. In a second phase, the system for the transport sector and the existing EU ETS would be linked to form a uniform system.
- After the introduction of a uniform EU ETS which includes the transport sector, the existing regulatory instruments should be reviewed. CO<sub>2</sub> standards should be set at a level above 0g after 2030 and should not be further developed because the CO<sub>2</sub> reduction path towards net zero is determined by the EU ETS. A further tightening towards 0g would not make sense, as the EU ETS as leading instrument would define the path towards net zero. In parallel, efforts to develop the relevant infrastructures must continue beyond 2030. Climate neutrality is thus achieved and guaranteed through the interaction of various instruments.

