# FIT FOR 55 - EU PAVES THE ROAD FOR TOUGHER VEHICLE EMISSIONS STANDARDS

12 August 2021 | Insight
Legal Briefings

We assess proposed EU legislation to toughen emissions standards for new passenger cars and light commercial vehicles.

## CONTEXT AND OBJECTIVES

In its explanation of the need for the 'fit for 55' package, the EU noted that transport is the only sector where GHG emissions have been increasing, with emissions from road transport accounting for almost 20% of total EU GHG emissions. The EU also recognised the importance of the automotive industry for the European economy, with the sector accounting for over 7% of the EU's GDP and providing jobs to just under 15 million Europeans.

Against that background, the new measures are intended to serve three specific objectives:

1. contribute to the EU's climate objectives for 2030 (55% reduction of GHG emissions compared to 1990 levels) and 2050 (climate neutrality in the EU) by reducing $CO_2$ emissions from cars and light commercial vehicles;

2. provide benefits to consumers and citizens from a wider deployment of zero-emissions vehicles (**ZEVS**), including better air quality and more affordable ZEVS as a result of (i) increased supply of ZEVS in the market and (ii) long-term energy savings from the use of ZEVS which should offset their initial procurement cost; and

3. stimulate innovation in zero-emission technologies to ensure Europe remains a leader in automotive R&D investment, and ensure Europe is able to keep up with its competitors (mainly Japan, South Korea, China and the US) in the global race to electrify light vehicles.

## INCREASED GHG REDUCTION TARGETS

The new measures propose to adjust emission targets as follows:

- increase the 2030 $CO_2$ reduction targets for new passenger cars from 37.5% to 55% of the current baseline level of 95g/km;
- increase the 2030 $CO_2$ reduction targets for light commercial vehicles from 31% to 50% of the current baseline level of 147g/km, with the revision of $CO_2$ targets for heavy-duty vehicles to be proposed to the EU Commission in 2022;
- create an EU fleet-wide target of 100% reduction in GHG emissions for all new cars and light commercial vehicles from 1 January 2035 (which would effectively end the sale of petrol and diesel vehicles); and
- introduce a review mechanism requiring the EU Commission to review the effectiveness and impact of the new measures in 2028 and submit a report to the European Parliament and European Council.

The new arrangements will also introduce other key measures to ensure coherence with existing regulatory standards for automotive emissions. For instance, recognising that manufacturers will have to supply significantly more ZEVS on the market under stricter standards, as of 2030 the incentive mechanism for zero- and low- carbon emission vehicles (**ZLEVS**) which exists under the current regime will be removed. Under the current regime, manufacturers are incentivised from 2025 to supply ZLEVS to the market on a "bonus-only" basis, with no direct consequences for a manufacturer not meeting the required ZLEV benchmark level. This mechanism will remain in place from 2025-2030 to incentivise manufacturers' decarbonisation efforts during this period, but the EU Commission considered that allowing it to subsist beyond 2030 would risk undermining the effectiveness of the new measures.

Similarly, in light of the increased GHG reduction targets and to avoid market distortion, the exemption currently available to manufacturers responsible for between 1,000 and 10,000 passenger cars per year or between 1,000 and 22,000 light commercial vehicles per year to derogate from their specific emissions target will be removed from 2030 onwards. Only manufacturers responsible for less than 1000 new vehicles per year will be able to apply for this derogation.

## COMPLIANCE MONITORING & REPORTING

The new regulatory measures will introduce a new requirement for the EU Commission to report on the progress toward zero emissions from road transport and assess the need for possible additional measures to facilitate this transition. The first report will be due by 31 December 2025, and the EU Commission will be required to provide additional reports every two years thereafter.

There are no changes proposed to the  monitoring system already in place to assess Member States' compliance with the current regulatory requirements. The existing regime requires Member States to report annually to the EU Commission on $CO_2$ emissions and the weight of all newly registered cars and vans, and manufacturers have the opportunity to notify to the EU Commission any errors in this provisional data. Additionally, the current regulation provides that from 2022, Member States' national authorities will need to provide the EU Commission with data on real-world fuel and energy consumptions of cars and vans.

By proposing no changes to the compliance monitoring regime or to the level of the excess emissions premium (still set at €95 per gram of $CO_2$ per kilometre), the EU aims to ensure that the new regulatory measures will neither increase administrative costs for manufacturers and national authorities, nor enforcement costs for the EU Commission. Excess emission premiums will continue to be imposed on manufacturers when their average specific emissions exceed their prescribed targets in any given year (as provided for under the current regime), and possible revenues from these excess emissions premiums will remain part of the general EU budget whilst decreasing the Member States' own contributions to the EU budget.

## RELATIONSHIP WITH THE WIDER REGULATORY CONTEXT

The new regulatory arrangements are intended to complement  the Effort Sharing Regulation by reducing road transport emissions and so helping Member States to meet their emissions targets under the Effort Sharing Regulation. As both the new regulatory measures and the Effort Sharing Regulation incentivise electrification of vehicles, they also both contribute to energy efficiency objectives.

By setting $CO_2$ emissions standards and supporting the introduction of new ZEVS to the market, the new measures are also complementary to the Renewable Energy Directive, which will decarbonise the production of electricity used in electric vehicles and incentivise the uptake of low renewable and low carbon fuels.

Finally, there are important inter-dependencies between the new measures and the Alternative Fuels Infrastructure Directive, which, under the 'fit for 55' package, will require Member States to deploy additional recharging and refuelling infrastructure, in parallel with the supply of ZEVS.

## MORE ON THE FIT FOR 55 SUITE OF PROPOSALS

For more, see also our Decarbonisation Hub where you can also access our full series of posts - Fit for 55: A greener transition for Europe.

## SHARE

Share to Facebook Share to Twitter Share to LinkedIn Email Print

Show Share Links

## RELATED TOPICS

Environmental, Social and Governance

## FEATURED INSIGHTS

# FEATURED INSIGHTS

HELPING YOU STAY AHEAD OF THE BIG ISSUES

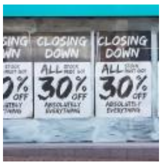
BROWSE BY:

- TECH, DIGITAL & DATA

- GEOPOLITICS AND BUSINESS
- NEW BUSINESS LANDSCAPE

## RELATED ARTICLES

Foreign investment: Rising tides of politics in regulation

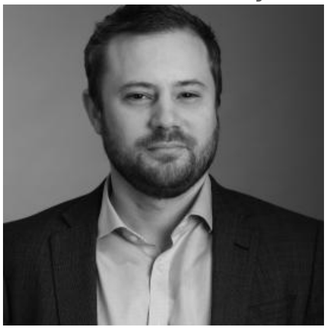



Storm warnings – Will stagflation herald a new wave of corporate failures?

Second Scots independence referendum floated – A Q&A Update

# KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

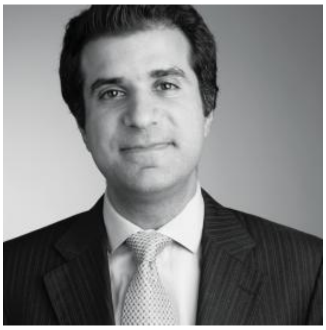


**TOM MARSHALL**
PARTNER, LONDON

+44 20 7466 7470
Tom.Marshall@hsf.com

**JOHN WILLIAMS**
OF COUNSEL, LONDON

+44 20 7466 2392
john.williams@hsf.com



**REZA DADBAKHSH**
PARTNER, LONDON

+44 20 7466 2679
Reza.Dadbakhsh@hsf.com

**STEVEN DALTON**
PARTNER, LONDON

+44 20 7466 2537
Steven.Dalton@hsf.com