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APPLiA feedback to the Fit for 55 package proposals

Summary

This paper is APPLiA's contribution to the feedback mechanism launched by the European Commission on six of the **Fit for 55** package proposals: the review of the Emission Trading Scheme, the Social Climate Fund, the Renewable Energy Directive, the Energy Efficiency Directive, the Energy Taxation Directive and the Carbon Border Adjustment Mechanism.

It provides a first set of remarks on the provisions of the legal text under consultation. In some instances, APPLiA is also proposing amendments and/or comments to specific articles of the Commission.

As a general remark to the full package, APPLiA welcomes the initiative as a key enabler to reach the objectives set by the European Green Deal. At the same time, we recommend caution as the content of some initiatives might lead to challenges and potential dangers for end-users and businesses competition. We believe that climate policies should be inclusive for low-income families to avoid increasing energy poverty and enough freedom should be granted to businesses to contribute to achieving the targets.

1. Emission Trading Scheme

a. APPLiA position

- *A balance has to be made between higher CO2 prices under a stricter version of the ETS and affordability of finished goods.* Preserving the competitiveness of the EU industry while designing an effective carbon pricing mechanism should be the priority of this ETS review. This can be done by ensuring that the proposed measures do not result in a correlative increase of prices in goods and production inputs that are directly or indirectly dependent on ETS sectors. Ensuring the affordability of finished goods such as home appliances that are essential to the living standards in the EU is critical, especially for vulnerable households. The current context of soaring energy bills makes the issue of affordability even more important. The wrong calibration of the indirect price effects in the EU market of a more stringent ETS could result in significant adverse social effects. It is the risk of indirect downstream knock-on effect via the price increase of materials and imported inputs on the production of finished goods that should be addressed to ensure the success of this measure.
- When analysing impacts of increased carbon pricing, a special focus is needed on critical sectors and production inputs. Imported intermediate goods and materials play a crucial role in the functioning of the internal market for the home appliance industry, and therefore the impacts of more stringent carbon pricing on them should be carefully evaluated. Not placing the right incentives might result in losing jobs and value created by European companies.
- *Carbon fairness.* APPLiA proposes introducing a concept of “carbon fairness” in any carbon pricing instrument that the Commission proposes. Carbon fairness consists of taking into consideration the variety of ways to decarbonise a given sector when designing a carbon pricing policy. For our case, end use applications such as home appliances can decisively contribute to the decarbonisation of the whole energy system not only by allowing renewable energy sources to penetrate more in the heating and cooling segments, but also by placing increasingly energy efficient products in the EU market. This contribution of home appliances to decarbonisation via reduction of the total energy demand should be considered as relevant, as it is in line with the Energy Efficiency First principle that the Commission is aiming to include in the revised Energy Efficiency Directive.

b. APPLiA input

Commission Proposal	APPLiA amendments	Comments/Justification
<p>Maritime Transport (Article 3, Articles 3g to 3ge, and Article 16)</p> <p><text omitted for length - please refer to page 41 onwards of COM proposal></p>	<p>"Article 3ge Reporting and review 1. The Commission shall consider possible amendments in relation to the adoption by the International Maritime Organization of a global market-based measure to reduce greenhouse gas emissions from maritime transport (...) 2. The Commission shall monitor the implementation of this Chapter(...)</p> <p>3. In monitoring the implementation of this Chapter, the Commission will take the necessary steps to ensure that the increased CO2 price on maritime transport is not passed on downstream along the supply chain, ensuring there is no harm to EU competitiveness".</p>	<p>In general, when designing carbon pricing instruments that directly affect the supply chain of EU-based industries, a careful assessment has to be made on the risk of downwards pass-on of the increased cost in the supply chain to manufacturers.</p>

<p>Carbon border adjustment measures (Article 10a(1)) <i>"No free allocation shall be given to installations in sectors or subsectors to the extent they are covered by other measures to address the risk of carbon leakage as established by Regulation (EU)/. [reference to CBAM](**). The measures referred to in the first subparagraph shall be adjusted accordingly. (**) [CBAM full reference]" - and similar text page 46 onwards</i></p>	<p><i>(please refer to APPLiA on CBAM, submitted in the same consultation)</i></p>	
<p>Introduction of emissions trading for buildings and road transport (Chapter IVa) <i><text omitted for length - please refer to page 52 onwards of COM proposal></i></p>	<p><i>(no particular amendment is proposed; general comment at the column at the right)</i></p>	<p>The contribution of home appliances to reducing energy demand and increasing RES penetration in the basic functions that a building can provide has to be acknowledged by carbon pricing instruments.</p>
<p>Modernisation Fund (Article 10d), and in particular the references to heating and cooling from renewable sources and demand side energy efficiency <i>"Article 10d is amended as follows: (...) 2. At least 80 % of the financial resources from the Modernisation Fund shall be used to support investments in the following: (a) the generation and use of electricity from renewable sources; (b) heating and cooling from renewable sources; (c) the improvement of demand side energy efficiency, including in transport, buildings, agriculture and waste;"</i></p>	<p><i>"Article 10d is amended as follows: (...) 2. At least 80 % of the financial resources from the Modernisation Fund shall be used to support investments in the following: (a) the generation and use of electricity from renewable sources; (b) heating and cooling from renewable sources; (c) the improvement of demand side energy efficiency, including in transport, buildings, agriculture and waste; d) the reduction of energy demand of buildings by building renovations, in particular via installation of highly-efficient household appliances"</i></p>	<p>Carbon fairness should be applied here. Energy efficient appliances also contribute decisively to decarbonisation by reducing total energy demand of the building. This should be reflected in the proposals on the Modernisation Fund, in which the scope focused on heating and cooling from RES seems too narrow. Highly efficient home appliances should also be included.</p>
<p>Annex III - Activity covered by Chapter IVa, and in particular the definition of activities within buildings that will be part of the scope of the separated ETS for buildings and road transport In Chapter III of the Annex to COM proposal (page 4): <i>"Activity: 1. Release for consumption of fuels which are used for combustion in the sectors of buildings and road transport. This activity shall not include: (a) the release for consumption of fuels used in the activities set out in Annex I to this Directive, except if used for combustion in the activities of transport of greenhouse gases for geological storage (activity row twenty seven); (b) the release for</i></p>	<p><i>(no particular amendment is proposed; general comment at the column at the right)</i></p>	<p>Same comment as for the Modernisation Fund in Article 10d. Energy efficient products installed in each household reduce the total energy demand of a building, making the transition smoother and less costly for building owners and tenants while keeping the energy bills as low as possible. The creation of a separate ETS for buildings is a positive step on this direction, but its design must trigger the right incentives on those who will operate the transition. The cleanest form of energy is the one that is not used,</p>

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consumption of fuels for which the emission factor is zero."

and highly efficient home appliances have a key role to play in this.

2. Social Climate Fund

a. APPLiA position

- *The Social Climate Fund is a consequence of the Emission Trading System review, and therefore has to be aligned with it.* As explained in the supportive text of the proposal for a Regulation, the SCF is intended to mitigate the potentially adverse effects of increased CO₂ pricing after the ETS review. Certain home appliances can be a decisive enabler to alleviate these effects, as higher energy efficiency of the products installed in a household can reduce energy bills, and therefore make European homes more resilient to the costs of the energy transition. This measure should not compromise appliances' circularity.
- When designing direct support measures like the Social Climate Fund, beware of the potential side effects. There are different ways in which the Social Climate Fund and similar initiatives could directly support vulnerable communities affected by the energy transition. APPLiA believes that any solution of this kind should be targeted at reducing the total energy consumption of the household, rather than acting directly as on energy bills. Subsidising the latter directly could place the wrong incentives on households, as it could disincentivize replacement of old and inefficient appliances and keep them for longer in the EU stock. Additionally, the ownership structure of buildings and households should be considered when designing support measures like the Social Climate Fund. In particular, the split incentive dilemma, in which tenants are not in a position to directly influence the energy demand of the household and make the necessary replacements to increase energy efficiency, should also be taken into consideration when designing the measures.
- *Carbon fairness.* APPLiA proposes introducing a concept of "carbon fairness" in any carbon pricing instrument and related policies that the Commission proposes. As explained above, the Climate Action Social Facility is a related policy to the ETS, and therefore carbon fairness should also apply here. Carbon fairness consists of taking into consideration the variety of ways to decarbonise a given sector when designing a carbon pricing policy. For our case, end use applications such as home appliances can decisively contribute to the decarbonisation of the whole energy system not only by allowing renewable energy sources to penetrate more in the heating and cooling segments, but also by placing increasingly energy efficient and circular products on the EU market. This contribution of home appliances to decarbonisation via reduction of the total energy demand should be considered as relevant, as it is in line with the Energy Efficiency First principle that the Commission is aiming to include in the revised Energy Efficiency Directive.
- *Consider Energy Efficiency First principle when using ETS revenue.* As explained above, the contribution of home appliances to decarbonisation via reduction of the total energy demand should be considered as relevant when allocating ETS revenue under the SCF. This is in line with the Energy Efficiency First principle that the Commission is aiming to include in the revised Energy Efficiency Directive.

b. APPLiA input

Commission Proposal	APPLiA amendments	Comments/Justification
<p>Recital 16, and in particular the reference to addressing social impacts of the reviewed ETS on buildings</p> <p><i>"Ensuring that the measures and investments are particularly targeted towards energy poor or vulnerable households, vulnerable micro-enterprises and vulnerable transport users is key for a just transition towards climate neutrality. Support measures to promote reductions in greenhouse gas emissions should help Member States to address the social impacts arising from the emissions trading for the sectors of buildings and road transport."</i></p>	<p><i>"Ensuring that the measures and investments are particularly targeted towards energy poor or vulnerable households, vulnerable micro-enterprises and vulnerable transport users is key for a just transition towards climate neutrality. Support measures to increase energy efficiency of the energy-related products installed in the household and promote reductions in greenhouse gas emissions should help Member States to address the social impacts arising from the emissions trading for the sectors of buildings and road transport. To this purpose, the ownership structure of the building or household and in particular the split incentive dilemma will be considered when designing the necessary measures and investments"</i></p>	<p>Home appliances can be part of the solution when addressing social impacts of including buildings under the ETS. Highly efficient home appliances can alleviate the possible burden of an increased energy bill in the event of a pass-on of the increased CO2 price to consumers by regulated entities under the ETS. This should be acknowledged and portrayed when referencing social impacts across the text, and in particular in Recital 16.</p> <p>Directly subsidising electricity bills can create a "lock-in" effect by keeping inefficient appliances for longer. The split incentive dilemma should be considered in these measures. Otherwise, the policy can generate the wrong incentives and become counterproductive to its own goal.</p>
<p>Art 2, and in particular the reference to replacement of heating, cooling and cooking appliances as part of the definition of building renovation</p> <p><i>"building renovation" means all kinds of energy-related building renovation, including the insulation of the building envelope, that is to say walls, roof, floor, the</i></p>	<p><i>"building renovation" means all kinds of energy-related building renovation, including the insulation of the building envelope, that is to say walls, roof, floor, the replacement of windows, the replacement of heating, cooling and cooking appliances, and the installation of on-site production of energy from renewable sources and the installation of highly-efficient household appliances;</i>"</p>	<p>Carbon fairness should be applied here. Energy efficient appliances also contribute decisively to decarbonisation by reducing total energy demand of the building. This should be reflected in the proposals on the Modernisation Fund, in which the scope focused on heating, cooling and cooking</p>

<p>replacement of windows, the replacement of heating, cooling and cooking appliances, and the installation of on-site production of energy from renewable sources;”</p>		<p>seems too narrow. Highly efficient home appliances should also be included.</p>
<p>Art 6, and in particular the reference to heating, cooling and cooking appliances in point 2b)</p> <p>“Member States may include the costs of measures providing temporary direct income support to vulnerable households and vulnerable households that are transport users to absorb the increase in road transport and heating fuel prices. Such support shall decrease over time and be limited to the direct impact of the emission trading for buildings and road transport. Eligibility for such direct income support shall cease within the time limits identified under Article 4(1) point (d). 2. Member States may include the costs of the following measures and investments in the estimated total costs of the Plans, provided they principally benefit vulnerable households, vulnerable micro-enterprises or vulnerable transport users and intend to: (a) support building renovations, especially for those occupying worst-performing buildings, including in the form of financial support or fiscal incentives such as deductibility of renovation costs from the rent, independently of the ownership of the buildings concerned; (b) contribute to the decarbonisation, including the electrification, of heating and cooling of, and cooking in, buildings and the integration of energy from renewable sources that contribute to the achievements of energy savings;”</p>	<p>“Member States may include the costs of measures providing temporary direct income support to vulnerable households and vulnerable households that are transport users to absorb the increase in road transport and heating fuel prices. Such support shall decrease over time and be limited to the direct impact of the emission trading for buildings and road transport. Eligibility for such direct income support shall cease within the time limits identified under Article 4(1) point (d). 2. Member States may include the costs of the following measures and investments in the estimated total costs of the Plans, provided they principally benefit vulnerable households, vulnerable micro-enterprises or vulnerable transport users and intend to: (a) support building renovations as defined in article 2, especially for those occupying worst-performing buildings, including in the form of financial support or fiscal incentives such as deductibility of renovation costs from the rent, independently of the ownership of the buildings concerned; (b) contribute to the decarbonisation, including the electrification, of heating and cooling of, and cooking in, buildings and the integration of energy from renewable sources that contribute to the achievements of energy savings; (c) reduce energy consumption of the building by installing highly-efficient household appliances. When designing these support measures, Member States shall observe the Energy Efficiency First principle, prioritising those building renovations that aim at reducing energy demand of the building. ”</p>	<p>Same comment as for Art 2, adding that the concept of building renovation should include all types of home appliances when their replacement contributes to improve energy efficiency of the household.</p>

3. Renewable Energy Directive

a. APPLiA position

- APPLiA supports the article 15a on mainstreaming RES in buildings and the promotion of heating and cooling equipment replacement therein.
- APPLiA appreciates that the shares of RE in heating and cooling (1,1% and 1,5%) become binding. However, we call on being more ambitious in the figures as they will not be enough to help achieve the set share of renewable energy in the heating and cooling sector by 2030 nor the 49% renewable energy use in the building sector.
- APPLiA would like to remind the key role of heating and cooling appliances / technical building systems whose modernisation is essential to decarbonise the EU building stock, to deploy local renewable energy potential and to reduce the EU's dependence on imported fossil fuels. APPLiA is thus calling for an annual replacement rate of old heating systems of at least 6% to match the EU's new 55% emissions reduction target for 2030. See further details in our [joint paper on the Modernisation of Old and Inefficient Heating & Cooling Systems](#)
- APPLiA would like to highlight the importance of consistency, not only with the Energy Efficiency Directive proposal but also Energy Performance of Buildings Directive recast proposal expected in Winter 2021.

b. APPLiA input

Commission Proposal	APPLiA amendments	Comments/Justification
<p>'Article 15a</p> <p>Mainstreaming renewable energy in buildings (page 33 of the RED document)</p>		<p>APPLiA is calling for an annual replacement rate of old heating systems of at least 6% to match the EU's new 55% emissions reduction target for 2030.</p> <p>This should be accompanied by adequate financing and incentives to allow for affordable choices for all consumers. This is particularly relevant for improving the worst performing buildings and financially vulnerable households (link to the new EED article 22)</p>

<p>Article 20a Facilitating system integration of renewable electricity</p> <p>4. Member States shall ensure that the national regulatory framework does not discriminate against participation in the electricity markets, including congestion management and the provision of flexibility and balancing services, of small or mobile systems such as domestic batteries and electric vehicles, both directly and through aggregation.’;</p>	<p>4. Member States shall ensure that the national regulatory framework does not discriminate against participation in the electricity markets, including congestion management and the provision of flexibility and balancing services, of small or mobile systems such as thermal storage, domestic and electric vehicle batteries and smart appliances in general, both directly and through aggregation.’;</p>	<p>To achieve decarbonisation and system integration in a cost-optimal fashion, all sources of flexibility, including smart appliances at the customer premises, should be able to participate in all relevant markets and timeframes alongside other distributed resources such as batteries and EVs.</p>
<p>Article 24.8</p> <p>’8. Member States shall establish a framework under which electricity distribution system operators will assess, at least every four years, in cooperation with the operators of district heating and cooling systems in their respective areas, the potential for district heating and cooling systems to provide balancing and other system services, including demand response and thermal storage of excess electricity from renewable sources, and whether the use of the identified potential would be more resource- and cost-efficient than alternative solutions</p>	<p>’8. Member States shall establish a framework under which electricity distribution system operators will assess, at least every four years, in cooperation with the operators of district heating and cooling systems in their respective areas, the potential for district heating and cooling systems alongside other decentralised sources to provide balancing and other system services, including demand response and thermal storage of excess electricity from renewable sources at both centralised and decentralised level, and whether the use of the identified potential would be more resource- and cost-efficient than alternative solutions.</p>	<p>Whilst district heating and cooling networks can play an active role in furthering system integration of renewables, all resources, both centralised and decentralised, should be able to participate in all markets in all timeframes on an equal footing.</p>
<p>Recital 19</p> <p><i>Distributed storage assets, such as domestic batteries, batteries of electric vehicles have the potential to offer considerable flexibility and balancing services to the grid through aggregation. In order to facilitate the development of such services, the regulatory provisions concerning connection and operation of the storage assets, such as tariffs, commitment times and connection specifications, should be designed in a way that does not hamper the potential of all storage assets, including small and mobile ones, to offer flexibility and balancing services to the system and to contribute to the further penetration renewable electricity, in comparison with larger, stationary storage assets.</i></p>	<p><i>Distributed storage assets, such as domestic batteries, batteries of electric vehicles and thermal storage have the potential to offer considerable flexibility and balancing services to the grid through aggregation. In order to facilitate the development of such services, the regulatory provisions concerning connection and operation of the storage assets, such as tariffs, commitment times and connection specifications, should be designed in a way that does not hamper the potential of all storage assets, including small and mobile ones, to offer flexibility and balancing services to the system and to contribute to the further penetration renewable electricity, in comparison with larger, stationary storage assets.</i></p>	<p>Energy storage at both centralised and distributed levels comes in different forms and technologies and member States must be able to resort to all available options, including thermal storage at distributed level. The use of assets such as electric storage water heaters, which are inherently distributed and inexpensive, should therefore be recognised amongst the available options.</p>

4. Energy Efficiency Directive

a. APPLiA position

- APPLiA welcomes putting energy efficiency at an equal level with greenhouse gas emissions and renewable energy sources with the now binding energy savings target at European level.
- APPLiA also welcomes the recognition of the energy efficiency first principle - with now an article on its own - which is sensible in the run to climate neutrality, putting demand on equal footing with supply when defining future energy policies. We recommend that all levels of governments (local, regional, national, European, ...) apply the recently published Energy Efficiency First guidelines when making decisions affecting energy efficiency directly or indirectly.
- APPLiA members are pioneers in energy efficiency with Ecodesign and Energy Labelling measures. Those measures provided consumers with substantial energy savings when the cost-effective saving potential of appliances could be tapped.
 - APPLiA thus welcomes the following provision: *Member States shall encourage obligated parties to carry out actions such as renovation of buildings, including social housing, replacement of appliances, financial support and incentives for energy efficiency improvement measures in conformity with national financing and support schemes, or energy audits.*
 - Experience gained from home appliances replacement programmes in Austria, Hungary and Romania proves that such schemes are effective and conducive to increased energy savings.
- APPLiA also welcomes the introduction of article 22 on *Empowering and protecting vulnerable customers and alleviating energy poverty*
 - On this aspect, APPLiA would like to stress the need to ensure complementarity with the Energy Tax Directive proposal and Social Climate Fund.
- Today, it is said that most of the energy savings potential mainly lies in buildings
 - APPLiA would like to remind the key role of heating and cooling appliances / technical building systems whose modernisation is essential to decarbonise the EU building stock, to deploy local renewable energy potential and to reduce the EU's dependence on imported fossil fuels. See further details in our [joint paper on the Modernisation of Old and Inefficient Heating & Cooling Systems](#)
 - APPLiA would like to highlight the importance of consistency, not only with the Renewable Energy Directive proposal but also Energy Performance of Buildings Directive recast proposal expected in Winter 2021
- APPLiA appreciates that the role of demand side, including demand response is positively recalled in the proposal's recitals 2 and 14. Yet, the Directive should better reflect the necessity for the EU institutions to duly consider it especially in the light of the 'energy efficiency first principle' definition.

b. APPLiA input

Commission Proposal	APPLiA amendments	Comments/Justification
<p><u>Article 9</u> <u>Energy efficiency obligation schemes</u> To protect people affected by energy poverty vulnerable customers and, where applicable, people living in social housing, Member States shall encourage obligated parties to carry out actions such as renovation of buildings, including social housing, replacement of appliances, financial support and incentives for energy efficiency improvement measures in conformity with national financing and support schemes, or energy audits.</p>		<p>APPLiA supports this provision. Several incentive programmes to replace appliances with highly energy efficient ones run locally have given good results (HU, RO, AT)</p>
<p>Recital 2 [...]While the energy efficiency first principle should be applied without prejudice to other legal obligations, objectives and principles, they should also not hamper its application or exempt from applying the principle. The Commission should ensure that energy efficiency and demand-side response can compete on equal terms with generation capacity. Energy efficiency improvements need to be made whenever they are more cost-effective than equivalent supply-side solutions. That should help exploit the multiple benefits of energy efficiency for the Union, in particular for citizens and businesses. Implementing energy efficiency improvement measures should also be a priority in alleviating energy poverty."</p>	<p>Recital 2 [...]While the energy efficiency first principle should be applied without prejudice to other legal obligations, objectives and principles, they should also not hamper its application or exempt from applying the principle. The Commission should ensure that energy efficiency and demand-side response can compete on equal terms with generation capacity. Energy efficiency improvements need to be made whenever they are more cost-effective than equivalent supply-side solutions. Demand-side response including consumer load participation - based upon consumers' consent and compensation - shall be considered. That should help exploit the multiple benefits of energy efficiency for the Union, in particular for citizens and businesses. Implementing energy efficiency improvement measures should also be a priority in alleviating energy poverty."</p>	<p>The Directive should better reflect the necessity for the EU institutions to duly consider demand response especially in the light of the energy efficiency first principle definition.</p>

<p>Recital 14 <i>Member States should take into account potential benefits from demand side flexibility in applying the energy efficiency first principle and where relevant consider demand response, energy storage and smart solutions as part of their efforts to increase efficiency of the integrated energy system.</i></p>	<p>Recital 14 <i>Member States shall take into account potential benefits from demand side flexibility in applying the energy efficiency first principle and where relevant consider demand response, energy storage, both at centralised and decentralised level and smart solutions as part of their efforts to increase efficiency of the integrated energy system.</i></p>	<p>The benefits of demand side response shall be better considered by member States in line with the EE1 principle definition. Furthermore, all resources – both at centralised and decentralised level – should be able to participate in demand side programmes on an equal footing.</p>
<p>Article 21.2 Information and awareness raising <i>Member States shall take appropriate measures to promote and facilitate an efficient use of energy by final customers and final users{...}</i> <i>For the purposes of this article, these measures shall also include but not be limited to the following ways and means to engage market actors such as those referred in paragraph 1:</i></p> <p>(i) creation of one-stop shops or similar mechanisms for the provision of technical, administrative and financial advice and assistance on energy efficiency, including energy renovations of buildings and the take-up of renewable energy for buildings to final customers and final users, especially household and small non-household ones.</p>	<p>Article 21.2 Information and awareness raising <i>Member States shall take appropriate measures to promote and facilitate an efficient use of energy by final customers and final users{...}</i> <i>For the purposes of this article, these measures shall also include but not be limited to the following ways and means to engage market actors such as those referred in paragraph 1:</i></p> <p>(i) creation of one-stop shops or similar mechanisms for the provision of technical, administrative and financial advice and assistance on energy efficiency, including energy renovations of buildings, the replacement of old and inefficient heating, including water heating, cooling systems with modern and highly efficient appliances and the take-up of renewable energy for buildings to final customers and final users, especially household and small non-household ones.</p>	<p>The modernisation of heating and cooling appliances / technical building systems is essential to decarbonise the EU building stock, to deploy local renewable energy potential and to reduce the EU's dependence on imported fossil fuels. See further details in our joint paper on the Modernisation of Old and Inefficient Heating & Cooling Systems</p>

5. Energy Taxation Directive

a. APPLiA position

- *Demand response.* One important area that the proposal does not take into consideration is how demand response instruments could contribute to reducing emissions of net greenhouse gases. Demand response solutions would be able to reduce the pressure on the network by better managing peak demands. To cope with temporary high energy requests, energy suppliers often make use of coal or fossil fuels and starting gas turbines. Consequently, addressing these irregular fluctuations would have a positive effect on final emissions. Involving all actors, in particular energy users, would be necessary to develop an effective demand response system. Consumers or businesses, including manufacturers, would have the possibility to choose hourly or shorter-term market pricing, reflecting variability on the market and the network through automation or personal choices to save on energy expenses. As far as consumers are concerned, smart appliances and home automation are the most obvious instruments to gradually involve citizens in demand response activities at large scale. Finally, consumers should perceive the financial benefit of having appliances connected to the grid, this should come from the TSO/DSO (transmission system operators and distribution system operators) or market parties such as aggregators and retailers via the electricity bill. However, a VAT reduction at point of sale for appliances with smart functionalities could be an option to encourage these solutions.
- *Electricity or fossil fuels gases.* The Inception Impact Assessment recognises that the vast majority of Member States tax most energy products and, in some cases electricity, considerably above the minimum level identified by the ETD. However, renewable electricity has a key role to play in the decarbonised energy system and economy. When consumers have to choose among different heating or water heating solutions, the choice is often based on costs. The price of the appliance and the cost of installation are the main initial factors. Nevertheless, running costs represent an increasingly important element that influences the final decision. The proposal should promote the use of decarbonised fuel solutions for high energy demand applications in households, opposed to solutions using fossil fuels. Electricity and other decarbonised sources should then not be penalised in the taxation system.
- *Manufacturing in Europe.* According to the New Industrial Strategy for Europe, Europe has always been the home of industry. If we want Europe to continue being the home of industry, we should pay particular attention to the conditions under which industry will thrive in Europe. The energy cost is one of the primary concerns for taking a decision on where to localise future investments. Reduced taxation regimes for settlements hosting manufacturing facilities would help take a decision toward further European industrialisation. The proposal should ensure the competitiveness of European manufacturing. We would propose adding a provision which would ensure a reduced tax base for industry when they use green procurement for their energy in manufacturing.

b. APPLiA input

Commission Proposal	APPLiA amendments	Comments/Justification
Article 17 - new point (f)	<i>(f) reductions in either the energy taxation or in the purchase of energy products can be considered for those households participating in demand side response activities.</i>	The revision should take into consideration the interoperability between user and the system and include in the proposal a taxation system that would reward consumers for purchasing appliances with a demand response functionality
Article 17 - new point (g)	<i>(g) reductions in the level of taxation to electricity for industrial plants/manufacturing site using green procurement for their energy in manufacturing</i>	Reduced taxation regimes for settlements hosting manufacturing facilities would help take a decision toward further European industrialisation. The proposal should ensure the competitiveness of European manufacturing.
Article 17 - new point (h)	<i>(h) reductions in the level of taxation to promote the use of renewable fuel solutions for high energy demand applications in households, opposed to solutions using fossil fuels.</i>	The Inception Impact Assessment recognises that the vast majority of Member States tax most energy products and, in some cases electricity, considerably above the minimum level identified by the ETD. The electricity sector is undergoing a profound transformation towards renewable energy sources, and this should also be recognised in the ETD, so that households are incentivised in switching towards electricity in space or water heating. For all those applications for which electricity cannot be used efficiently or effectively - because e.g. poor insulation of the building shell or

		problems with the electricity grid - taxation could support households to switch towards renewable fuels such as green gases of both biological and non-biological origin.
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6. Carbon Border Adjustment Mechanism

The CBAM proposal risks negative environmental impacts, and it is unfair to European manufacturing

APPLiA represents the Home Appliance industry in Europe and, as a leader in sustainability, fully supports the EU's 2050 decarbonisation target. Over the years, home appliances have been delivering increasingly higher efficiency standards. Such improvements are a proof of the already significant contributions of the sector to the ultimate EU climate targets.

One of the main objectives of the removal of the free allowances of ETS combined with CBAM is to reduce climate change by putting a price on CO2 emissions. As such it is essential that carbon leakage is prevented so the emissions are not simply moved elsewhere.

The COM proposal for CBAM is only including materials such as steel and aluminium and not finished goods. This will create an incentive for carbon leakage from the EU, that is to say that finished products produced outside the EU (where a parallel ETS mechanism is not in place) containing such materials will get a competitive advantage over similar products produced in the EU. When CO2 emissions occur outside the EU, the EU will have no possibility to monitor or regulate these emissions.

This represents a serious negative environmental impact, undermining the CBAM objective.

A relevant product cost increase only for EU-based manufacturing, as a result of ETS and CBAM proposals

The combined effect of reduction of free allowances in ETS, and the consequent introduction of CBAM, will make manufacturing in Europe more expensive. To illustrate the issue with a simple example, a washing machine contains approximately 25kg of steel, 3kg of aluminium and 25kg of cement. At the current level of ETS CO2 cost of 60€/ton, this would translate into up to a 10 Euro cost increase for each washing machine manufactured in Europe.

Therefore, if other regions of the world would not set up a similar mechanism, manufacturing in Europe would be at a disadvantage.

Overall, the planned ETS revisions, combined with the current CBAM proposal are, factually, unfair to all manufacturing entities based in Europe using steel, aluminium and cement and produces a negative environmental impact, as it would not remove carbon leakage. The proposed changes are also not in line with other, equally important, goals that the European Union has set itself: upholding European competitiveness and preserving European jobs.

The European Commission to address the complex goods issue before CBAM is producing an effect on the market.

The Commission proposal for CBAM partly recognizes this concern for finished products and the review clause suggests that COM should investigate the matter and potentially address the concern of finished goods with future legislation. There is however no binding obligation for COM to create such next legislation. The explanatory memorandum of the COM CBAM proposal concludes that it would be administratively too complicated to handle the finished goods in CBAM. We seriously question how this concern would become less administratively complex some years in the future. If this is deemed by COM as being too complex already now, it will not become less complex in the future. We therefore believe COM might have little incentive to create the necessary future legislation to address this concern.

The EU needs to get this legislation right from the beginning, otherwise we risk having created a policy that has obvious negative effects for climate change (more carbon leakage) and also risks jobs in the EU and the global competitiveness and resilience of the EU.

At this point, we suggest that the European Commission is requested to create the next legal proposal to resolve this serious concern for finished goods, not only having an option to do so. Such a requirement can be put on the European Commission in the review article 30 of the CBAM proposal.

In particular, we would modify Art 30 in such a way that two years before the removal of free allowances in ETS, the Commission must create a legislative proposal for finished goods containing the materials under the scope of the CBAM to prevent distortion of competition. This would prevent carbon leakage and would, of course, have to be in line with WTO rules.

APPLiA - Home Appliance Europe represents home appliance manufacturers from across Europe. By promoting innovative, sustainable policies and solutions for EU homes, APPLiA has helped build the sector into an economic powerhouse, with an annual turnover of EUR 53 billion, investing over EUR 1.6 billion in R&D activities and creating nearly 1 million jobs.

