Renewable Energy Directive (RED III)

We welcome the proposed target to increase the overall share of renewables to at least 40%, underpinned by sectoral targets.

Renewable energy in transport

bp believes electrification, supported by green electricity, is the best option for lowering emissions from passenger cars and light duty vehicles. Until electrification is adopted at scale, the most significant reductions in emissions can be achieved by increasing the efficiency of internal combustion engine (ICE) vehicles and decarbonising the fuels they use.

Increasing the use of sustainable biofuels is the most effective way to reduce the carbon intensity of fuels for ICE vehicles in the short- to medium-term. The focus should be on biofuels derived from waste and advanced materials and sustainable agriculture that minimises land use change.

For heavy duty vehicles alternative fuel types such as biofuels, biogas and hydrogen potentially have an important role to play.

The RED transport obligation scheme on fuel suppliers has been a key instrument in tackling GHG emissions from the road transport sector. RED III introduces important changes to the design which we support:

- **GHG-based target**: contrary to a target based on energy content, a GHG-based target provides an incentive to increase compliance via options with higher GHG savings, promoting more cost-effective decarbonisation.

- **Sub-targets** for advanced biofuels[1] and renewable fuels of non-biological origin (RFNBOs) are warranted based on the shift towards a GHG-based target

    - To provide a strong investment signal in higher cost compliance options, member states should set specific **non-compliance penalties for the advanced bio and RFNBO sub-targets**, considering the higher cost of compliance to meet these sub-targets.

- **Inclusion of aviation & shipping**: the extended scope in calculating the target increases the overall amount of renewable energy across all transport sectors.

[1] Feedstocks listed in Annex IX, Part A of RED II

However, the 1.2 multiplier for compliance within aviation and shipping should be limited to the aviation sector. This is due to the higher cost of production of aviation fuels relative to ground fuels, and aviation being a particularly hard-to-decarbonise sector. Whilst the latter is also true for shipping, bunker fuels are generally cheaper to produce than ground fuels, so the multiplier should not apply in the shipping sector.

Meeting the proposed 13% GHG reduction target by 2030 will require a **broad range of sustainable compliance options** available to obligated parties. In this regard, it is essential that the Commission provides much needed clarity in key areas of RED II – relating to delegated and implementing acts – that will continue to play an important role in RED III:

- Additionality of renewable electricity to produce RFNBOs
- Co-processing of bio feedstocks in refineries
- GHG saving methodology for RFNBOs (including green hydrogen) and recycled carbon fuels (RCFs)
- Review of and possible additions to Annex IX feedstocks
- Rules on voluntary sustainability certification schemes
- Upstream emissions reductions

Pragmatic and rapid action by the Commission is urgently needed to provide clarity on possible compliance options and unlock investments in these areas. Whilst already needed to meet RED II, the need for clarity in these areas is further amplified by the move towards a more ambitious RED III.

The Commission has proposed to remove the current flexibility for member states to **increase the cap of 1.7% on Annex IX, Part B feedstocks** (used cooking oil, animal fats). Considering the divergence between increasing targets and limited compliance options, the cap should be increased and flexibility for Member States maintained (as currently is the case in RED II).

We would recommend the Commission consider a higher cap to seek to deliver more compliance options and, in particular, for the transition period to higher RFNBO. Additionally, for the compliance options to be robust, it would be relevant to keep on working on reinforcing effective chain of custody and sustainability certification.

The proposed introduction of a **credit mechanism to promote e-mobility**, under which operators of publicly owned charge points can sell certified GHG savings to obligated parties, is a helpful tool to further support the uptake of e-mobility. Policymakers should consider broadening this to **include privately owned but publicly accessible charge points** given EVs are predominantly charged at non-public charge points.

Key points:

- Address RED II implementation issues that will become even more important with increased targets under RED III
- Support proposed design of transport obligation based on GHG reductions across all transport sectors
- Encourage member states to set sufficiently high penalties for non-compliance related to advanced bio and RFNBO sub-targets
- Increase – not reduce – the contribution from Annex IX, Part B feedstocks; reinforcing effective chain of custody and sustainability certification
- Broaden e-mobility credit mechanism to include ALL charge point – not just those of public charge points

Renewable energy in industry

The RED III proposal would introduce **several new measures** to promote the use of renewable energy in industry (new Art. 22a):

- 50% RFNBO share based on total hydrogen use by 2030
- 1.1% increase in the share of renewables based on all energy use

We support the objectives of these measures. They are broadly in line with our journey towards net zero.

At the same time, protection against carbon leakage is essential to maintain a healthy and resilient industrial asset base in the EU while achieving sustainable emissions reductions globally. In the context of CBAM, the obligations on industry within RED III should be considered when calculating the number of allowances importers need to purchase and exports refunded.

On the specific measures proposed, the following points should be considered:

50% RFNBO target

bp sees the 50% target as a **clear signal and vital support for the development of a low carbon hydrogen market.** However, it would also increase cost to industry and thus impact competitiveness beyond a further tightened EU ETS. Therefore, flexibility in terms of compliance options is essential and we would recommend the following changes:

- Broaden the scope to allow all forms of low carbon hydrogen, such as the percentage that is set out in the current draft of the Taxonomy Delegated Act (i.e. at least 70% GHG reduction) to count towards the 50% target.

- Whilst we support a broader scope, it should be recognised that green hydrogen may require further support to be cost competitive with other forms of low carbon hydrogen in the short- to medium-term.

The Commission's proposal recognises that most hydrogen used in refining (as a so-called intermediate) typically ends up in the fuel pool. The RED III proposal has thus excluded hydrogen used as an intermediate in refining from the 50% target, because decarbonisation of transport fuels is already addressed by the RED transport obligation scheme.

- All hydrogen use in refining should be exempted from the industry obligation (50% target). Instead, it should fall under the scope of the RED transport obligation to avoid unnecessary complexity relating to only a small share of hydrogen that may not go into the fuel pool.

- Should refineries nevertheless be considered under the industry target, the 50% target should only be applied to on-purpose hydrogen production and imports. Where hydrogen is a by-product from a process whose primary purpose is not to produce hydrogen (e.g. a reformer), this should be excluded from the obligation.

1.1% annual increase in the share of renewables

We would like to suggest **calculating the average over a three- or five-year period.** A similar approach has been taken by the Commission for the calculation of energy savings in the Energy Efficiency Directive.

Key points:

- Broaden scope of 50% RFNBO target to include low carbon hydrogen meeting the taxonomy criteria.

- Exclude refining from the 50% target; clarify all hydrogen use in refining should fall under the scope of the RED transport obligation

- Calculate the annual 1.1% renewables target over a 3- or 5-year period