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FIT FOR 55% PACKAGE

BRIEFING AHEAD OF THE JULY 14 RELEASE

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OVERVIEW

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THE FACTS. WHAT IS “FIT FOR 55%”?

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> **What is “Fit for 55”**. A series of legislative proposals to revise European climate, energy, and transport legislation to make the EU “fit” to deliver on its new objective of reducing greenhouse gas emissions by at least 55% below 1990 levels by 2030.

> **What will happen on July 14**. the European Commission will release a “first batch” of 12 proposals ranging from CO2 standards for cars, energy taxation, renewable energy targets, a mechanism to price carbon at the external border of the EU (CBAM), or a revamp of the Emissions Trading Scheme (ETS).

> **The July release is just part of a wider wave of at least 20 legislative proposals** aimed at delivering the European Green Deal, the EU’s vision for a climate neutral, competitive, and socially inclusive economy by 2050.

> **Key political decisions will be made by European Commissioners until the day of the release on July 14. Will then follow a 2-3 years negotiation process** between European institutions.

OVERVIEW OF THE JULY 14 "PACKAGE"

	Short name	Full name	Latest revision	Main objective for legislation or revision
"CLIMATE"	EU ETS	Revision of the EU Emission Trading System	April 2018 (proposal Jul 2015)	The existing directive limits emissions from around 10,000 installations in the power sector and manufacturing industry, as well as airlines operating between EU countries (and more). Revision likely to include expansion of the scope of the ETS.
	ESR / CAR	Effort Sharing Regulation or Climate Action Regulation	May 2018 (proposal Jul 2016)	The existing regulation ensures the delivery of overall EU climate objectives by setting binding annual greenhouse gas emission targets for 2021-2030 for the sectors not covered by the EU ETS, which include transport, buildings, agriculture, non-ETS industry and waste.
	CBAM	Carbon Border Adjustment Mechanism	NEW	With this new mechanism, the Commission intends to reduce the risk of "carbon leakage" (the transfer of production to countries that are less strict about emissions) by putting a carbon price on imports of certain goods from outside the EU.
	LULUCF	Regulation on the inclusion of greenhouse gas emissions and removals from LULUCF	June 2018 (proposal Jul 2016)	The existing regulation aims to increase the land use, land use change and forestry sector's efforts to reduce emissions, and maintain and enhance carbon removals in the EU.
"ENERGY"	RED	Renewable Energy Directive	December 2018 (proposal Nov 2016)	The existing directive sets targets and binding measures to increase renewable energy use and production in the EU. The revision framed as implementing the ambition of the new 2030 climate target.
	EED	Energy Efficiency Directive	December 2018 (proposal Nov 2016)	Existing directive sets target(s) and binding measures to increase energy efficiency in the EU. The revision framed as implementing the ambition of the new 2030 climate target.
	ETD	Energy Taxation Directive (for the taxation of energy products and electricity)	October 2003	Revision expected to focus on environmental issues of current framework to align taxation with European climate objectives. Commission will propose that the revision is adopted through qualified majority voting rather than unanimity.
"TRANSPORT"	CO2 in cars	Regulation setting CO2 emission standards for cars and vans	April 2019 (proposal Nov 2017)	Existing regulation aims to set EU fleet-wide CO2 emission targets applying from 2020, 2025 and 2030 and includes a mechanism to incentivise the uptake of zero- and low-emission vehicles.
	CPT Directive	Directive on deployment of the alternative fuels infrastructure (also known as Clean Power for Transport Directive)	October 2014 (proposal 2013)	Existing directive aims to develop publicly available refuelling and recharging points for alternative fuel vehicles and vessels; improve coordination of alternative fuel infrastructure development; provide the long-term security needed for investment in the technology for alternative fuels and alternative fuel vehicles.
	ReFuelEU Aviation	Sustainable aviation fuels	NEW	New instrument to reduce the environmental footprint of the aviation sector and enable it to contribute to achieving the EU's climate targets, by boosting the supply and demand for sustainable aviation fuels in the EU.
	FuelEU Maritime	'Green European maritime space' or CO2 emissions from shipping	NEW	New instrument to increase the use of sustainable alternative fuels in European shipping and ports, notably by addressing market barriers and uncertainty about which technical options are market-ready.
	CASF (?)	(new) Climate Action Social Facility	NEW	New fund to "protect vulnerable households against potential price increases for heating and transport fuels, especially in regions where clean options aren't readily available" (EVP Timmermans)

THE FACTS. MORE THAN 20 PIECES OF LEGISLATION TO DRIVE EU DECARBONISATION.

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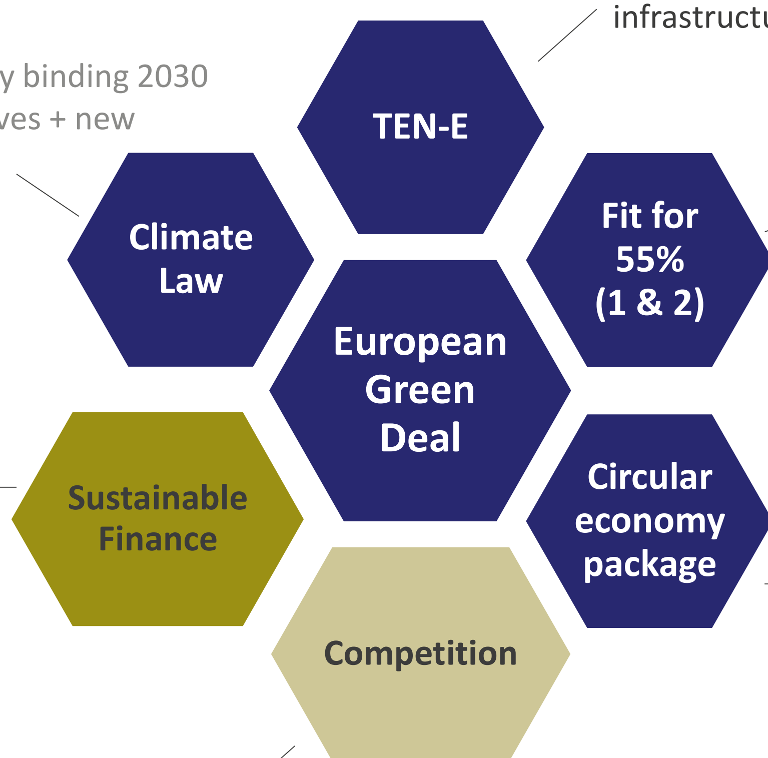
In negotiations. Rules for cross-border energy infrastructure incl. support for gas infrastructure.

Done (April 2021). Legally binding 2030 and 2050 climate objectives + new governance framework.



July 14. Main climate, clean energy, clean transport legislation
December. “Decarbonised gas” package & energy performance of buildings regulation.

To be approved. Taxonomy for sustainable activities.
July. Sustainable Finance Strategy
Sep-Oct (tbc). Taxonomy for gas and nuclear (“agriculture and other energy sources”).

December. Focus on industry and products (*Sustainable Products Directive, Ecodesign, Industrial Emissions Directive*).

In consultation, final framework in Q4. New guidelines for Climate, Energy, and Environmental Aid Guidelines.

And more… recovery, biodiversity, farm to fork, etc.

THE FACTS. A LONG NEGOTIATION PROCESS.

Until July 14:
Key political decisions will continue to be made until the day of release.

After July 14
- Each legislative proposal negotiated in parallel, usually ~2 years per file.
- Parallel negotiations in Council of the EU (national governments) and the European Parliament; then between Council of the EU, Parliament, and Commission.
- Ultimate deadline for everything proposed this year: European Parliament elections in May 2024.

Commission presents Fit for 55% (1) proposals

European Parliament & Council form positions

European Parliament, Council, Commission negotiate final agreement

H2 2021	H1 2022	H2 2022	H1 2023	H2 2023
Slovenia presidency	France presidency	Czechia presidency	Sweden presidency	Spain presidency

Leadership vacuum in DE then FR due to national elections

Commission presents Fit for 55% (2) & circular economy proposals

European Parliament & Council form positions

European Parliament, Council, Commission negotiate final agreement

THE STAKES. CONTEXT FOR THE FIT FOR 55% PACKAGE.

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> The **European Green Deal** – the EU's strategy for a competitive and climate neutral economy by 2050 where no person or place is left behind – is firmly backed by European institutions, heads of states, and stakeholders. **The EU is legally bound to decrease its emissions** by at least 55% below 1990 levels by 2030 and to achieve climate neutrality by 2050.

> The €750bn recovery package, of which 37% is earmarked to support the EU's green transition, offers a **unique opportunity to catalyse green investments**.

> The **economic outlook is brightening** for all EU countries with a stronger-than-expected rebound. All Member States are expected to see their economies return to pre-crisis levels by the end of 2022 according to the spring economic forecast.

> **Internationally**, new proposals for EGD policies come during a "climate super year" culminating in COP26, during which climate features for the first time as a foundational area for global cooperation in key geopolitical fora (G7, G20), and at the heart of efforts to rebuild transatlantic alliances.

> Countries aiming for climate neutrality now account for 75% of the world GDP. As major economies devise their own emissions reduction path, there will also be **high interest** in how the EU will drive its own domestic economic and social transformation.

THE STAKES. 4 BENCHMARKS AND QUESTIONS FOR A "GOOD" PACKAGE.

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1. **Ambition, consistency, environmental integrity**.

Will it be consistent with the EU's 2030 and 2050 climate commitments?

2. Transformation of the EU's economy.

Will it set the conditions to deliver concrete emission cuts and create real incentives for industries and sectors to create the green markets of tomorrow?

3. Ability to convince and garner support.

Will it convince and reassure enough to be adopted and implemented?

4. International impact.

Will it maintain credibility in the EU's overall ambition, or better, welcomed as a positive example of underpinning climate targets with legislation to drive implementation?

THE STAKES. WHAT WILL WE BE LOOKING AT?

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1. **Ambition & environmental integrity**.

- ETS, ESR, RE, EE, LULUCF targets set conditions to go beyond 55% emission reductions by 2030.
- Phase out of hidden subsidies for fossil fuels.
- Exclusion of short-sighted solutions delaying progress towards climate neutrality (e.g. gas investment, hydrogen blending).

2. **Transformation of the EU's economy**.

- Balance of carbon pricing vs regulation and support to clean markets creation and uptake of innovative clean solutions.
- Balance of "give and take" for energy intensive industry.
- Clarity for investments around trajectory for decreasing the EU's reliance on fossil fuel-based energy (coal phase out date & trajectory for gas decline).

3. **Ability to convince and garner support**.

- Credible opportunities for all member states, solidarity between countries, balance of cost-efficiency vs fairness.
- Anticipate and proactively manage the social impacts.
- Fair distribution of costs and benefits between households and industry.

4. **International impact**.

- Credibility of overall ambition and environmental integrity of the package.
- Consideration of the international dimension beyond CBAM.
- Support offer to accelerate industrial transition in EU Neighbourhood and African countries most likely to be affected.

A PROGNOSTIC. KEY POLITICAL TENSIONS.

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While Member States all agree with the objectives of the European Green Deal, they diverge on how to implement it. Negotiations on the Fit for 55% proposals are likely to expose divergences between “progressive” and “less ambitious” member states, but also within each camp…

- **Carbon pricing in transport and buildings**. The vast majority of Member States are opposed to the idea of introducing carbon pricing to transport and buildings for fear of the regressive impacts on European consumers, with French president Macron leading the charge. Germany, and the European Commission, consider the ETS an European success and an essential tool for decarbonising all sectors.
- **CBAM**. Technically difficult to design and politically challenging to implement, the CBAM is already raising controversy in and outside of the EU. Domestically, France is Europe’s CBAM champion, whilst Germany is cautious and concerned about the implications for its export-oriented industry. NGOs and industry are already at arms about the future of free allocation. Internationally, CBAM has the potential to frustrate important climate diplomacy processes such as COP26 and the G20.
- **Role of “bridging” technologies**, e.g. gas and hydrogen blending. Recent political debates on the EU’s taxonomy of sustainable activities and the TEN-E regulation have exposed a stark division between countries calling the EU to end public support to gas assets (11 Member States including Germany, Spain, Netherlands, Estonia, Latvia), and proponents of considering gas as a “bridging fuel” (including France, Czech Republic, Poland). Similar divisions oppose proponents of green hydrogen to others in favour of continued support to gas assets through the blending of hydrogen and methane in the grids and pushing for the development of “low-carbon” hydrogen.
- **EU vs MS control,** notably around taxation and use of carbon revenues. The Commission is likely to propose that member states spend the entirety of their ETS revenues for the green transition, compared to 50% currently, while also deriving revenues for a new “own resource” from the ETS. Here, the split is likely to be between institutions (Council vs Parliament).

THANK YOU FOR YOUR ATTENTION! ADDITIONAL RESOURCES…

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Written advisory briefing available on July 7 at www.e3g.org.

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THANK YOU!

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ABOUT E3G

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E3G is an independent climate change think tank accelerating the transition to a climate safe world.

E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018, for the third year running, E3G was ranked the fifth most globally influential environmental think tank.

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