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ETUC Secretariat summary and preliminary analysis of the "Fit for 55" package

Summary of the package

On 14 July 2021, the European Commission released its long-awaited *Fit for 55 Package.* This package consists in 12 legislative proposals that aim at aligning EU climate and energy policies with the new climate targets set by the recently adopted Climate Law – a GHG emission reduction of 55% by 2030 compared to 1990 levels and climate neutrality by 2050.

This historic package contains an unprecedented amount of legislative proposals. Among the legislative instruments subject to revision: the Emission Trading System Directive, the Effort Sharing Regulation, the Renewable Energy Directive, the Energy Efficiency Directive, the Energy Tax Directive, the Regulation setting CO2 Emissions Performance Standards for Cars and Vans, the Directive on deployment of the alternative fuels infrastructure and the LULUCF Regulation. These revisions are complemented by new legislative proposals for a Carbon Border Adjustment Mechanism, a Climate Action Social Facility as well as two initiatives called ReFuelEU Aviation and FuelEU Maritime.

The main elements of those proposals are summarized below. A short preliminary analysis of the package by ETUC Secretariat follows at the end of this document.

Revision of EU ETS

Scope

- Extension of the scope of EU ETS to cover maritime transport. Commission proposes that the EU ETS covers all intra EU voyages and 50% of extra EU voyages.
- No extension of the scope to extra EEA flights (intra EU flights are already covered by the current ETS). However, the Commission proposes a complete phase-out of free allowances for intra-EEA aviation between 2024 and 2027 as well as higher taxes on kerosene as part of the Energy Taxation Directive (see below).
- From 2026, introduction of a separate self-standing emissions trading system to cover heating in buildings and fuels in road transport. Emission allowances to be issued upstream the supply chain. Emission caps to be defined at a later stage based on reduction of emissions of 43% by 2030 compared to 2005.

Ambition

- Emission reduction target in the current EU ETS is 43% by 2030 compared to 2005. The Commission proposes to increase that target to 61% emission reduction by 2030 compared to 2005.
- This means that the Linear Reduction Factor (LRF) would be changed from 2,2% currently to 4,2%.
- This LRF would be combined with a one-off downward adjustment of the cap so that it has the same effect as if it would have applied from 2021. To be noted that the cap would be increased by a certain number of allowances to compensate for the inclusion of maritime transport in the scope.
- The Commission does not propose to set a carbon price floor.

Benchmarks and free allocations

- Proposal to adopt a more stringent benchmark approach and revision of the scope of benchmark to remove existing barriers to low carbon technologies.
- Sectors covered by the CBAM should not receive free allocations after a transition period to gradually phase them out. Under the current ETS, these allowances are fixed until 2025. From 2026 onwards, they will be reduced by 10% per year, to be completely abolished in 2036.
- Free allocations are made conditional on decarbonisation efforts from companies in order to incentivise the uptake of low-carbon technologies
- No free allocations foreseen for the new separate ETS on road transport and buildings

Use of revenues

- Member States would have to use all ETS revenues that are not attributed to the European Union budget for climate-related purpose, including to support low-income households' sustainable renovation.
- Part of revenues coming from the new EU ETS on road transport and buildings would be used to finance a new Climate Social Fund (see more details below)
- Increase in the modernisation fund and innovation fund:
    - Regarding modernisation Fund, whose resources come mainly from the auctioning of 2% of total allowances for the period 2021-2030, the proposal foresees to keep this percentage. The objective remains the same: to assist the ten Member States whose GDP per capita at market prices in 2013 was less than 60% of the EU average in their transition to climate neutrality (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia). However, the Commission also foresees the auctioning of an additional 2.5% of the ceiling to finance the energy transition of Member States whose GDP per capita is below 65% of the EU average in 2016-2018, through the Modernisation Fund. The 10 countries mentioned above, as well as Greece and Portugal, will benefit from this income. The scope of the fund would be amended to exclude investments in fossil fuels and favour investments in climate and social priorities.
    - Regarding Innovation Fund - currently funded by auctioning 450 million allowances from 2020 to 2030 – it will be almost doubled in size (including an additional 50 million allowances from the classic ETS and 150 million allowances from the new ETS. Scope of the fund will be adapted to facilitate Carbon Contracts for Difference.

Climate Social Fund

Financial aspects

- The European Commission proposed a Social Climate Fund that could potentially raise €72.2 billion at current prices (or €144.4 billion with national co-financing, see below) to smooth out the social impact of the measures announced as part of its package to target a 55% reduction in emissions by 2030.
- The Commission will propose a targeted amendment of the Regulation for the multiannual financial framework for the years 2021 to 2027 to accommodate an additional Union spending of an amount of EUR 23.7 billion for the period 2025-2027.
- The spending should be frontloaded to precede and accompany a smooth introduction of the new ETS.

- The amount of EUR 48.5 billion for the period 2028- 2032 is subject to the availability of the funds under the annual ceilings of the applicable multiannual financial framework referred to in Article 312 TFEU, for which the Commission will make a proposal before 1 July 2025.
- The financial envelope of the Fund should in principle correspond to 25% of the expected revenues from the inclusion of buildings and road transport.
- Member States would have to co-finance, using another 25% of the revenues generated by the new ETS (therefore 50% of the revenues generated by the new ETS would be reused to smooth out the social impact of the measure).
- The fund would be allocated by country depending on a series of criteria: The calculation method for allocating funds between Member States is based on a series of criteria, including: - the share of the population at risk of poverty living in rural areas (based on 2019 figures); - carbon dioxide emissions from fuel combustion by households (averaged over the years 2016-2018); - the percentage of households at risk of poverty with bill arrears (2019 figures); - total population; - the Member State's GNI per capita (2019 figures). According to this distribution key, Poland should receive €12.7 billion, followed by France (€8 billion), Spain (€7.6 billion) and Germany (€5.9 billion). On the contrary, Malta should receive only €5.1 million.

Scope and activities to be financed

- In order to benefit from the facility, Member States would have to develop Climate Action Social Plans – which would be part of their NECPs.
- The activities to be financed as part of these Climate Action Social Plans would have to principally benefit vulnerable households, vulnerable micro-entreprises or vulnerable transport users, in particular ensuring affordable and sustainable heating, cooling, and mobility. They should intend to:
    - 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;
    - 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;
    - support public and private entities in developing and providing affordable energy efficiency renovation solutions and appropriate funding instruments in line with the social goals of the Fund;
    - provide access to zero- and low-emission vehicles and bikes, including financial support or fiscal incentives for their purchase as well as for appropriate public and private infrastructure, including for recharging and refuelling; for support concerning low-emission vehicles, a timetable for gradually reducing the support shall be provided;
    - grant free access to public transport or adapted tariffs for access to public transport, as well as fostering sustainable mobility on demand and shared mobility services;
    - support public and private entities in developing and providing affordable zero and low-emission mobility and transport services and the uptake of attractive active mobility options for rural, insular, mountainous, remote and less accessible areas or for less developed regions or territories, including less developed peri-urban areas.
- This includes measures taking the form of temporary direct income support.

Effort Sharing Regulation

New 2030 targets

- The Commission proposes to increase the 2030 target to a 40% reduction in emissions compared to 2005 levels (that is an 11% increase compared to current ESR 2030 targets).
- Transport and buildings remain within the scope of the ESR despite also being subject to the ETS from 2026.
- The system of binding national targets is retained. The new national reduction targets to be achieved in 2030 compared to 2005 are as follows: - Germany: -50% (effort currently assigned by Regulation 2018/842: -38%); - Austria: -48% (-36%); - Belgium: -47% (-35%); - Bulgaria: -10% (-0%); - Cyprus: -32% (-24%); - Croatia: -16.7% (-7%); - Denmark: -50% (-39%); - Spain: -37.7% (-26%); - Estonia: -24% (-13%); - Finland: -50% (-39%); - France: -47.5% (-37%); - Greece: -22.7% (-16%); - Hungary: -18.7% (-7%); - Italy: -43.7% (-33%); - Ireland: -42% (-30%); - Latvia: -17% (-6%); - Lithuania: -21% (-9%); - Luxembourg: - 50% (-40%); - Malta: -19% (-19%); - Netherlands: -48% (-36%); - Poland: -17.7% (-7%); - Portugal: -28.7% (-17%); - Czech Republic: -26% (-14%); - Romania: -12.7% (-2%); - Slovenia: -27% (-15%); - Slovakia: -22.7% (-12%); - Sweden: -50% (-40%).

Allocation method

- The allocation is based on the previous method (GDP/capita plus adjustment according to the requirements of the effort repartition). As an upper limit for individual national targets, a maximum target of 50% or a maximum of 12 percentage points has been set. Existing flexibilities vis-à-vis the EU ETS and the land use sector remained largely unchanged.

Carbon Border Adjustment Mechanism

Scope and proposed mechanism

- The Commission is planning a mechanism modelled on the Emissions Trading Scheme (ETS) for EU importers.
- Importers of – initially – iron and steel, cement, fertilisers, aluminium and electricity will have to start paying from 2026. The Commission reserves the right to extend the system to other sectors but does not specify a timetable.
- The companies concerned will have to provide emission certificates (or CBAM certificates) according to the carbon intensity of the imported products. The price of the certificates will be aligned with the price of ETS allowances. In order to make this monitoring possible, companies will have to declare their imports to a competent national authority.
- A reporting system will be rolled out from 2023 - From 1 January 2023 to 31 December 2025, importers will have to report the emissions contained in their products as well as the carbon price already paid or not paid abroad. However, they will not have to provide any emission certificates during the three-year transition period.
- The mechanism will be introduced in a gradual way and it will be compatible with the rules of the World Trade Organization (WTO). It will also take account of the carbon price paid in other countries and of the emission efficiency of third country producers so that this mechanism is carefully balanced and non-discriminatory.

Free allocations and use of revenues

- Free ETS allocations will be phased out for these sectors after the CBAM goes live. However, there will be a transition period. Free allowances will be reduced by 10% each year, over a 10-year period, so that means a complete phase out by 2036.

- Part of the revenues will be used to finance the CBAM authority and the rest will be going to feed EU budget as own resources.

Energy Efficiency Directive

- The Commission proposes to increase the energy efficiency target to 36% for final energy consumption by 2030 (compared to 32,5% currently).
- When it comes to buildings, the European Commission wants to see more efforts in the public sector, which accounts for 5% of the EU's final energy consumption. The proposed revision thus includes an obligation for this sector to reduce its energy consumption by 1.7% per year. Member States are also expected to be required to renovate at least 3% of the total surface area of buildings belonging to all levels of public administration each year (not just ministerial buildings).
- The energy poverty dimension is also taken into account in the Commission's proposal. Indeed, the European Commission wants to require Member States to ensure that a specific share of energy savings is directed toward vulnerable consumers, people affected by energy poverty, and people living in social housing.
- According to the commission, the share of efforts to be focused on the most disadvantaged communities will reflect the share of the population belonging to this category in each Member State.

Renewable Energy Directive

- The Commission proposes to increase the renewable energy target to at least 40% by 2030 compared to 32% currently. The text does not include binding national targets.
- The proposed revision contains a number of sub-targets, including a binding 13% reduction in the carbon intensity of transport fuel, and 1.1% a year for heating and cooling. An indicative 1.1% annual target applies to industry, and there is a similarly non-binding target of 49% renewable energy use by buildings by the end of the decade.
- Bioenergy, currently 60% of energy classed as renewable, will remain important, but the sustainability criteria for woody biomass will be tightened. There will be 'no go areas' where the sourcing of wood for bioenergy is prohibited.
- In line with the EU Hydrogen Strategy, there are sub-targets for renewable hydrogen and synthetic fuels: 2.6% for renewable fuels of non-biological origin in transport, and a 50% renewable share in hydrogen consumption for industrial processes.

Emission standards for cars and vans

- The Commission proposes to increase the emission reduction threshold for new cars to 55% by 2030 (from a current target of 37.5%)
- The Commission also proposes to increase the emission reduction threshold for new vans to 50% by 2030 (from a current target of -31%)
- Finally, the Commission proposes a new 2035 target of 100% reduction in carbon dioxide emissions of new cars.
- In order to meet the targets set, the necessary infrastructure for electric and hydrogen powered vehicles must be put in place. With the Revised Alternative Fuels Infrastructures

Regulation, the European Commission therefore proposes that more than one million charging points be deployed by 2025. By 2030, 3.5 million terminals are expected.

LULUCF

- The Commission proposes to set binding targets for Member States to increase their net carbon removals in the land use and forestry sector between 2026 and 2030. The overall land use sector, including agriculture, should be climate neutral overall by 2035.
- Member States will be subject to binding targets for the period 2026-2030.
- With the new targets set, net carbon removals in the EU should reach -310 million tonnes of CO_2 equivalent by 2030, which is +15% compared to today's removals (which the commission estimates to be 268 million tonnes of CO_2 a year)
- A range of 'flexibilities' will remain, such as allowing an underachieving country to purchase 'carbon removals' from member states who have exceeded their national targets.

Energy Tax Directive

- The Commission also presented a proposal to revise the Energy Taxation Directive, which has remained unchanged since 2003.
- The European Commission proposes a new definition of the tax base from 1 January 2023. Energy taxation would be based on the energy content (expressed in €/GJ) of energy products and electricity and not on the volumes consumed as it is currently the case.
- The scope of the Directive is extended to include energy products or uses of energy that were previously outside the EU tax framework, such as mineralogical processes.
- The revision also removes national exemptions for polluting fuels, such as diesel in agriculture, and ends tax breaks for fossil fuels in energy-intensive industries.
- Another key measure is that paraffin used as fuel in the aviation industry and heavy fuel oil used in the maritime industry will no longer be fully exempt from taxation for intra-EU travel.
- The text also streamlines the application of reduced rates, leaving much less room for Member States to set rates below the minimum, except for cleaner energies, according to the European Commission.
- The current minimum rates were set in 2003 and had never been updated to reflect current prices. They will now be indexed to inflation each year.
- The Commission also proposes to include some safety nets in the ETD:
    - The text provides for safety nets for low-income households, which could, for example, be compensated for increased taxation on fossil fuels used for heating in the form of access to financing for low-carbon and energy-efficient goods and appliances.
    - In addition, Member States will be able to decide to exempt vulnerable and fuel poor households from the taxation of heating fuels and electricity.
    - Revenues from environmental taxes could also be recycled through lump-sum transfers to increase the disposable income of the poorest households.

ETUC Secretariat preliminary analysis of the package

ETUC Secretariat supports the objective of the Fit for 55 package which is to increase the level of ambition of EU climate policies and bring them closer to scientific recommendations. Reducing rapidly EU's greenhouse gas emissions is a top priority for all European workers as there are no jobs on a dead planet. The increasing frequency and intensity of extreme weather events, such as the floods that recently affected some countries in Europe, reminds us of the urgency to act. In that regard, it is fair to say that the Fit for 55 package, as currently proposed, concretely delivers on reaching the 55% emission reduction enshrined in the Climate Law and that has been supported by ETUC.

However, for the transition to happen, it needs to be inclusive and socially fair. Since the beginning of the European Green Deal, there is a mismatch between the pace of the welcomed acceleration of climate policies and the slow taking into account of social aspects. Only to mention some key aspects :

- The size of the Just Transition Fund is way too limited to the scale of the challenges of affected regions and communities.
- Social dialogue and collective bargaining have not been put at the center of the transition through sectorial decarbonisation roadmaps and just transition plans
- Climate policies remains dependent mainly on market mechanisms, and social protection systems and public services are not yet properly reinforced to manage and steer the transition to carbon-neutral economy.

The Fit for 55 package is the (last) big climate package the Commission brings forward during this mandate 2019-2024. If just transition and the social dimension of the transition is not taken correctly into account now with the adequate frameworks, it will not be corrected later in this mandate and will be difficult to achieve if austerity policies comes back. The burden of the transition should not be supported by low-income households or vulnerable groups and no worker should be left behind in this process. On those aspects, some elements of the Fit for 55 Package remain disappointing, worrying or insufficient.

On the revision of the EU Emission Trading System:

- The almost doubling of the Linear Reduction Factor and the adjustment of the CAP will represent an extremely significant challenge for the industries covered by the EU ETS. If not properly managed, such rapid changes could have very negative consequences for workers and employment in those sectors. Even though we recognize that this increased ambition is necessary, these changes affecting the European industry should be accompanied by a proper just transition framework to support a fair and inclusive transition that does not lead to more inequalities and industrial desertification of carbon intensive regions. Such Just Transition Framework should (1) guarantee that just transition strategies are developed in all sectors and regions through social dialogue and collective bargaining, (2) guarantee worker's right to information, consultation and participation, especially in case of restructuring processes and decarbonisation plans, (3) guarantee individual's right to training and worker's participation in the design of training programmes, (4) secure sufficient investments as well as develop industrial strategies to create alternative quality job opportunities. Such just transition framework would not only be relevant for the energy intensive sectors covered by the EU ETS but also in other sectors of the economy such as transport, agriculture and construction. Unfortunately, those demands are currently not reflected in the Commission's proposals, which focuses too much on carbon pricing mechanisms, emission targets or standard regulations.

- ETUC Secretariat welcomes the fact that Member States would have to use all ETS revenues that are not attributed to the European Union budget for climate-related purpose, including to support low-income households' sustainable renovation. We also welcome the Commission's proposal to increase the Innovation Fund and the Modernisation fund as well as the possibility to use these funds for more social measures and investments in low carbon technologies through Carbon Contracts for Difference

- ETUC Secretariat welcomes the extension of the scope of EU ETS to maritime transport. We however regret that the scope is not extended to extra EEA aviation, even though the phase out of free allowances for intra EEA aviation is a positive step.

- ETUC Secretariat also particularly opposes the Commission's decision to create a separate Emission Trading System to cover emissions coming from road transport and buildings. Creating a carbon pricing system for those two sectors would have strong regressive distributional effects and would disproportionally affect low-income households and energy poor. Recent studies have shown that a carbon price of 170€/t CO_2 would result in average annual carbon costs of €373 per household for transport and €429 per household from residential buildings[1]. At the same time, we know that already today, 50 million households in the European Union are experiencing energy poverty[2]. Besides these regressive effects, ETUC has expressed worries that such system would take a lot of time to develop and could lead to inadequate carbon pricing impacting differently regions and countries in Europe and therefore increasing inequalities. Finally, as road transport and buildings are quite inelastic markets, the introduction of a carbon price would not result in rapid changes in consumption, except for those high-income households who have the capacity to invest in low carbon solutions. In middle and long-term, this could reinforce the regressivity of the measure. **On the Climate Social Fund:**

- As a result of the creation of this separate ETS on road transport and buildings, the Commission also proposes to create a new Climate Action Social Facility to compensate vulnerable households from the potential regressive effects of the measure.

- ETUC continues to strongly oppose the extension of the EU ETS to road transport and building, however, we acknowledge the willingness of the commission to tackle the social dimension of the transition and to try to compensate the potential regressive distributional effects of such measure.

- The idea of having this new Climate Social Fund and the list of measures proposed to be financed by it are interesting. However, it is still to be checked whether the amount of money proposed (144 billion in total) and the mechanism of the fund are sufficient and adapted to ensure a just transition and compensate for the many negative aspects brought by the introduction of a new ETS on road transport and building. Since ETUC initially opposed the idea of an ETS extension to those sectors, more analysis as well as a careful review of all other possible alternatives will need to be conducted in the coming months to decide the Trade Union position on this new proposal.

- In any case, ETUC Secretariat insists that a Climate Social Fund is already needed and cannot be linked to the new EU ETS on road transport and building. It should be financed by other types of revenues, coming from less regressive sources such as a Financial Transaction Tax,

On the Carbon border Adjustment Mechanism:

- When it comes to the new Carbon Border Adjustment Mechanism, ETUC Secretariat welcomes the proposal made by the Commission. Trade Unions believe this is a good first step to prevent carbon leakage and maintain quality jobs and innovative industries in the EU. It is however regrettable to see that the proposal remains unclear about how this mechanism will interact with developing countries and that no specific measure is foreseen to ensure a level playing

[1] ERCST, 2021, Impact on Households of the Inclusion of Transport and Residential Buildings in the EU ETS, https://secureservercdn.net/160.153.137.163/z7r.689.myftpupload.com/wp-content/uploads/2021/06/20210628-Final-Report-New-Title.pdf
[2] EU Energy Poverty Observatory, https://www.energypoverty.eu/

field for exports. ETUC also regrets to see that revenues generated by the CBAM will be used to feed EU budget and will not be earmarked to finance a just transition.

On the Energy Efficiency Directive:

- With regards to the revision of the Energy Efficiency Directive, ETUC welcomes proposal to raise and strengthen EU energy efficiency targets, making them binding rather than voluntary – but the lack of targets binding on national level risks leaving the goal unenforceable. The text also takes some encouraging steps to reduce energy poverty which is overall positive.

On the Emission standards for cars and vans:

- Similarly to the comment made on ETS, ETUC Secretariat insists that the new target proposed will entail massive changes in the automotive sector which could severely impact employment and workers. To accompany those new targets, the Commission should propose a proper just transition framework (see above).
- In parallel, the Commission should increase investments in public transport to incentivise modal shift and provide credible alternatives and transport options to low-income households and rural areas.

In the coming weeks and months, ETUC Secretariat will continue to analyse the legislative files of the package in more details and refine its recommendations. A call will also be organized in September with the Sustainable Development Committee to exchange views on the measures proposed and to discuss ETUC positioning for the next steps.