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EU climate ambition: four challenges for the Fit-for-55 legislative package

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On Wednesday July 14, the European Commission will present its long-awaited "Fit for 55" legislative package, which will be the starting point for a two-year cycle of political negotiations. It will be a moment of truth for the European Green Deal and its ability to put the EU on a path to deep decarbonization. The twelve legislative proposals contained in the package include adjustments to existing measures and new measures to implement the EU's new climate target, agreed this year in the [Climate Law](#), of a 55% reduction in greenhouse gas emissions by 2030. This increased ambition is the first step towards putting the EU on the path to climate neutrality by 2050 and establishing its alignment with the global objectives of the Paris Climate Agreement. It now needs to be translated into sectoral measures capable of transforming entire sectors of the European economy. Four key issues are reviewed below.

A significant test for Green Deal implementation

The proposals that the European Commission is about to present result from a long process aimed at meeting a clear roadmap, published at the end of 2019 as part of the communication on the European Green Deal: implementing the 55% GHG emissions reduction target by 2030. The “Fit for 55” package consists of revisions to existing directives (renewable energy, energy efficiency, carbon market [EU ETS], energy taxation) and regulations (climate effort sharing between Member States [ESR], land use and forestry [LULUCF], vehicle emission standards) and a few new instruments, such as the carbon border adjustment mechanism (CBAM) or the ETS for transport and buildings. The scope of the package demonstrates the cross-cutting nature of the fight against climate change, which concerns all sectors of the European economy. This is the first substantial test of the credibility of the implementation of the Green Deal, beyond the Climate Law which set the framework and governance for action. As such, it will be scrutinized both at European and international levels, at a time when States are expected to make new and more ambitious climate commitments by 2030.

Beyond the revision of existing and proven legislative instruments, significant changes in the level of ambition and potentially difficult, but necessary, discussions to put the EU on the path to climate neutrality are indeed on the horizon. Accelerating the reduction of emission allowances or increasing the requirement for vehicle emission standards is both a necessity for achieving climate goals and a major challenge for the continent's economic actors, the consequences of which for individual citizens will be scrutinized by policy makers and even used to discuss, justly or otherwise, the feasibility of proposed measures. Furthermore, agreeing on the relative contribution of industries covered by the European carbon market and the diffuse sectors (transport, buildings, agriculture), via binding national targets, will again be no easy task. In general, achieving ambitious compromises at the European level will require a high level of attention and that the issue be made a political priority by both EU institutions and Member States to maintain the overall coherence of the package and to sustain a sufficient level of climate ambition, thus avoiding the unravelling of texts in separate discussions.

To accomplish this, the EU has chosen to put as much as possible what comes under its power back to the table to bring the acceleration of decarbonization, particularly through regulatory and pricing instruments. The example of the electricity sector, the CO₂ emissions of which [fell by 40% between 2000 and 2020](#), clearly shows that decarbonization must be based on a combination of instruments and accompanied by investments in physical infrastructure and changes in market rules. The challenge today is to adapt an approach combining different instruments to accelerate the transition in sectors where decarbonization is taking place too slowly (buildings, transport, industry and agriculture) and to ensure that ongoing decarbonization in the electricity system is irreversible.

Four future challenges for the package

To this end, four key issues emerge that should guide discussions on the package.

The first challenge is to **create an environment that is conducive to the deployment of disruptive low-carbon innovations**, such as low-carbon hydrogen, which would for example enable the decarbonization of steel production. There is an urgent need to deploy these solutions, particularly in industry where investment cycles are long and investments made in the coming decade will still be present in 2050. This would allow the continent to be at the forefront of a global competition. However, in many cases, low-carbon solutions exist on the technological level but there are hurdles to overcome to prove their viability and reduce costs, which is still higher than that of carbon-based alternatives. While revision of the carbon market will help to partially close this gap through a higher carbon price,¹ it will not in itself ensure that the necessary investments are made. The “Fit for 55” package is an opportunity to adjust

certain standards to ensure the existence of a market for low-carbon materials (action that a handful of States, including Germany and the United States,² have recently committed to taking) and to mobilize sources of funding from carbon market revenues to support [innovative projects](#) jointly in Europe.

A second issue is the commitment to align international trade with the fight against climate change through the proposed [carbon border adjustment mechanism](#). The reform of the carbon market and the strengthening of the CO₂ price that is expected to emerge from it are necessities, but will go hand in hand, at least initially, with an increased risk of carbon leakage, which requires reform of the free allocation approach. In addition to finding a common approach domestically, the EU will need to take sufficient diplomatic action now to allay the fears of trading partners, to convince them of the environmental case and to implement enhanced multilateral cooperation on the decarbonization of industrial sectors. This will require the opening of negotiations to recognize equivalent policies and the use of revenues from the border adjustment mechanism.^{3, 4}

A third challenge will be to lay the foundations for a **fair social pact for the transition**, particularly in relation to carbon pricing. The proposal for an ETS for the building and transport sectors as a complement to national measures has already met strong opposition, due to the potential effects on the most modest households, with the risk of reviving the turmoil caused by the 2018 Yellow Vests crisis. Is it really on this scale that a social pact around carbon pricing for the energy expenditure of European citizens can be made? If so, the EU will have to work together with the Member States to build a genuine and unprecedented revenue redistribution to households. If, on the other hand, the project proves to be too sensitive, a pragmatic approach to avoid undermining the whole package would be to focus on sectoral issues that make it possible to guarantee access to solutions for renovating buildings or clean transport, such as vehicle standards or the availability of charging stations, and the related issues that make it possible to guarantee a fair and equitable carbon price, such as the end of exemptions for certain sectors (aviation in particular) in the energy taxation directive.

Finally, the last challenge will be to strengthen European natural carbon sinks that fully integrate biodiversity and other environmental issues, and which will notably reinforce the [Farm to Fork Strategy](#) for the transition of the food and agricultural system. From a climate perspective, it is a question of making preparations today for long-term transformations; the 2018 European strategy estimated that an increase in carbon sequestration capacity from 25% to 70% by 2050 is needed to achieve climate neutrality,⁵ but this increase should not substitute the necessary emission reductions in other sectors.

What next?

The twelve legislative proposals will undoubtedly be hotly debated and negotiated in the European Parliament and Council. These two institutions will have to reach agreement on all of these proposals to ensure their approval. A number of points will undoubtedly change between now and the final adoption of these proposals. In this respect, France, which will hold the Presidency of the Council of the European Union in the first half of 2022, will be able to play a key role in bringing all of the proposals to a successful conclusion and to find the necessary compromises in Europe and beyond.

¹ The price of CO₂ in the EU ETS has reached unprecedented levels in recent weeks, exceeding €50/tCO₂: <https://ember-climate.org/data/carbon-price-viewer/>

² <https://www.unido.org/news/major-global-economies-announce-collaboration-drive-global-decarbonization-steel-and-cement>

³ <https://www.iddri.org/en/publications-and-events/other-publication/europes-carbon-border-adjustment-mechanism-need-improved>

⁴ <https://www.iddri.org/en/publications-and-events/report/what-can-least-developed-countries-and-other-climate-vulnerable>

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https://ec.europa.eu/clima/policies/strategies/2050_fr#:~:text=La%20Commission%20europ%C3%A9enne%20appelle%20de,climat%20d'ici%20%C3%A0%2020
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