EU Fit for 55 Package
(July 2021)

Summary brief for business

Quick summary

On 14 July, the European Commission passed a crucial milestone by adopting the EU "Fit for 55" package to transform the European economy. The package of interconnected legislative proposals will align the EU's climate, energy, land use, transport and taxation policies with the target of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels.

This landmark package reflects a new level of ambition from the EU and is described as "a comprehensive market-led revolution which can turn this decade around and set the path for limiting global warming to well below 2 degrees" but only if the ambition can be translated into law. It will take substantial diplomatic efforts to agree on and implement the proposed measures but this level of ambition ahead of COP26 sends a strong signal that the EU sees itself as a global leader in the Race to Zero and will be closely watched by other nations.

The "Fit for 55" package proposes an unprecedented set of ambitious objectives and plans to be implemented by 2030. A key component is the significant revision and strengthening of the EU Emissions Trading System (ETS) targets and carbon pricing signals in line with the proposed 2030 ambitions. The overall emission would be further lowered, and its annual rate of reduction increased from 2.2% to 4.2%. This is to be accompanied by several further measures and goals, including:

- A **separate ETS for buildings and road transport** and expansion of current ETS to certain maritime emissions
- Gradual introduction of a **carbon border adjustment mechanism (CBAM)** starting in 2023 for imports to avoid "carbon leakage" in the affected cement, aluminum, steel and iron, fertilizers and certain power sectors
- A 55% reduction of emissions from cars by 2030 and 100% emission reduction for new cars by 2035, which would be equivalent to a **ban of sales of new internal-combustion engine cars**
- An **increase of the renewable energy target** from 32% to a 40% share, with plans to simplify certain permitting processes and to address other barriers
- New 2030 **energy efficiency targets** of 36% for final and 39% for primary energy consumption respectively and an obligation for the public sector to annually renovate 3% of its buildings
- Implementation of a **new energy taxation principle** that taxes electricity and energy products based on energy content and environmental performance
- **Minimum tax rates** for motor and heating fuels and electricity as well as aviation, boat and ship fuels (with some exceptions) Climate neutrality for land use, forestry and the agriculture sector by 2035
- Creation of a nature-positive economy which protects and restores degraded ecosystems and increases the EU natural carbon sink to 310 megatons (Mt) by 2030
- **Definition of binding targets** for EU Member States.

Background

The series of 13 cross-cutting legislative proposals include **8 revisions of existing legislation** and **5 brand new proposals,** including a number of specified quantitative objectives and measures to decarbonize the economy and promote greener energy. They combine an expansion of emission trading to new sectors and a strengthening of the existing EU Emission Trading System (ETS) with an increase of renewable energy use, greater energy efficiency and a more ambitious plan for low emission transport and related infrastructure development. The package also includes a review of taxation policies, proposed measures to prevent carbon leakage, and tools to preserve and grow natural carbon sinks.

Proposed Amendments to existing EU Law	New Legislative Proposals
Revision of the Emission Trading System (EU ETS)	Carbon Border Adjustment Mechanism (CBAM)
Amendment to the Renewable Energy Directive (RED)	ReFuelEU Aviation (on sustainable aviation fuel)
Amendment to the Energy Efficiency Directive (EED)	FuelEU Maritime (on greening the maritime space)
Revision of the energy taxation directive	New Forest Strategy
Amendment of the regulation setting CO_2 emission standards for cars and vans	Climate Action Social Facility
Revision of the Alternative Fuels Infrastructure Directive (AFID)	
Revision of the Effort Sharing Regulation (ESR)	
Revision of the regulation on land use, land use change and forestry (LULUCF)	

The high-level ambition to make the EU the first climate neutral continent was set when the European Commission presented the European Green Deal on 11 December 2019. The binding European Climate Law, which was adopted in June 2021, enshrines the EU's commitments to climate neutrality and the intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels.

The EU's existing climate and energy legislation has positively contributed towards reducing the EU's greenhouse gas emissions by 24% compared to 1990, while the economy has grown by approximately 60% within the same period. The "Fit for 55" package of policy proposals aims to build on this proven model of legislation to prepare the way to make the EU's economy fit to meet the challenge to achieve its 2030 targets.

The European Commission conducted comprehensive impact assessments in the months leading up to these legislative proposals to evaluate impacts, costs and opportunities of the green transition. These impact assessments formed the scientific underpinnings for the European Commission to propose an increase in the EU's 2030 reduction target, which has now been adopted as 55%.

The EU's 55% reduction goal was already communicated to the UN Framework Convention on Climate Change (UNFCCC) in December 2020 as the EU's contribution to meeting the goals of the Paris Agreement. The EU will share these proposals with its international partners at the UNFCCC's 26th Conference of Parties (COP26) in Glasgow in November. This is in many ways a positive direction, which is not only relevant for EU Member States but for all countries that need to step up their respective Nationally Determined Contributions (NDCs) and related implementation plans.

Reflections and Reactions

President of the European Commission, Ursula von der Leyen emphasized how the European Green Deal is the EU's growth strategy and explained: *"Europe was the first continent to declare to be climate neutral in 2050, and now we are the very first ones to put a concrete roadmap on the table. Europe walks the talk on climate policies through innovation, investment and social compensation."* The need for such decisive action is high: As Frans Timmermans, the commission's executive vice-president for the European Green Deal, explains, this *"is the make-or-break decade in the fight against the climate and biodiversity crises"*. However, he also expects the implementation to be "bloody hard."

Prior to the release, WBCSD supported CLG Europe, our We Mean Business partner, to feed into the discussions with a business letter calling on EU leaders for an effective and coherent legislative package, which was in turn welcomed by representatives of the European Council and the European Commission.

CLG Europe has applauded the package for the explicit recognition that *"what is good for climate is good for the economy."* However, as CLG Director Eliot Whittington noted, business and governments *"must work together to ensure that the EU seizes the opportunities to advance on the race to zero and modernise our economies while maximising economic and social benefits including job creation."*

CBAM is drawing the most attention internationally, especially among the affected trade partners Russia, Turkey, China, the UK, Ukraine, South Korea and India. The carbon border tax derived from CBAM also applies to developing countries and there is no plan to use the revenue to support poorer climate vulnerable countries. USA, China and some developing countries have already signaled their concern and others are skeptical that CBAM is compatible with the rules of the World Trade Organization (WTO). France and Germany are expected to push negotiations ahead. They are – besides the EU Commission and Parliament – important actors for businesses and other non-state actors to address, to express concerns and ask for a strategy which takes the needs of other climate vulnerable countries and their industries into account.

What next?

The EU now has to brace itself for tough negotiations to turn the package into reality. The next 12 to 30 months will be shaped by intense debates between the European Parliament and the EU Member States, which have to jointly approve the proposals. Diplomatic tact will be needed when the tug of war begins as some see the measures as too disruptive and others as insufficiently ambitious. These next six months are a window of opportunity to engage with other countries and stakeholders to discuss climate and trade agendas. The proposed CBAM risks being seen as undermining the multilateral approach needed to achieve the international climate goals and thus be subject of discussions ahead of COP26.

The EU will also share these proposals with its international partners at COP26 in Glasgow this November.

This will bring further insights into the standpoints of other governments and international stakeholders. COP26 will be another opportunity for WBCSD to follow the discussion, bring in the voice of business and make the ambitious efforts of WBCSD and its members visible. While the EU continues to bolster its credibility as a global climate leader, it will further emphasize and develop new opportunities for innovation, investment and jobs. When it comes to the implementation of the new legislations, industry and innovation will become invaluable as a strategic partner for investments and the establishment of new solutions. WBCSD will follow these developments and analyze the directions offered for business and industry.

In the long term, the EU's budget for the next seven years will provide support to the green transition. 30% of programs under the €2 trillion 2021-2027 Multiannual Financial Framework and NextGenerationEU are dedicated to supporting climate action; 37% of the €723.8 billion (in current prices) Recovery and Resilience Facility, which will finance Member States' national recovery programs under NextGenerationEU, is allocated to climate action.

For further information on our work on climate action and energy, kindly contact: Lucy Moran

About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

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