CIDOB opinion

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"FIT FOR 55": Dead on the debate floor

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Achieving a 55% reduction in emissions by 2030 is the goal of the European Union's "Fit for 55 package". The proposal presented in July 2021 includes thirteen legislative measures that will occupy most of the EU political debate during the 2021-22 political year. Necessary European Parliament and Council approval of the package will be challenging given the differing interests of EU member states.

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Europe wants to become the first continent to achieve climate neutrality by 2050 through the European Green Deal. The first checkpoint in the emission reduction journey is achieving a 55% reduction in emissions compared to 1990 levels in 2030. So far, in 2019 EU emissions had only been reduced by 23%. To tackle this enormous challenge the Commission has introduced "Fit for 55", a set of legislative measures presented in July 2021.

"Fit for 55" is a comprehensive package that affects most policy areas of the European Commission. The main measures include, among others: an expansion of the Emissions Trading Scheme (ETS), the EU's cap and trade system, to include shipping, road transport and buildings; an increase in the goals each country needs to achieve in emission reductions in sectors not covered by the ETS (effort sharing); a reduction in emission of new cars, reaching zero in all automobiles sold by 2035; the introduction of a Carbon Border Adjustment Mechanism (CBAM) that will tax imports according to their carbon footprint; and the creation of a Climate Social Action Fund to support those most affected by the ecological transition.

The path to decarbonization in the "Fit for 55" package relies on carbon pricing, a method already used in the EU's ETS. Through this scheme, polluting industries need to buy permits to emit and the total amount of permits is reduced yearly. Most carbon intensive industries, such as electricity generation, are already subject to the ETS, but its reach will be expanded to other industries and sectors like automobiles, domestic heating, or shipping amongst others. Nevertheless, taxing emissions is a regressive approach as the burden of responding to the climate crisis falls disproportionately on the poorest households. By increasing the role of carbon pricing, President Von der Leyen has delivered a success for Germany which has been a staunch advocate of the measure, opposed by both environmental and business groups. Also in Brussels, the College of Commissioners was split over the reliance on carbon pricing to reduce emissions. Austrian Budget Commissioner, Johannes Hahn, even voted against the package.

Among EU member states, multiple countries oppose relying on carbon pricing to achieve climate goals. France, as a result of higher taxes on fuels, experienced the Yellow Vest protest movement, which have heavily disrupted President Macron's policy program. With presidential elections in April 2022, Macron will oppose expanding the ETS to road transport to prevent a new wave of protests. Poland, with an economy heavily dependent on coal will also be against this measure. Coal mining in Poland represents around 80,000 jobs and coal constitutes 40% of the fuel used in domestic heating and 70% in electricity generation. Hence, both countries will work to derail carbon pricing which will endanger achieving the final 55% goal in time.

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Only strong economic incentives in the form of a Climate Social Action Fund could help soften this opposition. The Commission has proposed a new fund to finance a just and solidary transition endowed with €72.2 billion to disburse to the poorest households. The fund will finance access to sustainable transport mechanisms and improve household's energy efficiency. Member states can double their contribution to €144.4bn. However, introducing the fund requires modifying the EU's multiyear budget, the Multiannual Financial Framework (MFF). The last MFF negotiations held in 2020 were long and fraught and already include a Just Transition Fund of €17.5 billion. However, these funds can only partially offset the cost of the green transition.

In addition, the "fit for 55" package intends that 55% of all new cars sold be non-polluting by 2030, and all automobiles sold in 2035 need to have zero emissions. The automotive industry is one of Europe's leading industries representing more than 7% of GDP. This industry is against the tight emission reduction deadlines. Hence, to limit the impact on employment and economic growth, Germany, Spain, and France, the countries with the largest car industry in Europe, are likely to pressure to lengthen the timelines of the Commission's proposal.

Emissions not covered by the ETS, which represent 60% of all EU emissions, are reduced under the effort sharing regulation. This rule sets national binding targets on emissions reduction that each country must achieve through national policies. This policy is contentious because the effort is distributed unevenly as richer countries bear a larger share of the adjustment. The Commission has proposed increasing emissions reduction covered by effort sharing from the current target of 30% to 40%. The last goal distributed in 2018 caused a hard battle between the Commission and national capitals. Now we can expect a new divide to emerge between richer and poorer countries in the distribution of targets, as rich countries demand higher effort by poorer countries.

Externally, the proposed Carbon Border Adjustment Mechanism (CBAM) will impose an additional tariff on imports according to their carbon footprint. Although, imports from any country with comparable climate goals would be exempted from the tariff. CBAM's goal is to incentivize industries in other countries to become more carbon efficient. Nevertheless, foreign countries oppose this measure. John Kerry, US special envoy for climate, requested Europe refrain from introducing a CBAM. To retaliate against the EU's CBAM a similar scheme has been presented in the US Congress but it has the aim of targeting European goods as it would not exempt countries with a CBAM. As a result, EU imports would face a protectionist barrier in the US. Initially proposed by France, CBAM will also encounter opposition within the bloc. Germany is hesitant to this mechanism for fear of further retaliation against its exports, only strong Green Party gains in the national elections might make the country less adamant to the measure.

Europe has only eight years to achieve its target of reducing emissions by a 55% and much work still remains to be done to accomplish it. The ambitious measures included in the "Fit for 55" package will be hard to approve given differing national interests. However, the fight against climate change requires action and the countdown to meaningful measures is ticking. It is necessary for all policymakers involved to agree to incentives that can lead to a swift decarbonization of our economies without engaging in bitter never-ending debates. If the approach proposed by the European Commission is too controversial European leaders should agree to alternative measures that can have a similar impact.