



PROJECTS AND ENERGY

Fit for 55

The new European legislative package to combat climate change

1. Background

On 14 July 2021, the European Commission published a set of proposals called Fit for 55. These proposals are intended to achieve the climate target for the European Union by 2030 on the way to climate neutrality¹. The proposals target new initiatives in different areas and economic sectors, such as climate, energy and fuels, transport, buildings, land use, forests and taxation.

This package of proposals gives effect to the European Climate Law, [recently approved under the Portuguese Presidency of the Council of the European Union](#). This law increased the target of reducing net greenhouse gas emissions in the Union to at least 55% by 2030 compared to 1990 levels. This is intended to be a first step towards achieving carbon neutrality by 2050.

The name Fit for 55 results precisely from the fact that this is the decisive package of legislative measures to meet the goal of reducing emissions by 55% by 2030, by bringing about the necessary transformation of the economy, society and industry. This transformation is essential because we have been singled out as the last generation that can still act in time on climate and environmental issues. Therefore, it is a matter of inter-generational and international solidarity.

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¹ The European Commission's Communication 'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality is available at [here](#).

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Most of the legislative proposals do not yet establish a specific date for entry into force. This will depend on the date their final approved versions are published. However, the process will have to be concluded with some speed if these measures are to influence the goals to be achieved by 2030. Below is a summary of the most important Fit for 55 legislative proposals.

2. The reform of the EU Emission Trading System and the Social Climate Fund

Firstly, the Commission proposes an extension of the Emissions Trading System (ETS). The ETS, which has been a significant success in reducing emissions from power generation, will essentially undergo three changes:

- i) The overall emissions cap will be reduced at a faster pace. The Commission proposes that by 2030, the sectors covered by the Emissions Trading System should reduce greenhouse gas emissions by 61% compared to 2005;
- ii) Free allowances will be phased out for the aviation sector and, to strengthen the role of carbon pricing in the transport sector, free allowances will be phased in for the shipping sector over the period 2023 to 2025;
- iii) A new emissions trading system will also be created and applied to new sectors that need to reduce emissions and, here, the distribution of fuels for road transport and buildings stand out in particular. It is estimated that 22% and 35% of greenhouse gas emissions in the EU come from the transport sector or from the consumption of fuel for buildings respectively, so measures in these areas are of great importance²

² See www.bruegel.org/2021/07/fit-for-55-marks-europes-climate-moment-of-truth

Revenues raised from emissions schemes will be fully allocated to encourage innovation and to support the transition to cleaner production processes. In particular, provision is made for 25% of the revenues to go to a Social Climate Fund to allocate funding to Member States. This funding is intended to specifically support those European citizens most affected by or at risk of energy poverty or mobility. It will achieve this by promoting investments in energy efficiency, new heating and cooling systems, and sustainable mobility³.

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For the period 2025-2032, the Social Climate Fund is expected to make up to EUR 72.2 billion of funding available to Member States. The beneficiaries of this support will be the most vulnerable low- and middle-income households, micro-enterprises and transport users that are affected by the expansion of emissions trading in the transport and road building sectors.

3. The reform of the Effort Sharing and Land Use Regulations

There are also plans to update the Effort Sharing Regulation. This Regulation already requires an annual reduction in emissions from each Member State and the Commission's proposal should accelerate this reduction in the coming years. The Commission intends that the reduction for buildings, transport, agriculture, waste and small industry sectors should be 40% by 2030, compared with 2005.

By 2035, the EU should achieve climate neutrality in the land use, forestry and agriculture sectors, also including all other non-CO₂ emissions, in particular, those resulting from fertiliser use and livestock farming.

The Land Use, Land Use Change and Forestry Regulation is also to be updated. The aim is to preserve and expand the Member States' natural carbon sinks. To remove carbon from the atmosphere, the EU will aim for climate neutrality in the land use, forestry and agriculture sectors. Exploiting the potential of forests for carbon sequestration, the EU Forest Strategy plans to plant three billion trees across the EU by the end of this decade. It proposes to set a net greenhouse gas removal target for the land use, land use change and forestry (LULUCF) sector of 310 million tonnes of CO₂ equivalent by 2030.

4. New targets in the energy sector

In the energy sector, the European Commission proposes to increase from 32% to 40% the target for incorporating renewable production into gross final energy consumption in the Union in 2030. This will oblige Member States to review their national contributions in order to achieve this common objective. The Portuguese target set at the moment is 47% of renewables in gross final consumption of energy in 2030.

³ Thus, the Social Climate Fund will be tasked with helping those most vulnerable to the rise in fossil fuel prices during the transition.

Of particular importance are the changes proposed in the field of biomass for electricity production, where the proposal is to:

- i) Enshrine a principle of priority use of woody biomass to produce wood-based products, reuse and/or recycling before use for bioenergy, with it only being used to produce energy when there is no other economically viable or environmentally appropriate use;
- ii) Ban the use of biomass from forests rich in biodiversity and the use of trunks, stumps or roots for the production of electricity from biomass;
- iii) Terminate, from the end of 2026, public support for biomass plants to produce electricity exclusively, except in regions that depend on fossil fuels or with the use of CO₂ capture and storage technology.

It is not clear whether this termination applies to projects with support already allocated for a period beyond 2026 and which are protected from the outset by the principle of stability of financial support provided for in Article 6 of the Renewable Energy Directive.

In the energy efficiency sub-sector, the principle of prioritising energy efficiency is enshrined and the target for reducing energy consumption is increased. Energy consumption is to be reduced by 9% by 2030, compared to the effort levels currently envisaged.

The Commission highlighted that the revision of the Energy Taxation Directive proposes new rules aimed at aligning the EU's climate objectives with tax rates applied to heating and transport fuels. The Commission is therefore proposing to remove incentives to use fossil fuels and to remove some exemptions in the aviation and maritime transport sectors. It also wants to replace existing incentives to use fossil fuels with the promotion of clean fuels.

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Again with a view to reducing CO₂ emissions, Fit for 55 sets higher standards for cars, with emissions from new cars to fall by 55% from 2030 and 100% from 2035. It also requires aviation fuel suppliers to blend in increasing levels of sustainable fuels. Under the Commission's proposal, new cars registered after 2035 would have to be zero-emission.

5. A new Carbon Border Adjustment Mechanism

Finally, the Commission is proposing an ambitious new Carbon Border Adjustment Mechanism. This is the other side of the coin of the plan to phase out the allocation of free allowances for sectors in international competition. The phenomenon of carbon leakage, when companies move their production processes outside the European Union, specifically to countries with less stringent regulations on emissions, is well known. It is precisely this situation that the Commission wants to avoid.

In fact, the European Commission proposes a cross-border carbon adjustment mechanism to ensure that the price of carbon is the same for domestic and imported products. The initiative is to create a dynamic market that protects the political integrity of the EU and the world, by reducing greenhouse gas emissions both inside and outside the EU.

Thus, in the sectors concerned, the mechanism will be adopted at the same time as free emission allowances are phased out.

6. Conclusion

The Fit for 55 package introduces important innovations in the definition of the European Union's public policy. Indeed, for Europe to become the first climate-neutral continent and to be able to respond to the challenges of climate change, it was necessary to steer a common legislative policy. Therefore, the adoptions of the proposed measures make the European Green Deal a reality as the Fit for 55 proposals offer significant opportunities to develop, deploy and export of low-carbon technologies and green jobs.

We cannot predict when these proposals will become law, nor the changes they may yet undergo. However, the European Union's commitment to climate transition (recently reaffirmed with the passing of the European Climate Act) means we can expect that much of what is in this proposal will, with greater or lesser changes, see the light of day.

Therefore, we can already be confident that the targets of the various Member States regarding the reduction of greenhouse gases, share of renewable energy production or energy efficiency, enshrined in the National Energy and Climate Plans, will soon be updated and this will have to be done in light of the increased European ambition for 2030. ■

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