

## Fit for 55?

A progressive business perspective on the EU's transformative climate package

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# Executive summary

In releasing the **'Fit for 55' Package of policies**, core to the EU's Green Deal, the EU has created a global precedent by proposing a thorough policy framework to achieve the 55 per cent net reduction in greenhouse gas emissions by 2030 and climate neutrality by 2050. This is a first clear example from a major economy where a package of legislation underlines the economic benefits of increased climate action, demonstrating that climate ambition, economic prosperity and sustainable growth can go hand in hand – stressing that the Green Deal is the EU's growth strategy.

**The Fit for 55 Package presents a once in a generation opportunity to map out how the EU will contribute to addressing the climate challenge, in the context of the global paradigm shift towards climate neutrality.** This shift will transform economies and lead to the development of huge new markets for clean technologies and products, providing an abundance of opportunities for economic growth and job creation. The package aims to support a green economic recovery, increase investor certainty and solidify the EU's global leadership through action and leading by example. Within the EU, it sends a strong signal that Europe's economic recovery will be achieved through climate action. Business will be at the forefront of this process.

**Successful implementation and delivery of the policies detailed in the package should support the transformation of the European economy.** However, there will be disruption for certain communities, sectors and business models. The challenge of implementing this raft of policies across diverse Member States, with varying levels of resources, and supporting businesses and communities through the transition, should not be underestimated. It will be critical that the package facilitates an economic transformation that is just and fair, improving the health, wellbeing and prosperity of all EU residents.

**Determination from the EU and Member State governments to maintain the overall ambition of this package while agreeing and delivering on these policies will be key to its success,** alongside engagement from businesses, communities and consumers. It will be essential to demonstrate the benefits of early and aggressive climate action – not only in terms of cost savings and economic growth, but also health and wellbeing. A case in point is the energy price changes in recent months, which have highlighted the adverse economic effects of volatile fossil fuel prices. The EU should not miss the opportunity to develop a more resilient decarbonised energy sector, with reduced reliance on fossil fuel imports.

**It is clear that the package is a major step towards achieving the EU's climate goals.** However, there are certain areas where more clarity and consideration are needed. These include:

- Balancing the use of regulatory measures with an ambitious approach to carbon pricing and revising the **Emissions Trading System** in a way that will send a strong, incentivising signal to carbon intensive industries.
- How the new energy efficiency first principle, the increased **Effort Sharing Regulation** targets and the revisions to the **Energy Efficiency Directive** will be implemented in practice and financed across all sectors. For example, additional policies are needed to incentivise households and communities to improve the energy efficiency of the housing stock. Although these technologies have existed for a long time and could unlock large energy savings and employment opportunities, their take up has remained extremely low.
- How to increase **Renewable Energy Directive** targets in a manner that can accelerate demand, provide greater penetration across industry sectors and ensure stability of electricity supply. This will require additional policies to support faster deployment of associated infrastructure, in addition to revisions to the remuneration mechanisms in the power sector to incentivise investment in ancillary services.
- How to implement the **Land Use, Land-Use Change, and Forestry** proposal, which contains revisions that prepare to integrate non-CO<sub>2</sub> emissions from agriculture beyond 2030. In

particular, there is a need to balance the potential for carbon removals to increase mitigation and achieve neutrality by 2050 against the need to ensure they are not used to compensate for a lack of decarbonisation efforts in other sectors.

- How best to identify **major skills gaps and support workers** who will need reskilling or upskilling in the near future and deliver on targeted and well-resourced skills development and creation of decent jobs.
- Ensuring that the energy transition and industrial transformation are adequately supported by policies that incentivise the **use of circular and innovative low carbon materials**. This can be done through sector-specific industry roadmaps, with interim targets and milestones, combined standardised reporting and accounting practices for embodied emissions.
- Ensuring that the alignment of energy and climate policies, through the proposed changes to **the Emissions Trading System** and the **Energy Taxation Directive**, will not lead to negative distributional impacts. While the proposed ranking system to accelerate electrification and the take-up of low carbon fuels has great potential, changes that will affect household heating and transport fuel costs need to be accompanied with decisive action to protect households against rising energy costs.
- How to **accelerate the deployment of existing alternatives to carbon-intensive transport modes**, through R&D, supporting public transport systems and the new revisions to **CO2 emission performance standards** and on infrastructure. It will be key to address non-cost barriers to Electric Vehicle take up as well as linking subsidies to scrappage schemes to ensure that old petrol and diesel vehicles will not end up being used elsewhere.
- How to ensure that the new proposal for the **Carbon Border Adjustment Mechanism** does not lead to market distortions or cause political and diplomatic fallout. Engagement and support for least developed countries will be essential to protect Europe's reputation and to facilitate decarbonisation in countries with very limited financial resources.

## Key recommendations

There remains much work to do but, overall, the package provides a framework to deliver a strategy to achieve a robust future EU and global economy and create new industries and markets in the transition to a net zero economy.

Based on our analysis we have identified the following key recommendations for policymakers and business.

### Key gaps to be taken into account by policymakers include:

- the links between the circular economy and climate action that are not yet being fully deployed in the EU's climate policy;
- a need for further impact assessment of the proposals in a way that allows policy synergies to be identified and acted upon;
- ambitions to deliver more energy-efficient buildings and electric road transport, and policy measures that would make adopting these solutions more affordable and attractive.

### Businesses have a role to play in supporting policymakers on climate ambition by ensuring that:

- the package is implemented as a whole and is not undermined by being treated as a set of unconnected elements;
- the benefits are seen as key to future growth and global competitiveness, and are championed within their own markets;
- there is transparency over how, alongside new employment opportunities, disrupted industries will require support for upskilling, training and redeployment.

# 1. Introduction

In December 2019, the European Green Deal<sup>1</sup> was introduced as the key linchpin of the European Commission and as a new economic strategy for Europe, aiming to drive growth while also putting the continent on track for a climate neutral future. To deliver on this strategy a new 2030 climate target was introduced, requiring the EU to achieve a net 55 per cent reduction in greenhouse gas (GHG) emissions by 2030 (compared to 1990 levels) – a target well above the 36 per cent reduction that current policies are projected to achieve.<sup>2</sup> A major policy package has now been unveiled to achieve the new targets and deliver on the Green Deal's blueprint for transformational change across the economy and society. The 'Fit for 55' Package of policy proposals<sup>3</sup> has the potential to provide the engine for Europe's growth strategy as well as a 'green recovery' from the Covid-19 pandemic.

On 14 July 2021, the European Commission published the largest part of the package, with the second half due in December 2021. This is the first action plan for how to achieve an updated climate target (internationally known as a Nationally Determined Contribution or NDC) by a major economy. The costs and benefits, and potential policy pathways to achieving this target, were assessed in the European Commission's impact assessment.<sup>4</sup> This assessment, which was published in September 2020, demonstrated that greater climate ambition could also result in economic gains – a finding that has since been reiterated by a recent study by the European Central Bank in specific reference to banks and private sector businesses.<sup>5</sup>

The timing of the Fit for 55 launch coincided with a period of extreme weather events across the globe – including severe flooding, heatwaves and forest fires across Europe. While these events and their aftermath still dominated headlines, the Intergovernmental Panel on Climate Change (IPCC) 2021 report on the physical science basis of climate change<sup>6</sup> revealed that we are fast approaching 1.5°C global warming, and called for urgent action to reduce GHG emissions. In this context, the EU's ground-breaking (if still preliminary) package of legislation is timely and can support EU leadership at COP26 in Glasgow. However, the IPCC report's emphasis on the potentially catastrophic consequences of delayed, or insufficient, emissions reductions shows how essential it is that all countries take steps to keep warming levels below 1.5°C. Achieving this will require further action by the EU as well as other Paris Agreement signatories. The EU's current plans should provide a floor for ambition, not a ceiling.

Building on the European Green Deal and the 2030 Impact Assessment, the purpose of the Fit for 55 Package is to establish a cross-sectoral and integrated policy framework to ensure EU policies are in line with the climate goals agreed by the Council and the European Parliament, and that the EU can achieve the 2030 and 2050 targets in a fair, cost-efficient and competitive way. It outlines a set of interconnected revisions to eight existing EU regulations and directives including fuel taxation, energy efficiency, renewable energy and nature and land use. These effectively map how the EU can deliver the Green Deal. It also introduces five new policy measures, including the controversial Carbon Border Adjustment Mechanism (CBAM),<sup>7</sup> designed to prevent carbon leakage as the EU strengthens its Emissions Trading System (ETS)<sup>8</sup> and phases out the existing system of free allowances by 2036.



The communication<sup>9</sup> on the EU's Fit for 55 Package emphasises the importance and legally binding nature of the EU's 2030 target under the European Climate Law, as well as the multiple benefits that fast, ambitious climate action can have on households, communities and businesses. Setting a pathway to deliver the Green Deal in a manner that improves the health, wellbeing and prosperity of EU residents is one of the package's key objectives. EU residents will benefit from new employment opportunities, cost-saving smart technologies, cleaner air, increasingly comfortable living standards and an infrastructure that supports healthier lifestyles.<sup>10</sup> More green space and enriched biodiversity will help communities adapt to climate change and improve access to nature. For businesses,<sup>11</sup> the incentives to support investment in more efficient and less emission-intensive assets and production technologies – together with low-cost renewables, investment in new battery technologies and the 'smart' revolution in the power sector – can lower the running costs and improve future competitiveness<sup>11</sup> as the markets for low carbon products<sup>12</sup> and technologies grow.

Previous analysis underpinning the EU's strategic 'Clean Planet for All'<sup>13</sup> long-term vision suggested that a trajectory compatible with net zero GHG emissions, together with a coherent enabling framework, could have a moderate positive impact on the EU economy. Even without taking into account the (expectedly high) economic costs of climate change, the transition to climate neutrality is also expected to have a positive impact of around 2 per cent of gross domestic product (GDP) by 2050 (compared to not adopting this approach), and result in a net gain of around two million jobs in addition to the four million green jobs that already exist in Europe.<sup>14</sup> Moreover, the EU's position as one of the largest economies in the world means that co-ordinated policies at EU level can drive transformation that leads to climate neutrality both at home and abroad. The size of the EU single market enables it to act as global rule maker and a strong driver for cost-efficient change by stimulating the deployment of more stringent standards, new technologies and other climate-friendly solutions. These can support decarbonisation across global supply chains and make low carbon products and production technologies more widely available to global businesses and consumers.

However, the Commission's official communication around the package acknowledges that the transition to a climate neutral economy will be disruptive: some sectors will decline in size or disappear, while others must adapt and potentially amend their existing business models. Sectors that remain, but need to adapt, may be at different stages in the decarbonisation process. In some sectors, such as those linked to power generation or private car use, the bulk of technologies needed to support full decarbonisation exist but the main policy challenge is to increase the adoption rate and supporting infrastructure. In other sectors, such as air travel or parts of heavy industry, the required technologies are mostly at the very early stages of development or not yet commercially available, highlighting the need for basic research, support to facilitate market entry, and demand-side measures<sup>12</sup> to develop the business case for low carbon material production and products to support these processes.

Innovation and economic restructuring will necessitate some sectorial reallocation of productive capital, and the upskilling and reskilling of parts of the EU workforce. However, key elements crucial to the delivery of the transition, such as finance, technological innovation and deployment, development of new infrastructure, building renovation and a more circular economy approach will create new employment and economic growth opportunities across the EU.

Together, the broad range of proposals in the Fit for 55 Package set a pathway to a climate neutral economy by 2050. However, action by the EU and various Member State governments is not enough: all sectors of society, including the public sector, the private sector and civil society, will need to contribute. The role of businesses in the EU – as emitters but also as scalars of climate solutions, and as employers and drivers of economic growth and prosperity – makes their contribution to effective climate action a key to success. In order to take ambitious action on climate, businesses must be supported by an enabling policy framework.

Ahead of the release of the package, in a letter co-ordinated by CLG Europe,<sup>15</sup> business leaders outlined **ten principles of an effective and coherent Fit for 55 Package** that delivers EU leadership on climate and the net zero transition, calling for the EU policy to:

- “Provide policy certainty for business through governance and regulatory frameworks and transparent stakeholder engagement.”
- “Send a strong signal that Europe’s economic recovery will be achieved through climate action.”
- “Plan for potential ambition increases beyond 55 per cent as changes in technology and circumstances enable more rapid action.”
- “Ensure coherence across European policy – from finance to industrial, circular, digital, employment and nature.”
- “Accelerate the transition of our energy systems, and push towards 100 per cent clean power by 2040.”
- “Deliver on energy efficiency and the decarbonisation of sectors such as the built environment [...]”
- “Balance increasing carbon pricing signals with focused regulatory action to drive investments in key areas like building renovation and electric vehicle (EV) charging infrastructure.”
- “Align fiscal levers to support the net zero transition.”
- “Develop and deliver an effective strategy to ensure competitiveness for current and future industries in a net zero world.”
- “Support demand as well as supply, by stimulating and enlarging markets for climate neutral goods and services.”

In this briefing, we explore how well the key policy proposals in the Fit for 55 Package respond to the agenda that CLG Europe (alongside our progressive business partners) has put forward as a champion of climate action in relation to EU policy on energy, transport, buildings, industry and nature, and land use, land-use change, and forestry (LULUCF). The purpose of this briefing is to provide a progressive business perspective on the Fit for 55 Package and what needs to be done to achieve the targets outlined in the policy proposals.



## 2. Ambition across the economy

Some of the challenges associated with GHG emissions reductions are general, affecting various aspects of people's lives and businesses in different economic sectors. In this section, we explore how proposals in the Fit for 55 Package tackle issues that cut across the economy.

### 2.1 Assessment of the package

#### A leadership vision for change

Overall, the Fit for 55 Package is remarkable for many reasons. Firstly, it is strongly grounded in the concept that ambitious climate action is a precondition for sustainable economic growth. Secondly, it seeks to put forward a people-centred approach, while considering the impact that growing levels of ambition and a higher carbon price may have on business and how potentially adverse impacts could best be mitigated. Thirdly, it is the first time a major economy has published a concrete action plan towards climate neutrality and how to meet stretching climate targets. Placing the EU in a leadership position ahead of COP26, it could also incentivise other countries to follow suit<sup>16</sup> by showing what is possible, and how the transition can be financed while increasing social spending, residents' wellbeing and competitiveness.

However, designing and delivering as complex and transformative a package of policies as Fit for 55 is not going to be straightforward. There will be a major need for political leadership to drive forward an effective agreement, and for businesses to support the adoption of an ambitious package, as well as communications and technical support for businesses, local authorities and residents on the requirements and the possible funding opportunities. The package has already attracted some negative coverage from various interest groups, ranging from the adequacy of the scale and pace of its ambition to potentially adverse distributional impacts.<sup>17,18,19</sup> The possibility of a diplomatic fallout with trade partners and market distortions, arising from the more controversial elements of the proposed policies, such as the CBAM, have also attracted criticism.<sup>20,21</sup>

There will be a major need for political leadership to drive forward an effective agreement, and for businesses to support the adoption of an ambitious package, as well as communications and technical support for businesses, local authorities and residents on the requirements and the possible funding opportunities.

“ The EU Fit for 55 Package is the first policy framework of its kind to outline how a developed economy can decarbonise sector by sector to be net zero by 2050. Removing coal from EU operations, going all-in on electric vehicles, mandatory climate disclosure and meaningful carbon pricing need to become the new norm. This can be done best through an ambition loop of strong policy ambition enabling businesses to drive further emissions reductions, which in turn allows the further raising of policy ambition. This is what the Fit for 55 Package must deliver in the EU and along with action from other major economies can help keep global warming to a maximum of 1.5°C. ”

**María Mendiluce**

CEO, We Mean Business Coalition

## Investment certainty and policy coherence

The comprehensive nature of the package, detailed timelines, the links between the various policy elements and the identification of intermediary benchmarks all aim at providing certainty for businesses. **The increased targets set a clear direction of travel across the economy, balancing the use of regulatory measures and carbon pricing.** Proposed revisions to the ETS send a strong signal to carbon intensive industries, incentivising them to prepare for increased carbon prices. These signals are also intended to increase investor certainty and reduce the risk of locking in investments in carbon intensive industries. For example, the power sector can now start preparing for the phasing out of coal and unabated gas.

**The breadth of the package and focus across the different sectors demonstrates a major effort to ensure coherence and balance the overall package.** Proposed increases to the EU-wide **Effort Sharing Regulation (ESR)**<sup>22</sup> target to 40 per cent and the final and primary energy consumption targets to 36 and 39 per cent by 2030 under the revised **Energy Efficiency Directive (EED)**<sup>23</sup> cut across various sectors of the economy. The introduction of **a new energy efficiency first principle** in the EED provides the legal basis for the requirement to consider energy efficiency solutions as the first option in planning and investment decisions in all sectors, but will only be effective if widely implemented. The retention of buildings and transport in the ESR, in addition to their coverage in the EED's economy-wide targets and the **new ETS for buildings and transport**, aims to provide the policy framework for an integrated approach. Renewable energy targets also create strong interlinkages with the sector-specific policies and **the Renewable Energy Directive (RED)**.<sup>24</sup>

## Mobilising public resources

**A core test of the package's ability to drive growth and achieve results is the extent to which EU economic recovery spending and support for innovation are aligned with its goals.** Alongside the EU's long-term budget priorities and the post-pandemic economic recovery plan, NextGenerationEU,<sup>25</sup> the Recovery and Resilience Facility<sup>26</sup> and the anticipated additional funding to deliver a just transition, the proposed policy revisions in the package aim to ensure that EU economic recovery spending supports the transition to net zero. NextGenerationEU will allocate at least 37 per cent to the green transition, while 30 per cent of programmes under the 2021–27 Multiannual Financial Framework<sup>27</sup> are dedicated to supporting climate action, through elements including cohesion policy, agriculture, and the LIFE (L'Instrument Financier pour l'Environnement) programme for climate and environment. There is strong evidence to suggest that investments made as part of the recovery spending can boost both economic growth and jobs while also accelerating the clean energy transition.<sup>28</sup> These 'green' recovery measures can help meet many of the 2030 targets while the negotiations around specific elements of the package continue.

Proposed revisions to the size and acceptable uses of the Innovation Fund<sup>29</sup> and Modernisation Fund<sup>30</sup> aim to make sure that ETS revenue will be directed primarily at activities that support the transition. The Innovation Fund supports business and small and medium-sized enterprise (SME) investment in clean energy with specific attention to projects in sectors covered by the CBAM, with its extended scope allowing these funds to be used for carbon contracts for difference to trigger industry emission reductions. The Modernisation Fund is also being increased in size and extended to two additional Member States (Greece and Portugal), with all fossil fuels excluded from its scope. The recent Sustainable Finance Strategy,<sup>31</sup> published only shortly before the Fit for 55 Package, outlines a substantial set of measures to help the private sector finance the transition to a sustainable economy.

## Jobs, skills and the just transition

The European Commission's communication<sup>9</sup> on the Fit for 55 Package has acknowledged the importance of an appropriately skilled workforce to deliver the Green Deal and the 2030 interim goal. The skills profile of European workers will need to change to avoid mismatches between currently available skills and those required in a changed economy. In the package's various directives and regulations, the skills gap is particularly emphasised in relation to the circular economy and sectors expected to create large numbers of new jobs. These include energy-efficient building renovation, renewable energy, EVs and the associated infrastructure. Skills development and capacity building will also be needed to deliver on the proposed amendments to the LULUCF and the implementation of the CBAM.

**Attention to creating decent jobs, as well as upskilling and reskilling workers, is also required to ensure the package supports the transition towards a climate neutral economy in a fair way.** Identifying skills gaps, development needs and retraining options is particularly important in sectors that are likely to contract rapidly, such as fossil fuels, or change radically, such as car manufacturing. Education and vocational training systems will play a key role in regions that are severely impacted by the closure of fossil fuel operations to capitalise on new opportunities in sustainable technology development, creating new opportunities. As such, a comprehensive and well-resourced skills development agenda can support economic growth and regeneration in regions that would otherwise experience large-scale job losses.<sup>10</sup> The European Social Fund Plus<sup>32</sup> (ESF+), InvestEU<sup>33</sup> and the European Skills Agenda<sup>34</sup> for sustainable competitiveness, social fairness and resilience will support these processes, in addition to supporting economic recovery from the pandemic. In territories identified as being 'at risk' in the territorial just transition plans, investments from the Just Transition Mechanism<sup>35</sup> will provide further financial support to mitigate the negative impacts on workers and communities.

**The principles of 'fairness' and just transition are mentioned frequently in the various documents outlining the proposed policy revisions.** To retain public support for more ambitious climate action, the policy measures must be fair and cost-efficient, improve the health and wellbeing of European households and communities, creating new employment opportunities, as well as advancing the competitiveness of European business. According to the proposed plans, negative distributional effects that may arise as a result of certain proposed policy measures, such as extension of carbon pricing to buildings and transport, are to be mitigated by revenue recycling mechanisms and energy efficiency improvements to EU housing stock. **The communication makes it clear that creating a context in which businesses and society can benefit from the implementation of the package is a key success factor.**

“ At IKEA we believe in taking climate action to reach our ambition to become climate positive by 2030. Together, let's ensure we deliver to the new EU targets for greenhouse gas emission reduction by 2030 and the Fit for 55 Package. That is the only way we can turn commitments into action and make a real difference in the transition to a net-zero future . Only by working together between companies, sectors, governments and across borders, can we create a better future for the many. ”

**Jesper Brodin**  
CEO, Ingka Group | IKEA

## 2.2 Strengthening the package

In order to maximise the benefits of the Green Deal and the Fit for 55 Package for the EU's residents, businesses and communities, the EU should:

- **Maintain the overall ambition level of the package as the negotiations over its individual elements take place.** While strong synergies between the various elements of the package could and should achieve greater ambition, or lower costs than expected, these cannot be relied upon or even be comprehensively assessed until all elements of the package have been put in place. If any proposed policy measures are withdrawn, as a minimum, other measures must be tightened to retain ambition.
- **Ensure that the package supports decarbonisation in all sectors, including the development of enabling infrastructure needed for sector-specific innovative technologies.** Differentiated impacts across sectors of the economy will need to be carefully considered in relation to specific policy proposals, including CBAM, to avoid market distortions and ensure a level playing field for European industry as free allowances under the ETS are phased out.
- **Ensure that carbon pricing is supported by regulatory measures in all sectors.** Even with the strengthened ETS and the extension of carbon pricing to buildings and transport, carbon pricing alone will not provide a sufficient incentive for systemic shifts such as electrification of buildings and transport, large-scale adoption of circular economy practices, or the breakthrough of low carbon technologies. Regulation and demand-side policy measures are also needed.<sup>12</sup>
- **Put the principles of the circular economy at the heart of the package,** by ensuring its policies are aligned with the EU's Circular Economy Action Plan<sup>36</sup> and its objectives, including reducing demand for new materials, promoting circular economy processes and encouraging sustainable consumption by households and businesses. Regulations that set content requirements for recycled materials can be useful to create market demand for them, while supportive policies and resources can improve the EU's recycling infrastructure (including collection and sorting) and incentivise product designs that enhance recyclability.<sup>12</sup>
- **Support the development of a harmonised methodology for measuring and reporting embodied emissions in key materials.** For materials widely used across all sectors of the economy, including steel, cement, aluminium and plastic, EU regulations on acceptable embodied carbon content could be used to incentivise uptake and create demand for low carbon, circular and innovative materials.<sup>12</sup>
- **Identify major skills gaps and workers who will likely need reskilling or upskilling in the near future and deliver targeted and well-resourced skills development.** The EU should ensure that skills development programmes are implemented and adequately resourced in all Member States. EU-wide certification schemes could incentivise Member States to synchronise their upskilling and reskilling programmes and improve labour mobility.
- **Explore how to strengthen the level of ambition for emissions reductions.** This should involve a cross-sectoral approach exploring the contribution of sustainably sourced carbon removals from land use, agriculture and forestry, as well as technology-based solutions such as electrification, carbon capture and storage (CCS) and the extension of the ETS to the maritime sector. Mixtures of these measures could enable the EU to go beyond its current ambition of a net 55 per cent reduction and further reduce climate risks. Opportunities to drive further ambition, especially in the renewables and energy efficiency sectors, should also be grasped.

- **Maintain and develop broad support for the package and its goals.** The EU should foster widespread support for the package and its policies through a programme of measures including using the climate pact and other systems of engagement and communication to explain the package and its goals; ensuring that EU recovery funds are effectively spent on actions that support the Green Deal; supporting local capacity to roll out new measures; and demonstrating clear commitment to identify and mitigate any adverse impacts of climate policies on local economies, communities and households.
- **Support states in the implementation of the fiscal reforms proposed in the Energy Taxation Directive (ETD)<sup>37</sup>** to give priority to decarbonised fuels, especially zero carbon electricity, which is critical to decarbonise the economy.

“*The ground-breaking European Fit for 55 Package of climate policies provides a unique framework to enable businesses to help deliver a robust and climate neutral economy by 2050. But while the package provides clear signals to business on the direction of travel, to ensure the economic transformation creates opportunities for growth and job creation, while also improving the health, wellbeing and prosperity for EU citizens, greater clarity is needed on how future disruptions across economic sectors will be addressed, in particular in relation to skills and measures to ensure the just transition.*”

**Eliot Whittington**  
Director, CLG Europe





## 3. The energy transition

Generation and consumption of different forms of energy account for around 75 per cent of the EU's GHG emissions,<sup>38</sup> placing the sector at the forefront of also facilitating the decarbonisation of other sectors of the economy. The challenge here is threefold: first, to reduce demand for energy through improved energy efficiency; second, to electrify operations that can feasibly be powered this way and; finally, to decarbonise the electricity supply.

As a subcategory of the energy sector, the electricity (power) sector is responsible for nearly a quarter of the EU's GHG emissions. Although the share of renewable electricity doubled between 2005 and 2019 to 34 per cent, it remains below the electricity generated from fossil fuel sources (38 per cent).<sup>39</sup> The increased level of climate ambition and the net zero 2050 target requires the EU's power sector to decarbonise much faster.<sup>40</sup> The expansion of renewable electricity generation could provide multiple benefits to human health and the environment, in addition to creating new jobs.



### 3.1 Assessment of the package

The Fit for 55 Package proposes several revisions to the regulations and directives that support the energy transition. These include a new union-wide target of 40 per cent for renewable energy generation in the amended Renewable Energy Directive<sup>24</sup>, pledged public investments, a focus on creating a regulatory framework for energy efficiency and taxation, support for low carbon technology development and plans to improve the alternative fuels infrastructure. **These proposals, in particular the new renewable energy target, are a major step towards accelerating the transition of the EU's energy system towards zero emissions power. However, the adverse impacts of the energy transition on certain businesses, communities and employees are also acknowledged, as is the need for their careful management.** This includes ensuring suitable protection and that redeployment support is in place for employees in sectors that will shrink, such as fossil fuels.

The revised RED sets an increased target for Member States to produce 40 per cent of energy from renewable sources by 2030. The amended legislation lays out the necessary steps to achieve this new target and strategies to encourage Member States to harness local renewable energy supplies for heating and cooling. The proposed revisions to the RED also identify the need for Member States to remove barriers and establish frameworks to facilitate the uptake of corporate renewable power purchase agreements (PPAs). Revisions to rules around Guarantees of Origin (GO) seek to facilitate traceability, obliging GOs to be transferred to renewable electricity buyers under corporate renewable PPAs. These revisions would prevent Member States from retaining GOs from assets receiving state financial support, making it easier for businesses to green their energy supply. However, further strengthening of the GO system could reduce the opportunities for companies to use this channel for 'greenwashing' and thus improve credibility.

The proposed revisions to the RED extend its scope in an attempt to ensure greater penetration of renewables across the entire energy system, including industry, buildings and transport. To prepare for an increased deployment of intermittent renewables, such as solar and wind in the power system, targeted investments are needed to support and enhance the grid infrastructure. To ensure a reliable power supply, there is a need to develop storage technologies and invest in others that provide ancillary services, such as frequency response, voltage management and inertia.



Although the EU has a strategic action plan<sup>41</sup> in place to support the development and upscaled production of battery technologies, the proposed revisions to both the RED and the **Alternative Fuels Infrastructure Directive (AFID)**<sup>42</sup> largely ignore the importance of ensuring investment in ancillary services provision. Beyond introducing new rules requiring EU countries to jointly plan the development of offshore wind resources in each sea basin and exploring the potential role that EVs can play in balancing the grid, ancillary services and smarter, digitally enhanced, grid operations receive limited attention. Well-established technologies capable of providing these services, such as hydropower and pumped storage hydropower (PSH), are noticeable by their absence.

The 40 per cent RED target has also been criticised by industry stakeholders and environmental organisations for lacking ambition. Moreover, the new rules do not enter into force until 2024, making it imperative in the meantime for EU Member States to fully implement policies to achieve the current Renewable Energy Directive target (REDII), and ensure that Covid-19 economic recovery spending for the energy sector is directed at low carbon technologies rather than the fossil fuel industry.

The proposed revisions to the ETD seek to fix the misalignment between energy and climate policies by introducing a new ranking system based on fuels' energy content and environmental performance to accelerate electrification and the take-up of low carbon alternative fuels. Although taxation is a Member State competency and the EU cannot enforce the proposed approach, they are 'expected to respect'<sup>24</sup> it in their national systems to ensure that the most polluting fuels are taxed more heavily than cleaner fuels across the EU. Removal of fossil fuels exemptions and higher minimum tax rates for fossil fuels and lower minimum tax rates for renewables, also proposed in the revised ETD, could incentivise households and businesses to switch to cleaner energy. This early action could protect households against rising energy costs as the proposed ETS for buildings and transport is introduced, while also reducing the risk of stranded assets as fossil fuels are phased out.

The review of the **Energy Performance of Buildings Directive (EPBD)**<sup>43</sup>, which is expected to be published in December 2021, should also contribute to incentivise the energy renovation of buildings and set a framework to unlock a large energy savings potential, as well as other benefits including the protection of households from higher energy costs.

**Altogether, the proposed policy revisions under the Fit for 55 Package justify optimism over the transformation prospects of the EU's energy systems.** If the proposed revisions were implemented, we would likely see faster deployment of renewable energy, accelerated phasing out of fossil fuels and better integration of renewable energy resources into the grid.<sup>44</sup> The strong synergies between the EED, RED, ETD and the ESR deliver the message that the European Commission is committed to improving energy efficiency, a decrease in energy demand, electrification and rapidly increasing the supply of low carbon electricity.

To deliver on the ambitions set out in the package, continued scrutiny will be needed to ensure that the ambitions of **National Energy and Climate Plans**<sup>45</sup> and **National Recovery and Resilience Plans**<sup>26</sup> are aligned with the new targets. Fossil fuel lock-in remains a real risk to robust climate action.

Energy price changes in recent months have shown how volatile fossil fuel prices can create challenges for European economies and consumers. **The EU should not miss the opportunity to accelerate the transition of the energy sector and maximise the societal benefits of a strong renewable energy industry, including reduced reliance on fuel imports.**<sup>15</sup> Further ambition should be explored, with particular focus on the potential for feedback loops to maximise future opportunities to scale up ambition, especially in light of continued technological shifts and learning.

## 3.2 Strengthening the package

In order to maximise the benefits of the Green Deal and the Fit for 55 Package for the EU's residents, businesses and communities, EU policies should:

- **Ensure that the EU is on track for clean, net zero carbon energy and power systems by 2040.** This includes phasing out coal and rapidly downsizing the gas sector. A shadow carbon price<sup>46</sup> should be applied at the planning approval stage of all new gas infrastructure projects.
- **Accelerate demand for renewable energy, including through greater use of public sector procurement rules and by stimulating corporate sourcing for renewables.**<sup>44</sup> Key steps towards this would include:
  - targets at Member State level;
  - ensuring that the proposed revisions to the RED are sufficient to remove barriers to corporate renewable PPAs, including following through on establishing Member State frameworks to support their uptake;<sup>44</sup>
  - expanding GO to include a requirement for additional information capture to evidence the consumption of renewable electricity.
- **Support the faster deployment of associated infrastructure through EU economic recovery funding and other EU funds, specifically smarter, digitally enhanced, grid operations.**<sup>11,28</sup>
- **Reinforce the permitting process** to more rapidly develop the deployment of renewable energy technologies to meet the 2030 objectives. Simplifying and accelerating the permitting processes for new renewable energy projects and extensions to existing ones, and removing unnecessary red tape are also of importance.
- **Assess opportunities to go beyond the proposed 40 per cent target by 2030** as the deployment of renewable energy technologies accelerates, leading to declining costs.
- **Ensure that all Covid-19 economic recovery spending is aligned with the Green Deal and no economic stimulus spending is allocated to supporting fossil fuels,** including the public financing of new gas infrastructure projects.
- **Ensure the EU's renewable energy strategy and Member States' national energy plans prepare for greater penetration of intermittent renewables.** They should include regulatory frameworks and financial incentives to support low carbon technologies that provide ancillary services including inertia, voltage and frequency control, such as pumped storage and other forms of hydropower, flexible nuclear or demand response.
- **Support Member States in achieving a zero carbon electricity mix in ways that respect national policy priorities,** considering that energy is a Member State competence.

“ Europe's leadership on climate action will be enhanced with a robust and coherent 'Fit for 55%' policy package, which can create optimism for the whole world. The correct policy signals will give investors the certainty needed to accelerate the transition towards a net zero economy, by unlocking significant investment in renewable energy, networks, storage and forward looking industries, such as green hydrogen. Ambitious climate policies will also drive the economic recovery. ”

**Ignacio S. Galán**  
Chairman & CEO, Iberdrola



## 4. Transforming industry

Industry accounts for around 28 per cent of the EU's GHG emissions,<sup>47</sup> with the majority coming from industrial processes. There is abundant evidence that technically and economically viable solutions to achieve net zero emissions from industry exist, through decarbonisation as well as other processes including business model innovation. These often involve greater material circularity and demand reductions through material efficiency.

The transition to climate neutrality will necessitate a shift in energy sources used by industry, moving from high carbon to clean, climate neutral sources. New process technologies and cleaner feedstocks will also need to be developed and brought to market. The industrial companies' ability to adapt to the new competitive sustainability paradigm will determine both their survival and ability to thrive in changing global markets.



### 4.1 Assessment of the package

**The Fit for 55 Package contains many of the necessary elements to put EU industry on track to deliver on the Paris Agreement.** It provides specific instruments that complement the strong narrative displayed in the EU's updated Industrial Strategy<sup>48</sup> on the first-mover advantages derived from the transition to a net zero economy. As outlined in the Strategy, in the medium term, all business activity will need to become competitively sustainable and the disruption of many traditional patterns caused by the Covid-19 crisis will accelerate that transition.

**The Fit for 55 Package introduces new requirements for industry to decarbonise production processes, as well as support mechanisms to enable innovation, put EU industries on track to climate neutrality by 2050 and increase the EU's competitive sustainability.** The package sets out a framework to increase business certainty and supports the supply of current and future EU innovations. Accelerating innovation cycles is key to industrial decarbonisation and requires significant research and innovation investment plus access to a skilled workforce to advance and deploy, at scale, decarbonisation technologies across key industries.

In addition to various EU funds that have earmarked a share of their budget to support climate action more generally, the Innovation Fund<sup>29</sup> will support business and SME investment in clean energy, with specific attention to heavy industry projects. The extended scope of the fund, under proposed revisions to the ETS, would enable it to be used to support carbon contracts for difference and emission reductions. Revenue from the new ETS covering buildings and transport is due to be directed to supported industrial decarbonisation efforts.

**The measures designed to support innovation on the supply side need to be complemented with demand-side mechanisms.** The policy proposals in the Fit for 55 Package introduce various restrictions and requirements that would directly affect industry and accelerate the industrial transition to clean energy sources, such as sector-specific renewable energy targets proposed under the revisions to the RED. This process could be further incentivised by the proposed revisions to the ETD, which would entail higher minimum tax rates for fossil fuels and lower minimum tax rates for renewables as well as the removal of fossil fuel exemptions.

Some of the proposed revisions to both the RED and EED are designed to generate growing demand for new digital technologies, creating markets for new products and incentivising innovation and demand for energy-efficient technologies. These technologies could be instrumental in accelerating industrial decarbonisation. When revised, the Industrial Emissions Directive (IED)<sup>49</sup> will likely become a significant industrial transformation tool, covering environmental and climate issues beyond CO<sub>2</sub> emissions, presenting new opportunities for industrial frontrunners.

**Availability of low carbon electricity and enabling infrastructure are key elements to realise industrial decarbonisation.** A large-scale clean energy roll-out, coupled with ambitious energy saving targets to lower overall demand, is one necessary precondition, but insufficient on its own. System infrastructure for CCS in specific sectors, and the production and distribution of green and fossil-free hydrogen, must be deployed at scale and aimed at meeting the demand from hard-to-abate sectors. A well-planned and integrated energy infrastructure is essential to achieve a reliable zero emissions energy system that allows for industrial transformation to take place.

One specific policy proposal directly and exclusively aimed at supporting the decarbonisation of energy- and material-intensive EU industries is CBAM<sup>7</sup>, which would be applied to imports from countries that do not use equivalent carbon pricing mechanisms. The strengthening of the ETS, extensions to its scope and the timetable for the phasing out of free allowances for the sectors that will be subject to the CBAM could incentivise improved energy efficiency and drive investment in the development and uptake of low carbon solutions in these sectors.

The reporting requirements for embedded emissions through CBAM and some specific provisions in the RED could facilitate the design and adoption of standardised carbon accounting methodologies and reporting, supporting the development of global markets for climate-friendly materials and products. Although CBAM is subject to intense geopolitical debates, a well-designed model could support decarbonisation beyond the EU and stimulate the transition of global industry towards climate neutrality. However, alternative routes to this should also be considered.

The EU's ability to build its competitive sustainability through setting world-leading standards and regulations in its single market should be further reinforced in order to stimulate European industries to meet them and for developing competitive advantages that enable them to become global market leaders. The upcoming Sustainable Products Initiative<sup>50</sup> and review of the Ecodesign Directive<sup>51</sup> will provide good opportunities to bridge this gap.

“ We need a Fit for 55% policy framework that acknowledges technological shifts, and rewards companies that are frontrunners and make investments to achieve the transition to a fossil-free society. ”

**Andreas Regnell**

Chairman of HYBRIT Development AB

and Senior Vice President, Strategic Development, Vattenfall



## 4.2 Strengthening the package

The transition to climate neutrality presents an enormous opportunity for EU industry in the context of the global paradigm shift that will reshape industrial competitiveness and develop huge new markets for clean technologies and products. The EU is beginning to prove its performance and potential in decarbonising some of the main industrial ecosystems, but it will be **critical to develop an effective strategy to ensure competitiveness**<sup>15</sup> for current and future industries in a net zero world. Elements required for this strategy and efforts to foster industrial transformation could include:

- **More efficient use of circular materials.** This is the first and most critical step towards decarbonising industry. Mandatory purchasing quotas would contribute to demand creation for zero emissions materials and technologies.<sup>12</sup> Likewise, the development of high recycling standards and materials pathways would ensure quality recycled materials and increase industries' recycling rates.
- **The development and implementation of industry roadmaps, with interim targets and milestones to net zero emissions by at least 2050.** These roadmaps should be designed in collaboration with relevant industry stakeholders, address the most polluting sectors of the economy and align with the transition pathways for industrial ecosystems being developed under the EU industrial strategy.
- **The design and implementation of life cycle carbon accounting, reporting methods and CO<sub>2</sub> performance benchmarks**<sup>12</sup>, harmonised at EU level to reduce the risk of different national regulations hindering market scale-up of low carbon innovations.
- **More efficient use of public administration and local authorities' procurement rules to create demand for low carbon materials, production technologies and manufactured goods.**<sup>12</sup> Public spending through procurement amounts to 14 per cent of EU GDP each year.<sup>52</sup> As suggested in the updated industrial strategy, the European public procurement framework could help strengthen companies' competitiveness and increase demand for low carbon solutions. These could include the use of strategic criteria, notably for green and innovation procurement, while ensuring transparency and competition. Such an approach should be applied in a way that ensures fair competition between public and private providers.
- **Development of CO<sub>2</sub> performance rating labels, data collection and transparency tools.**<sup>12</sup> The current absence of widely available data on embedded CO<sub>2</sub> emissions from many suppliers across the value chain makes it impossible for intermediate and final product purchasers to select and market either climate neutral or more climate friendly products. A harmonised and digital process for the assessment and verification of embodied carbon in imported materials would be important to reduce costs for companies and Member States in the implementation of any future CBAM.
- **Wider adoption of CCS technology will be needed to deliver a sustainable transition in specific industries** such as cement and where the captured carbon can be stored or used in a way that enables emissions to be permanently avoided. However, its current maturity level is not yet competitive. Stronger incentives for this technology and its infrastructure would accelerate its development and stimulate market uptake.

- **Implementing a gradually increasing carbon floor price to reduce price volatility and give more predictability for companies**, thus supporting their uptake of clean innovation processes.
- **Introducing additional financial instruments and funding aimed at improving market readiness and ability to scale up innovative clean technologies and solutions.**<sup>53</sup> This would prevent the exportation of promising EU innovations. Such approaches could support the creation of new jobs in the EU in addition to protecting the competitiveness of EU industries in international markets.
- **Implementing CBAM in a way that is compatible with healthy trade relations and the World Trade Organization rules.** The potentially adverse impacts on diplomatic relations, industries in the least developed countries and some EU industries must be carefully managed to avoid damaging trade relationships, market distortions and the EU's reputation globally as a champion of just transition.
- **Aligning energy and other enabling infrastructure plans to support the transition to net zero industry.** Decarbonisation of the industrial sector has significant implications beyond industrial policy – most notably on energy policy. System infrastructure is an essential piece of the puzzle and having a synchronised plan for its deployment is key to enabling industry transformation.<sup>54</sup> One core element will be to accelerate industrial electrification and address how best to provide incentives and policy certainty to drive this forward, given that it is a promising and low-cost route for reducing the use of fossil fuels, allowing the use of clean electricity for production processes. Electrification also opens a range of innovative and digital solutions for the future energy system, better balancing supply and demand of electricity.





## 5. Improving the EU's building stock

Construction, usage, renovation and demolition of buildings account for around 36 per cent of the EU's GHG emissions.<sup>55</sup> With roughly 75 per cent of building stock being classed as 'inefficient', deep renovation (improving energy efficiency by at least 60 per cent) of a very large share of the EU's building stock will be required to achieve climate neutrality. Retrofitting buildings to improve their energy efficiency, combined with large-scale installation of energy-efficient lighting, heating and cooling systems using renewable electricity, will help save energy, improve living conditions and health, reduce the risk of energy poverty and create local, decent jobs. Placing the 'Renovation Wave' at the heart of economic recovery provides a key opportunity for rapid job creation and restored spending power to households and small businesses.<sup>44</sup>



### 5.1 Assessment of the package

The buildings sector is subject to national emissions reductions targets under the EU's ESR, as well as national energy taxation, regulations and incentives. The buildings sector is affected by proposed revisions to various regulations and directives in the Fit for 55 Package as well as the upcoming revisions to the EPBD due in late 2021.

Buildings have so far been predominantly covered by regulatory measures relating to the operational emissions of new builds and existing stock. Embodied emissions of building materials and the price of heating fuels (beyond electricity) have received limited attention at the EU level, although some Member States have implemented their own regulations to put a carbon price on all buildings' energy use.

In this context, **the most significant revision proposed in the Fit for 55 Package, in relation to the buildings sector, is the plan to establish a new, separate ETS for road transport and buildings.** However, both sectors will also remain under the remit of the ESR, thus ensuring that the new carbon pricing signals are supported by focused regulatory action – notably the Commission's plan to introduce minimum energy performance standards in the upcoming revisions to the EPBD.

The proposed increase of the EU-wide ESR target to 40 per cent and an upward revision of the Member State emissions reduction targets to 10–50 per cent below 2005 levels would extend the responsibility (and rewards) for contributing the overall ESR target to all Member States, including those with the lowest GDP. In some of these Member States, emissions reductions in the buildings sector through improved energy efficiency, especially deep renovation, are key to meeting these targets, while also improving housing and living standards.

**Proposed revisions to the EED would incentivise energy efficiency retrofits, especially in public sector buildings,** by extending the renovation obligation from central government buildings (less than 0.5 per cent of the EU's building stock<sup>56</sup>) to all public sector buildings (approximately 10–12 per cent of the EU's building stock<sup>57</sup>). Stricter standards over what qualifies as a retrofit would require 3 per cent of the public sector stock (including hospitals, government buildings, schools and social housing) in each Member State to be transformed into 'nearly zero energy buildings' every year. **This revision, if passed, could generate a stable pipeline of large retrofit projects from the public sector, supporting the development of economies of scale in energy efficiency retrofit solutions.** Over time, greater demand would bring down the cost of the materials, technologies and processes, making them available to consumers and accelerating their take-up in the private, as well as public, sector. The strengthened obligation on Member States to achieve annual energy savings in end use consumption, raising the

annual target from 0.8 per cent to 1.5 per cent from 2024 through to 2030, could also incentivise energy efficiency improvements in buildings.

**The proposed revisions to the EED have high relevance for businesses in this sector as they reduce uncertainty over future market conditions and the risk of investing in the upscaling of existing operations, recruitment and training programmes.** They are also well aligned with the Renovation Wave<sup>58</sup> programme, which seeks to double annual energy renovation rates in the coming decade, creating an additional 160,000 jobs<sup>56</sup> in the construction sector, addressing energy poverty and empowering consumers. Energy efficiency retrofit programmes to support economic recovery<sup>28</sup> from Covid-19 could further accelerate the greening of Europe's domestic building stock while also providing new employment opportunities in the recovery period.

**In addition to the above, the European Commission communication<sup>23</sup> detailing the proposed revisions to the EED mentions various other key issues, without providing a clear roadmap for how these issues might be delivered.** These include the need to encourage material efficiency<sup>12,44</sup>, low carbon material production and circularity through measures such as public sector procurement rules<sup>12</sup> and building codes. Moreover, the communication misses the opportunity to further incentivise the uptake of smart and efficient lighting and decarbonised heating and cooling solutions, such as renewable electricity powered heat pumps, by excluding fossil fuel technologies, such as gas boilers, from counting towards the efficiency targets. The lack of adequately skilled workers is acknowledged in the EU's communication on the proposed revisions to the EED as a major barrier to effective implementation of energy efficiency improvements, but not discussed in detail beyond a reference to the role of the Renovation Wave in boosting skills and technical competence within the renovation sector.

**The package proposes revisions to the RED designed to incentivise the development of modern district heating and cooling systems to harness local renewable energy and to cost effectively integrate renewable energy supplies in buildings.** A specific 2030 target is proposed requiring 49 per cent of energy used in buildings<sup>59</sup> to come from renewables, increasing at a minimum rate of 1.1 percentage points every year. Additional proposed changes would include various modifications to existing requirements and criteria in heating and cooling to stimulate the use of waste heat from places including data centres and to improve the efficiency of heating and cooling technologies, such as district-based systems.

**Adjustments to the ETD would also impact the buildings sector, incentivising the take-up of low carbon solutions for forms of heating in existing and new-build properties.** The first revisions to the ETD since 2003 would introduce higher minimum tax rates for fossil fuels and lower minimum tax rates for renewables, to be adjusted to inflation on an annual basis. The proposed revisions would also remove existing tax exemptions to fossil fuels, which could accelerate the transition to the use of cleaner energy in heating homes but potentially exacerbate energy poverty if the distributional effects are not addressed.



To mitigate potentially adverse distributional impacts of the proposed policy revisions, revisions to the ETD would allow Member States to exempt vulnerable and energy-poor households from taxation on heating fuels and electricity for a period of ten years. **The newly established Social Climate Fund, utilising revenue from the ETS for buildings and transport, is also expected to provide EUR 72.2 billion over seven years to help finance the renovation of buildings and to alleviate the effects of higher fuel prices for those most exposed to changes.** However, there is a risk that the resources that are made available for the mitigation of adverse distributional impacts of the ETD revisions and the ETS for the buildings sector are insufficient to protect the most vulnerable households from cost of living increases. Moreover, some Member States may be reluctant, or unable, to take advantage of this funding because of the equal share co-financing requirement from their national budget.

“ *The Fit for 55 package will succeed or fail depending on our collective capacity to deliver real-world change. Ambitious energy efficiency legislation is essential – and the Commission is moving in the right direction. But more and more, this is a delivery challenge: matching up the billions of euros which are becoming available for renovation with millions of buildings across the EU.* ”

**Mirella Vitale**

*Senior Vice President, ROCKWOOL Group*



## 5.2 Strengthening the package

In order to maximise the benefits of the Green Deal and the Fit for 55 Package for the EU's residents, businesses and communities, we have highlighted the following areas where further action is needed:

- **The EU should develop a set of mandatory energy performance standards for existing buildings that align with net zero goals and assist Member States in implementing and enforcing them.** This must go hand in hand with proposals to harmonise Energy Performance Certificates to make it easier to measure progress in energy efficiency across EU building stock.
- **The EU and other organisations should provide technical assistance to enable Member States, regions, cities and local authorities to design, finance and staff bigger and more effective renovation programmes.**<sup>44</sup> There are enormous opportunities in the economic recovery but capacity needs to be increased. Although skills development and vocational education are the responsibility of the Member States and regional and local authorities, synchronised training programmes and certification schemes across the EU should be stimulated.
- **The EU should facilitate information sharing between Member States to help design effective policies to increase the uptake of energy efficiency improvements and low-carbon heating and cooling technologies.** Although these technologies have been commercially available for well over a decade, their uptake remains low in most Member States. Cross-national information sharing of policies that have worked – or failed – could facilitate faster progress and prevent resources from being wasted on ineffective policies.

- **The focus of the EED on energy efficiency renovation should be accompanied by a set of policies to incentivise the switch to efficient lighting and appliances and efficient low carbon heating and cooling technologies, such as heat pumps and solar thermal.** The RED refers to this area, but the specific policy measures to incentivise greater uptake may need to be further developed.
- **The potentially adverse distributional impacts resulting from the revisions to the ETD and the extension of the ETS to the buildings sector should be thoroughly assessed and addressed.** There are ongoing concerns over the adequacy of the newly established Social Climate Fund alone to prevent or mitigate any negative social impacts. These centre primarily on whether current plans to direct 25 per cent of ETS revenue to low-income households will be sufficient. Other factors include the co-financing requirement for Social Climate Fund resources and the capacity of the Member States to direct the proceeds from this fund to those in greatest need.
- **Public sector procurement rules should be tightened further to create demand for low carbon and circular materials, energy-efficient buildings and climate neutral construction technologies.**<sup>12</sup> These would help facilitate the decarbonisation of the built environment and infrastructure beyond buildings. Such an approach should be applied in a way that ensures fair competition between public and private providers.
- **The EU should co-ordinate the development of a harmonised methodology for the calculation of embedded CO<sub>2</sub> emissions in building materials to support labelling schemes that provide easily comparable information on their embodied carbon across all Member States.** These are essential prerequisites for future implementation of lifecycle emissions limits on materials and consumer products made from these materials, such as buildings, required to create markets for low emission and recycled materials.<sup>44</sup> Approaches that reduce the carbon footprint of the construction of buildings, through more widespread use of low carbon technologies and materials and design choices that minimise emissions in construction, as well as the use of buildings, will be key.

“As leaders in the lighting sector, we have a firm commitment to transformative climate action. We realise the urgency and offer innovative solutions and services that help the agenda. To accelerate the pace of action in the EU, increasing energy efficiency, including by switching to smart LED lighting can offer huge energy savings and support climate targets. This move could play a key role in ensuring the success of COP 26 goals and the Fit for 55 package, as it provides an opportunity to reduce emissions, create jobs and stimulate economies.”

**Stephen Rouatt**

CEO, Signify UK & Ireland



## 6. Towards sustainable transport

Transport of people and goods is essential to the smooth running of EU economies. However, the transport sector is also a major source of GHG emissions, accounting for just over 20 per cent of the EU's total emissions,<sup>60</sup> with nearly three-quarters of this coming from road transport. Without substantial reductions in emissions by 2030, the EU will struggle to meet its emissions reductions targets. The technologies to decarbonise certain transport modes, such as rail and private car use, are already commercially available. Accelerating uptake will release more carbon budget for difficult-to-decarbonise transport modes.



### 6.1 Assessment of the package

The transport sector is subject to national emissions reductions targets stipulated under the EU's ESR and the EU regulations on vehicle emissions standards, as well as national energy taxation, regulations and incentives. Certain transport modes, such as aviation and shipping, are also covered by various international and EU-level regulations.

**The Fit for 55 Package takes several important steps towards supporting the transport sector to fulfil climate objectives.** The revision of the regulation setting CO<sub>2</sub> emission performance standards for new passenger cars and for new light commercial vehicles<sup>61</sup> aims to replace highly polluting vehicles with clean fleets. The ultimate aim is for only clean cars and light vehicles to be on the market after 2035. This target would send a clear signal to European consumers and industry that the future of road transport in the EU is electric and, if achieved, would substantially reduce many environmental impacts of private car use beyond CO<sub>2</sub> emissions, including noise and air pollution.

**The process of transitioning the EU's car fleet to EVs could be accelerated by subsidy schemes that make the financial assistance conditional on the recipient scrapping their existing petrol or diesel vehicle.** Some such schemes<sup>28</sup> have already been proposed and implemented in various EU countries in 2020 and 2021 to stimulate economic recovery from the Covid-19 pandemic. In addition to supporting a faster uptake rate of EVs, these schemes can create new jobs and help boost demand for EV-related services, decreasing the cost barriers to uptake.

Emissions reductions achieved through increased adoption of EVs at Member State level depend on the technology mix in the power sector, while global-level emissions reductions are conditional on obligatory scrappage schemes that prevent old vehicles and vehicle parts from being sold in second-hand markets, in the EU or abroad. Worryingly, this scrappage requirement is not mentioned in the document<sup>61</sup> outlining the proposed revisions to the vehicle emissions standards as part of the Fit for 55 Package, suggesting that Member States are expected to put in place their own scrappage schemes, which may result in requirements not being uniformly applied across all Member States.

**The proposed revisions to the RED introduce new incentives for the deployment of EV infrastructure.** A credit mechanism that would allow charging point operators to contribute towards RED targets is proposed to encourage investment that supports the decarbonisation of private car use. Additional revisions to the RED propose specific targets on the use of renewable energy in transport to reduce the GHG intensity of transport fuels and extended support schemes to ensure that EVs are not simply charged with fossil-fuel-generated electricity.

Revisions are also proposed to the directive on deployment of alternative fuels infrastructure to address the non-cost barriers to the uptake of EVs, such as range anxiety and hydrogen fuel cell vehicles by improving the charging/refuelling infrastructure. Another policy proposal designed to improve sustainability in the transport sector includes the revisions to the ETD which would remove fossil fuel subsidies, increase the tax burden of more polluting fuels, and extend the scope of the ETD to energy products in intra-EU aviation (except cargo-only flights) and maritime transportation. As a result, kerosene and marine bunker fuel would both be taxed for the first time.

Two sector-specific pieces of legislation also propose a set of measures to incentivise the use of less carbon intensive fuels in aviation and shipping. **The ReFuelEU Regulation<sup>62</sup> mandates a growing share of sustainable advanced fuels to be used by aircraft operators, while the FuelEU Maritime Initiative<sup>63</sup> focuses on breaking down market obstacles that prevent the uptake of cleaner fuels for shipping.** Several of these proposals would also contribute to reduced pollution and associated health benefits.

**The proposed ETS for buildings and transport could provide an additional economic incentive to reduce the direct consumption of fossil fuels in the transport sector.** However, one potential downside of this proposal, together with the proposed revisions to the ETD, could be an increased cost burden on low-income households who rely on car use but lack financial resources to take advantage of the EV subsidy schemes. **To ensure just transition, financial impacts on low-income households need to be carefully managed and mitigated.<sup>10</sup>** The newly proposed Social Climate Fund<sup>64</sup> is expected to direct a certain proportion of the expected revenue to alleviate the burden of the cost increase on vulnerable groups. The exact size of the fund, prioritised uses, potential co-financing requirements and allocation mechanisms are yet to be agreed. In particular, it is questionable whether the resources available from the fund would be sufficient to meaningfully improve low-income households' access to low carbon technologies such as EVs, or whether it would simply provide partial support to mitigate the adverse distributional impacts of higher fuel costs.

**One potential use for the revenue from various tax increases could be to support public transport and active transport infrastructure in Member States.** In spite of the lower demand during the Covid-19 pandemic, public transport has continued to be referred to as an essential service for which Member States can apply for tax rebates, giving it an important role in the future of sustainable mobility. Public transport is also undergoing a shift to alternative fuel sources, which is likely to increase over the coming years.

The Social Climate Fund is expected to provide financial resources to support better infrastructure to facilitate **active transport modes, such as walking and cycling, as a viable solution to private car use, especially in cities.** However, the Sustainable and Smart Mobility Strategy,<sup>65</sup> which brings together 82 initiatives that work towards green and digital transformation for transport, is not included in the Fit for 55 Package, although it has strong interlinkages to the various policy proposals affecting the transport sector.

“*The 'Fit for 55' package is the sort of ambition we've been waiting to see from the EU. We need to halve emissions by 2030, and the proposals to bring forward the date to end sales of new petrol and diesel vehicles in the EU by no later than 2035 is a positive step. Members of the EV100 initiative have committed to adopting zero emission fleets by 2030, and positive action from the EU like this ensures they can invest with confidence in zero emission vehicles.*”

**Helen Clarkson**  
CEO, Climate Group



## 6.2 Strengthening the package

In order to maximise the benefits of the Green Deal and the Fit for 55 Package for the EU's residents, businesses and communities, an acceleration in the deployment of existing alternatives to carbon intensive transport modes will be essential<sup>15</sup>, as will support for innovation in the sector. The EU should:

- **Ensure that only zero emissions light-duty vehicles are sold by 2035** by putting in place ambitious, short and mid-term interim targets within the proposed vehicle CO<sub>2</sub> standards revision to make sure that progress towards the 2035 target is monitored regularly.
- **Support R&D investments in improving low carbon fuel for aviation and maritime transport**, including investments in growing the production capacity and the use of new sustainable feedstock.
- **Support the development of harmonised methodology for measuring and reporting embodied emissions in materials such as steel and aluminium** used in the manufacturing of vehicles (including cars, buses, trains, planes and ships) and set incentivised and regulatory limits of acceptable embodied carbon content. These limits should also be used to incentivise demand for circular materials.
- **Ensure that revisions to AFID are sufficient to address the non-cost barriers to EV take-up**, such as range anxiety, for both private cars and commercial vehicles. It will also be important to ensure that all forms of EV charging infrastructure are supported to prevent a lack of access to charging infrastructure in cities, disincentivising EV take-up among households that do not have their own parking space. The proposed crediting mechanism in the RED should be extended to cover both private and public infrastructure.
- **Ensure that EV subsidy schemes and other measures to encourage and incentivise uptake are accompanied with an obligatory scrappage scheme to remove old petrol and diesel cars and vans and their parts from circulation** and support the development of second-hand markets for EVs. Similar scrappage schemes could be used to incentivise a switch to electric scooters, motorbikes, vans and other vehicles used for personal and commercial transport. These scrappage schemes should only support the purchase of zero carbon vehicles.<sup>28, 44</sup>
- **Put in place measures to manage the wider social impacts of this transition.** This should include:
  - ensuring that the inclusion of transport in the ETS does not place unfair fuel costs on households and communities;
  - directing adequate resources from the Social Climate Fund and other budgets to mitigate any adverse distributional impacts that may emerge;
  - putting in place policy measures and subsidy schemes to support access to second-hand EVs to ensure fair access to private car use among low-income and lower middle-income households.
- **Ensure that transport sector decarbonisation does not focus only on EV uptake but also the development of public transport services**, including in currently underserved areas, and improved access to active transport.



## 7. Working with nature

Integrating climate with agriculture, forestry, land use and biodiversity goals – in short, working *with* nature – can help us move towards a cleaner, greener and healthier environment. Protecting forests and other key ecosystems is essential because of their ability to go further in mitigating climate change but also because of the need for urgent action to turn around the collapse in biodiversity the world is experiencing. Moreover, nature provides essential ecosystem services, like the provision of food and water, and opportunities to replace fossil fuel materials with bio-based ones.

The cumulative nature of GHG emissions and the goal to achieve climate neutrality by 2050 and negative emissions after that, heightens the need to harness the power of nature to remove carbon from the atmosphere. It is essential that carbon sinks are not considered as a tool to make up for the lack of decarbonisation efforts in other sectors, including agriculture, which accounts for around 10 per cent<sup>47</sup> of the EU's total GHG emissions. As such, LULUCF should be mainly used as a means to overshoot the EU's current emissions reduction target of 55 per cent by 2030.<sup>47</sup> And businesses should respect the carbon reduction hierarchy and avoid, reduce, replace, sequester and as a final option, offset.

Beyond this, it will be critical to treat the goal of preventing nature loss by 2030 as a key part of the transition to a climate neutral economy and acknowledge that any transition needs to deliver a nature positive economy.<sup>15</sup>



### 7.1 Assessment of the package

**The EU will need to remove a substantial amount of GHGs from the atmosphere to achieve its objective of climate neutrality by 2050, while ensuring that removals do not make up for the lack of emissions reductions in other economic sectors.**

The European Climate Law,<sup>66</sup> which enshrines the climate neutrality objective by 2050 into EU legislation, indicates the need to strengthen removals. It clearly states that priority should be given to emissions reductions over removals. As such, the law introduced a limit of 225 million tonnes (Mt) of CO<sub>2</sub> equivalent to the contribution of removals to the net target of at least 55 per cent.

The revisions to the LULUCF Regulation,<sup>67</sup> published as part of the Fit for 55 Package, propose a more stringent contribution from the LULUCF sector towards the 55 per cent target. In particular **a new carbon removal target of 310 Mt of CO<sub>2</sub> emissions by 2030**, an increase from the predicted 225 Mt level, has been included. This target would be distributed between Member States as binding annual targets for the period 2026–30 and based on the emissions and removals reported in GHG inventories and the areas of managed land. This will be accompanied by a reinforced obligation for Member States to submit integrated mitigation plans for the land use sector and enhanced monitoring requirements using digital technologies. From 2031 onwards, the agriculture, non-CO<sub>2</sub> GHG emissions, currently covered by the ESR, would be covered under the broader land use category known as agriculture, forestry and other land use (AFOLU), which would cover all emissions and removals from agriculture, forestry and other land use, and be subject to new regulations.

The ESR then allows Member States to use LULUCF credits to compensate for unmet targets under the ESR. Some amendments, in the revision, are proposed to include acceptable uses of credits generated in the land sector by removals of GHGs. **Excessive flexibilities are controlled by the 'no debit rule', which sets a binding requirement for all Member States to ensure that accounted emissions from land**



**use are entirely compensated for by an equivalent accounted removal of CO<sub>2</sub> from the atmosphere.** In addition, a cap has been established for how much ESR–LULUCF flexibility Member States can use. In total, the cap for all EU Member States is 262 Mt of CO<sub>2</sub> equivalent for the 2021–30 period, with a maximum of 26.2 Mt per year for the entire EU.

**Despite those safeguards, the link between the ESR and LULUCF could be potentially problematic.** While this might alleviate the burden placed on Member States, it also foregoes the potential for further emission reductions by using carbon removal as a compensation mechanism. As such, this mechanism risks making carbon removal offsets, through tree planting or forest protection, a more enticing option than cutting emissions at source. This would significantly reduce the speed and extent of the green transition in sectors such as the built environment, where the take-up of existing low carbon technologies is already slow.

**The package does aim to improve the opportunities for businesses to work with nature by indexing new categories of carbon storage products,** including harvested wood products, which have a carbon sequestration effect, based on IPCC guidelines. This could help develop pathways towards new sustainable products and materials.

Proposed revisions to the RED amend the existing sustainability criteria for the use of bioenergy and set up a prohibition on sourcing of biomass for energy production from primary forests, peatlands and wetlands. The latter will be included from 2026 onwards.

**The proposed revisions to the LULUCF Regulation simplify and upgrade the current accounting methodology.** These include plans to establish a new EU governance process for monitoring how Member States calculate emissions and removals within their forests. The scope of the accounting will be broadened with full accounting of reported emissions and removals for the sum of all land use categories against a national target. Improved geospatial monitoring and the remote sensing, including from the Copernicus Sentinel satellites or other services, have the potential to help distinguish different types of land area and assign them appropriate purposes.

**One of the key features of the LULUCF proposal is the set of revisions that prepare the ground for a move to integrate non-CO<sub>2</sub> emissions from agriculture in the LULUCF Regulation beyond 2030 under one framework: AFOLU.** The intention is for the land sector to be climate neutral by 2035, balancing all GHG emissions from land use, forestry and agriculture, including fertilisers and livestock, with removals. This deserves very careful consideration as it carries the potential risk of removing incentives for the agricultural sector to decarbonise should too much emphasis be placed on removals. It remains unclear which policies will be used to achieve these targets.

**In order for the LULUCF sector to play a key role in the achievement of environmental and climate objectives, it is important for the LULUCF Regulation to be well aligned with existing frameworks<sup>68</sup> and related policy initiatives that touch on nature, biodiversity, agriculture, food and consumption.** This includes the biodiversity strategy for 2030<sup>69</sup>, which aims to restore degraded ecosystems and increases the protected nature reserves to reach 30 per cent of the EU; the EU Nature Restoration Plan<sup>69</sup>, which seeks to reverse nature degradation; the Farm to Fork Strategy<sup>70</sup>, which aims to make the food system more environmentally sustainable by reducing the use of environmentally damaging agricultural practices and addressing consumption; and the new forest strategy, which contributes to the development of carbon sinks, building on the biodiversity strategy. The Common Agricultural Policy (CAP)<sup>71</sup> must also be considered.

The next CAP for 2023–27 will allocate 25 per cent of direct payments to eco-schemes to farmers who manage their land in an environmental and climate-friendly way. However, Member States will benefit from a great deal of flexibility in how they implement them. As such, the allocation of CAP-related funds by Member States, including in their upcoming CAP strategic plans due to be submitted by 2022, should be closely monitored by the EU to ensure they lead to significant decarbonisation of the agriculture sector.

The Nature Restoration Plan is particularly important for the LULUCF (and later AFOLU) regulations as it puts in place adaptation measures to help forests overcome extreme weather conditions and strengthens forest protection, restoration and resilience through the promotion of best practice.



## 7.2 Strengthening the package

In order to maximise the benefits of the Green Deal and the Fit for 55 Package for climate, businesses, communities and the environment, the EU should:

- **Establish the right balance between using carbon removals from the LULUCF sector to increase climate mitigation and achieve climate neutrality by 2050, while also ensuring that removals are not used as a tool to compensate for the lack of decarbonisation efforts in other sectors.** As such, flexibilities between LULUCF and ESR should not be used by Member States to decrease or delay decarbonisation efforts in other sectors, such as transport and buildings. Removing incentives to decarbonise the agricultural sector must also be properly assessed.
- **Provide a framework which encourages businesses to respect the carbon reduction hierarchy where carbon should be avoided, reduced, replaced, sequestered and offset.**
- **Ensure that removals are considered part of the option to overshoot the current net 55 per cent target<sup>15</sup> rather than a means to achieve it.**
- **Design and implement a stronger set of policies to end nature loss and degradation and help ensure forests and other land uses can transition to a global net carbon sink by 2030.**
- **Eliminate commodity-driven deforestation by 2025 through trade policies developed in collaboration with producers and user countries.**
- **Develop a more co-ordinated and integrated approach to nature-based solutions in order to provide clarity, as well as actively encourage businesses to invest in these solutions.<sup>15</sup>**
- **Encourage and support the use of additional geospatial datasets** to identify high carbon stock lands, areas under protection and areas at risk of climate change to enable Member States to maximise their natural carbon removal solutions and better protect existing stocks.
- **Set ambitious GHG emissions reduction targets for agriculture,** including methane and nitrous oxide.
- **Ensure that funds disbursed through the CAP support the decarbonisation of the agricultural sector.**



## 8. Concluding comments

Achieving the 2030 target and ensuring the EU is fit for a climate neutral future will require systemic transformation across the economy, society and industry. Chapter 1 of the IPCC's Sixth Assessment Report<sup>6</sup> shows that the 1.5 degree goal is still scientifically feasible, although transformative leadership from governments and companies is urgently needed to put us on a safe path to a net zero future. The EU cannot and should not miss the opportunity of the Fit for 55 Package to drive towards this.



### 8.1 Overall assessment

The Fit for 55 Package is a comprehensive, groundbreaking and ambitious set of legislation, bringing together an expanded and increasingly ambitious approach to carbon pricing alongside a suite of regulatory measures designed to affect all parts of the economy. As currently set out, it marks the end of the internal combustion engine and the beginning of a dramatically scaled-up approach to energy efficiency in buildings.

Progressive businesses and business groups, including CLG Europe, have been calling for policy certainty for business, as well as a strong signal that Europe's economic recovery will be achieved through climate action.<sup>15</sup> The package does provide clear signals to business on the direction of travel and outlines the multiple economic, social and health benefits linked to an increase in climate ambition. It also illustrates how many of the key elements crucial to delivering the Green Deal will create new employment and economic growth opportunities across the EU.

Yet the task at hand remains enormous in terms of maintaining, or even increasing, the level of ambition during the negotiations over the package, in implementing the policies across diverse Member States with varying levels of resources, and in supporting communities and the most vulnerable households through the transition. Certain sectors likely to be subject to substantial future disruptions, such as heavy industry and automotive manufacturing, will need additional support, as will their workers and the communities that rely on them for employment. Looking at the package with these challenges in mind, it is clear that key areas could be improved and core gaps addressed, particularly in relation to skills development and measures to ensure just transition.



### 8.2 Areas for improvement

For this package to succeed, the EU will need to provide further clarity on how policy measures can be rolled out without causing undue disruption or exacerbating existing inequalities. The mitigation of adverse social impacts, including support for businesses and workers in contracting sectors, will need to be carefully planned and resourced. The EU must provide support for Member States to accelerate the take-up of existing solutions such as heat pumps, improved building energy efficiency and EVs.

EU resources must also be directed to the development of a comprehensive vision to build the skills needed for the green economy,<sup>10</sup> including identifying the skills needed to fill climate neutral and circular economy related jobs<sup>44</sup> in sectors such as energy, transport and the built environment. In other sectors, including heavy industry, most technologies are at the very early stages of development, highlighting the need for basic research, support to facilitate market entry and demand-side measures<sup>12</sup> to create markets for low carbon materials and products.

Given the growing urgency to act against climate action, it may be necessary to assess how to incentivise increases beyond 55 per cent as changes in technology and circumstances enable more rapid action.<sup>15</sup> Through this lens, the revisions to the RED, for example, do not look ambitious enough and more needs to be done to implement the infrastructure needed to support the growing share of variable renewables.

The second half of the package is yet to be published. It will address the need to reduce methane emissions in the energy sector, a revision of the EPBD and the third gas package alongside a number of other initiatives on sustainable products. We have identified gaps that could be addressed to bolster it:

- **The interlinkages between the circular economy and climate action are not yet being fully deployed in the EU's climate policy.** There is scope to further develop policy measures to improve energy efficiency, create demand for new low carbon materials<sup>12</sup>, promote circular economy processes and encourage sustainable consumption by households and business.
- **There is a need for further impact assessment of the proposals in a way that allows policy synergies to be identified and acted upon.** This assessment should also identify any potentially negative distributional impacts and allow for the modelling to capture the effects of policy and technology learning. In our previous work, we raised a question regarding the use of cost of finance estimates in the European Commission modelling, specifically in relation to the 2030 impact assessment. An integrated impact assessment that addressed these shortcomings could help foster greater levels of ambition, with more realistic cost and investment estimates.<sup>72</sup>
- **Building energy efficiency and electrification of road transport are low-hanging fruit that must be urgently tackled, but while the current package sets out high ambitions for action in these areas it does little to make adoption more affordable and attractive, instead focusing on making high carbon incumbents more expensive.** This needs to be addressed to ensure the 2030 target can be achieved. In addition, to avoid exacerbating existing inequalities, it will be necessary to deliver adequate support for those who are most severely affected. This may require substantial public sector investment in the structural changes of the building stock, including private homes, public and active transport infrastructure.

“As the built environment contributes to around 35% of EU GHG emissions, tackling both operational and embodied carbon needs to remain a central pillar of the Fit For 55 package. It will be crucial that carbon pricing is supported by regulation and accompanied by incentives for circular economy and low carbon technologies. Progress on decarbonisation is not advancing fast enough – we must turn pledges into action.”

**Jon Khoo**

Head of Sustainability (EAAA), Interface

## 8.3 International implications

The EU's position as one of the largest economies in the world means that co-ordinated policies at this level can drive transformation leading to climate neutrality both at home and abroad. This is due to both the size of the EU single market, as well as the possibility of helping make low carbon products and production technologies more widely available to businesses and consumers globally.

The EU's experience of developing and implementing climate policies can also demonstrate potential pathways for partners globally. If the package delivers economic, social and climate benefits, the EU's

experience can be invaluable in incentivising ambition in countries that are currently reluctant to commit due to concerns over economic development. As such, it could work as a blueprint for cross-sectoral climate policy providing a key source of inspiration for its international partners and leadership at COP26.<sup>15</sup>

Setting up high environmental and climate standards for industry could boost the EU industry's competitiveness while also facilitating the decarbonisation of global supply chains. Through Green Deal diplomacy, the EU could work with other countries to converge domestic climate agendas, accelerate electrification, phase out fossil fuels, and develop strategies that ensure that the transition to zero carbon economies benefits people as well as the planet.

However, some of the more controversial elements of the package, such as the proposed CBAM, may adversely affect developing economies. The ETS for buildings and transport, which is widely expected to increase the cost of living for the lowest income groups, may also attract negative media coverage, drawing attention away from the positive elements of the package. It is, therefore, crucial for the integrity of the package and to secure the public's backing, for the potentially adverse distributional impacts and cost of living increases to be carefully managed and mitigated.



## 8.4 Implications for business

Beyond the calls for action for policymakers, there remains a core role for business to support policymakers on climate ambition. It is clear that business should:

- Make sure the big picture remains in policymakers' minds.
- Ensure that it continues to be treated as a package, not a set of individual and unconnected elements, as otherwise the overall ambition and urgency to deliver systemic change will be undermined, risking both EU and international achievement of 1.5 degree targets.
- Underline the economic and business benefits for the EU in undertaking these changes in its home market and for consumers – that this is a pioneering framework is key to performance in a competitive global sustainability environment and without it the EU risks falling behind in the race.
- Be upfront about the changes to employment in the context of other disruptions (Covid-19, digital), and that while there should be a net benefit from new employment in climate neutral business activity, there is critical need to support skills, training and re-deployment of existing staff in the most disrupted industries and regions.
- Recognise the social responsibility of business to be active on such crucial issues, offering strong EU leadership as a necessary precondition to global success in achieving the Paris Agreement from a moral as well as an operational perspective.

“With the Fit for 55 Package, the EU has the opportunity to set the right framework to meet ambitious climate targets, tap into the economic benefits of increased climate action and create jobs in the process. To achieve this, policymakers must maintain the highest level of ambition and create a cohesive package fit to accelerate the decarbonisation of all sectors, sending the right signals to encourage businesses and investors to step up their efforts to play a key role in this process and supporting people who will be affected by the transition.”

**Harry Verhaar**  
Chair, CLG Europe

## Glossary of terms used in the text

|                         |   |
|-------------------------|---|
| <b>AFID</b>             | Alternative Fuels Infrastructure Directive  |
| <b>AFOLU</b>            | Agriculture, Forestry and Other Land Use  |
| <b>CAP</b>              | Common Agricultural Policy  |
| <b>CBAM</b>             | Carbon Border Adjustment Mechanism  |
| <b>CCS</b>              | Carbon Capture and Storage  |
| <b>CLG Europe</b>       | Corporate Leaders Group Europe  |
| <b>COP26</b>            | 26th UNFCCC Conference of the Parties (Glasgow, 2021)                                 |
| <b>CO<sub>2</sub></b>   | Carbon Dioxide  |
| <b>EED</b>              | Energy Efficiency Directive   |
| <b>EPBD</b>             | Energy Performance of Buildings Directive   |
| <b>ESF+</b>             | European Social Fund Plus   |
| <b>ESR</b>              | Effort Sharing Regulation   |
| <b>ETD</b>              | Energy Taxation Directive   |
| <b>ETS</b>              | Emissions Trading System  |
| <b>EU</b>               | European Union  |
| <b>EU-27</b>            | The 27 Member States of the EU – excluding the UK which formally left the EU in 2020. |
| <b>EV</b>               | Electric Vehicle  |
| <b>GDP</b>              | Gross Domestic Product  |
| <b>GHG</b>              | Greenhouse Gas  |
| <b>GO</b>               | Guarantees of Origin  |
| <b>IED</b>              | Industrial Emissions Directive  |
| <b>IPCC</b>             | Intergovernmental Panel on Climate Change   |
| <b>LIFE Programme</b>   | L'Instrument Financier pour l'Environnement Programme                                 |
| <b>LULUCF</b>           | Land Use, Land-Use Change, and Forestry   |
| <b>Mt</b>               | million tonnes  |
| <b>NDC</b>              | Nationally Determined Contribution  |
| <b>PPA</b>              | Power Purchase Agreement  |
| <b>PSH</b>              | Pumped Storage Hydropower   |
| <b>RED<sup>73</sup></b> | Renewable Energy Directive  |
| <b>SMEs</b>             | Small and Medium-sized Enterprises  |

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