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Fit for 55: towards the achievement of an ambitious European political compromise for climate

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The adoption by the European Parliament of the Climate Law on 24th June last and by the Council on 28th endorses the binding nature of the target to reduce greenhouse gas (GHG) emissions "*by at least 55%*" by 2030, compared to 1990 emission levels. After several months of sometimes heated dialogue between Member States, this adoption is a significant step forward in the EU's commitment to fight climate change under the Paris Agreement.

On 14 July next, the '*Fit for 55*' package, which is part of the Commission's work programme for 2021, will be published. This package will be presented in the particular context of the submission by Member States of their recovery plans and their assessment - and, where appropriate, support - by the Commission.

This support is to be given with regard to compliance with the eleven assessment criteria defined by the Commission, two of which relate more specifically to climate and the environment. The first criterion concerns Member States' compliance with the 37% target for climate-focused expenditure. The second involves the respect of the "*to do no significant harm*" principle. For example, on 21st June, the Commission approved the Austrian recovery plan, which provides for 59% of recovery expenditure to be earmarked for the climate, well above the regulatory target of 37%. It is therefore in this context, which includes the confirmation of the Climate Law and the steering of recovery plans, that the future "*Fit for 55*" package will take place.

EXTENDING AND DEEPENING THE SCOPE OF CLIMATE ACTION

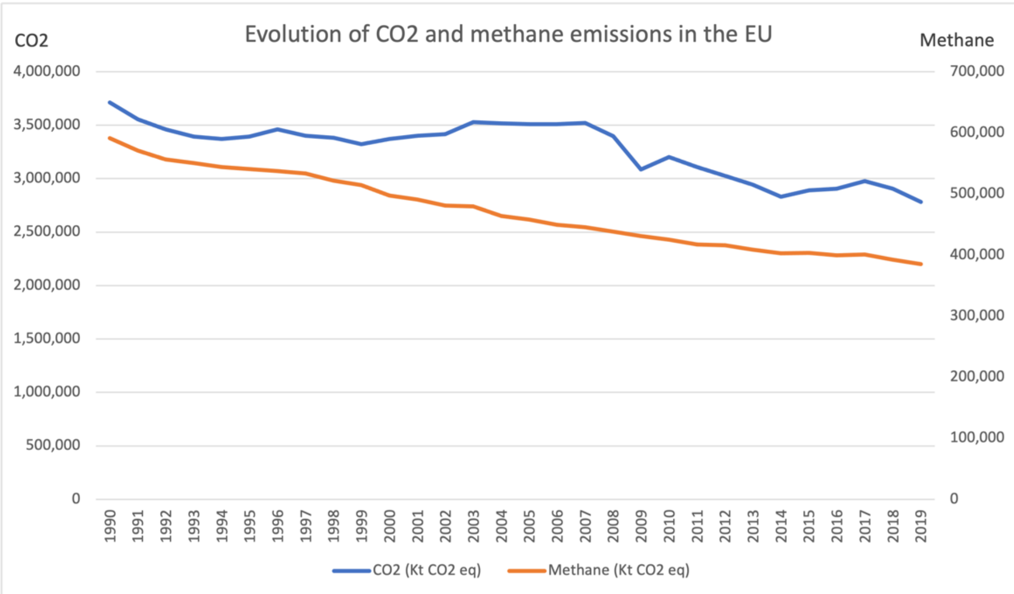
Initially announced by Ursula von der Leyen in her State of the Union address on 16th September 2020, and adopted in her Communication "Stepping up Europe's 2030" climate ambition published on 17th September 2020, the main objective of this enhanced 2030 target is to strengthen the EU's legislative and policy instruments to make the 2050 carbon neutrality objective achievable.
According to the Commission's communication, existing instruments would only allow the EU to reduce emissions by 60% by 2050. Beyond increasing the feasibility of the target itself, the aim is to smooth the trajectory and avoid leaving too heavy a burden on future generations. Scientific forecasts - and in particular those of the latest draft report of the Intergovernmental Panel on Climate Change (IPCC)'s report on the potentially irreversible consequences of global warming in a +1.5°C scenario, and on a wide range of risks in the absence of a drastic and rapid reduction in emissions. In all respects, 2050 seems too far away to prevent the consequences of a business-as-usual model[1].

The '*Fit for 55*' plan therefore comprises a set of initiatives targeting different sectors of the European economy. These include several existing and strengthened mechanisms. This is particularly the case for the European emissions trading scheme (ETS), whose number of pollution permits would be reduced compared to the initial trajectory of the fourth phase (2021-2030), and whose number of exemptions (free allowances) should be reduced.

[1] The draft report, released by Agence France-Presse, is still being reviewed and validated by the experts before its final approval in February 2022.

Indeed, although the carbon market already covers sectors such as heavy industry and electricity production, some sectors concerned by the risk of carbon leaks (e.g. the risk of relocation of polluting activities outside the EU and therefore of associated emissions) currently benefit from free allowances. Whilst, according to the European Court of Auditors, these sectors are estimated to account for up to 94% of industrial emissions in Phase 4.

In addition, the extension of the scope of the carbon market to the building, road transport and maritime sectors may help to reach and include some of the EU's most energy-intensive sectors, whereas the current market already covers 40% of total emissions in the EU, as well as Iceland, Liechtenstein, Norway and Switzerland. The principles of the long-awaited border carbon adjustment mechanism, at least for certain products such as cement, aluminium and steel, will also be unveiled. The latter is already facing major challenges, such as compatibility with WTO rules and maintaining the competitiveness of the European industries concerned.



To mention just one of the many parts of the '*Fit for 55*' package, methane emissions are also subject to specific measures. This greenhouse gas, which is receiving increasing attention from the Commission, has a different - higher, shorter-term - impact on the climate than CO2, and is the second most emitted greenhouse gas in the EU. The package is due to include a proposal for binding rules on monitoring, reporting, detection and correction of emissions in the energy sector.

A SIGNIFICANT POLITICAL COMPROMISE

Reducing greenhouse gas emissions by 55% by 2030 is a particularly sensitive political objective. It is a way of tracking the EU's progress towards carbon neutrality, and the '*Fit for 55*' package does this with a finer granularity and a higher level of requirement. But it also has some limitations.

On the one hand, the 55% target in the Climate Act by 2030 is at this stage a collective target - which means that Member States are not individually required to meet it, but that the balance of the 27 members of the Union must amount to 55%.

It is tempting to see this more consensual approach as the political compromise necessary to adopt the common target. However, it will be necessary to ensure that the Member States individually play the game of European climate ambitions, both in terms of respecting binding trajectories and responding to incentive standards, so as to prevent the European effort from relying on a limited number of more ambitious countries that are already more advanced in their ecological transition.

This may include regular monitoring of progress in the implementation of their integrated national energy climate plan, submitted to the Commission in 2020 for the period 2021-2030, and by the reform of the "effort sharing" legislation which sets annual greenhouse gas emission targets for each Member State.

Furthermore, the 55% target is a "net" target, which means that 55% is a net balance after taking into account CO2 emissions absorbed at the land use, land use change and forestry (LULUCF) perimeter, e.g. the CO2 absorption enabled by reforestation.

However, the law provides for a ceiling on the inclusion of absorbed emissions, at 225 million tonnes of CO2. Excluding the scope of absorbed emissions, the reduction target for "positive" emissions amounts to 52.8%. The establishment of a strict scope and cap for "negative" emissions is particularly important to ensure that efforts are sufficiently focused on reducing "positive" emissions, as carbon offsetting measures are still controversial in terms of their acuity and real effectiveness. The revision of the LULUCF regulation will mechanically raise the target from 55% to 57%, including negative emissions.

Finally, in more strictly political terms, the "*Fit for 55*" package will undoubtedly be the subject of many exchanges and negotiations between the Council and the European Parliament.

The adoption of the Climate Law has once again revealed the deep divisions within the EU; adopted by 442 votes to 203 with 51 abstentions, it recalls that European unity has not been achieved on how to implement the energy and climate transition.

Beyond this 55% target and the related measures under discussion, other major European policy axes have and will continue to have a direct interaction with the fight against climate change and the preservation of the environment, including the Common Agricultural Policy. The provisional political agreement reached on 25th June 2021 by the European Parliament and the Council for a "fairer, greener" agricultural policy provides in particular for the compulsory introduction by Member States of mechanisms called "eco-schemes", voluntary instruments for rewarding farmers for the implementation of environmentally friendly practices. These eco-schemes must represent 25% of their national aid budget, i.e. a total of €48 billion at EU level.

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Just a few months before the COP26 meeting in Glasgow, The European Union therefore continues to display a high level of ambition and a demanding timetable on climate issues among the stakeholders in the negotiations. In 2020, major emitting countries reaffirmed their targets: in September China announced that it was aiming to reach its peak carbon level by 2030 and carbon neutrality by 2060; Japan and South Korea also re-iterated their 2050 carbon neutrality target. On 22 April at the Leaders' Summit on Climate 2021, exactly five years after the Paris Agreement was signed, US President Joe Biden announced that the US targets would be raised, with a 52% reduction in greenhouse gas emissions by 2030 (compared to 2005 levels). This pro-climate stance on the part of the United States certainly reflects a major change in political perspective, but it should not obscure the fact that, a year and a half into the Covid-19 pandemic, global greenhouse gas emissions are shooting up again in line with the global economic recovery. The decrease of almost

6% in CO_2 emissions in 2020 is expected to be followed by an estimated recovery of almost 5% in 2021, according to the International Energy Agency (IEA). This is still below the record level of 2019. According to the IEA, on the other hand, the return of global economic growth should see global coal demand exceed the 2019 level (+4.5%), driven mainly by power generation in Asia. In such a context, it is difficult to believe that the European Union's efforts to bring about its own energy transition will be able to reverse the global trend, where economic recovery is still very closely linked, if not indexed, to the consumption of fossil fuels.

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