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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality

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1. 'FIT FOR 55': DELIVERING THE EU'S 2030 CLIMATE TARGET ON THE WAY TO CLIMATE NEUTRALITY

We are at a pivotal moment in the world's response to the climate and biodiversity emergencies and we are the last generation that can still act in time. This decade is a make-or-break moment for delivering on our commitments under the Paris Agreement, in the interest of the health, wellbeing and prosperity of all. The EU has led by example in setting ambitious targets for reducing net emissions by at least 55% by 2030 compared to 1990 and for being the first climate neutral continent by 2050. These goals are no longer aspirations or ambitions but obligations laid down in the first European Climate Law that create new opportunities for innovation, investment and jobs.

In this spirit, the package of proposals aims to make the EU 'fit for 55' and deliver the **transformational change needed across our economy, society and industry**. This is a collective responsibility and opportunity that must be open to all, whether innovators and investors, companies and cities, or consumers, households and individuals. We all share in the benefits of more space for nature, cleaner air, cooler and greener towns and cities, healthier citizens, lower energy use and bills, as well as new jobs, technologies and industrial opportunities. The challenge at the heart of the EU's green transition is how we can bring these benefits to all as quickly and as fairly as possible, while strengthening our competitiveness, creating the jobs of tomorrow and effectively addressing the costs and impacts of the transition.

Acting before we reach irreversible tipping points will allow us to design that transformation rather than react and adapt to it. While the cost of non-action is clearly higher than the cost of fulfilling our climate ambitions, sterile numbers cannot capture the stark consequences of continuing business-as-usual. Non-action could also lead to new dividing lines: between those who can afford clean, modern technologies based on renewables and those with no alternative to old-fashioned and polluting ones. Next generations will bear the brunt of more frequent– and more intense – storms, wildfires, droughts and floods, as well as the conflicts that they could trigger around the world. Tackling these crises is therefore a matter of **intergenerational and international solidarity**. What we achieve in the next decade will determine our children's future. This is why there is sustained and growing public support for climate ambition and action[1]. Stepping up climate action is also an appeal of especially young people, including today's teenagers, who, as agents of change, call on governments and the EU to act decisively and without delay to protect the climate and environment for next generations.

Today's proposals build on policies and legislation the European Union has already put in place. **The European Green Deal set the blueprint for this transformational change**. It put in place the building blocks for the economy of tomorrow with landmark strategies on biodiversity, circular economy, zero pollution, sustainable and smart mobility, renovation wave, sustainable food, hydrogen, batteries, offshore renewable energy and many others. Unprecedented resources have been earmarked to support the transition, whether through the EU's recovery plan, **NextGenerationEU** contributing at least 37% to the green transition, the next long-term EU budget for 2021-2027 or the continued focus on sustainable finance and unlocking private investment. And we will

[1] Special Eurobarometer on Climate Change 513 (published on 5 July 2021) https://ec.europa.eu/clima/citizens/support_en.

continue to mobilise all EU policies to support the shift to climate neutrality, including research, skills, industrial, competition and trade policies.

The package is also based on clear evidence – both on the need to reach our 2030 target but also on how to achieve it in the best and fairest way possible. The 2030 Climate Target Plan[2] assessed the opportunities and costs of the green transition, and showed that the balance is a positive one if we get our policy mix right. This builds on the knowledge that what is good for the planet is good for people and the economy, as reflected by the economy growing by over 62% since 1990 with emissions falling by 24% over the same period, thus clearly decoupling growth from CO_2 emissions.

This experience and knowledge enables this package to be the most comprehensive set of proposals the Commission has ever presented on climate and energy, setting the basis for new jobs and a resilient and sustainable European economy for the future. It lays the regulatory foundation to reach our targets in a **fair, cost-efficient and competitive** way. It puts a price on carbon in more sectors, which brings significant additional revenues to ensure a fair transition, and makes clean solutions cheaper. It supports greater renewable energy use and more energy savings. It facilitates growing sales of clean new vehicles and cleaner transport fuels. It ensures that industry can lead the transition and gives it the certainty it needs for boosting investment and innovation. It focuses on taxing energy sources in line with our climate goals and environmental objectives. The package translates the polluter pays principle into practice. It aims to reverse the declining trend in nature's capacity to remove carbon from the atmosphere. And it helps to ensure that our climate goals are not undermined by the threat of carbon leakage, by encouraging global climate action.

The Fit for 55 Package cements **the EU's global leadership by action and by example** in the fight against climate change. However, EU action alone is not enough and cannot deliver the global emission reduction the world needs. The EU remains fully committed to the multilateral global order and calls upon partners around the world to work together. This is why the EU is working with the G7, the G20 and other international partners to show that increased climate ambition, economic prosperity and sustainable growth can go hand in hand. Ahead of the crucial 26th United Nations Climate Change Conference of the Parties ('COP26') in Glasgow in November 2021, this set of proposals aims to set an agenda to work with the rest of the world towards a green transition that addresses existential threats and creates new opportunities for all.

The Fit for 55 Package is a set of interconnected proposals that together deliver our ambition. This Communication gives an overview of the different proposals as well as their linkages and explains the toolbox of policy measures chosen. It presents how the package strikes the overall balance between fairness, emissions reductions, and competitiveness and illustrates how the different policies work together.

[2] COM(2020) 562 final

The Fit for 55 Package: At a glance

The Fit for 55 package consists of a set of **inter-connected proposals,** which all drive towards the same goal of ensuring a fair, competitive and green transition by 2030 and beyond. Where possible existing legislation is made more ambitious and where needed new proposals are put on the table. Overall, the package strengthens eight existing pieces of legislation and presents five new initiatives, across a range policy areas and economic sectors: climate, energy and fuels, transport, buildings, land use and forestry.

The legislative proposals are backed by impact assessment analysis, which takes into account the interconnection of the overall package. The analysis shows that an over-reliance on strengthened regulatory policies would lead to unnecessarily high economic burdens, while carbon pricing alone would not overcome persistent market failures and non-market barriers. The chosen policy mix is therefore a careful balance between **pricing, targets, standards and support measures**.

Pricing	Targets	Rules
• Stronger Emissions Trading System including in aviation • Extending Emissions Trading to maritime, road transport, and buildings • Updated Energy taxation Directive • New Carbon Border Adjustment Mechanism	• Updated Effort Sharing Regulation • Updated Land Use Land Use Change and Forestry Regulation • Updated Renewable Energy Directive • Updated Energy Efficiency Directive	• Stricter CO_2 performance for cars & vans • New infrastructure for alternative fuels • ReFuelEU: More sustainable aviation fuels • FuelEU: Cleaner maritime fuels

Support measures

- Using revenues and regulations to promote innovation, build solidarity and mitigate impacts for the vulnerable, notably through the new **Social Climate Fund and enhanced Modernisation and Innovation Funds.**

2. Whole-of-economy approach: Fair, Competitive and Green Transition

The Fit for 55 Package aims to deliver the EU's increased emission reductions target to the benefit of all Europeans and to create opportunities to take part in the transition, help those most in need, and drive stronger overall emissions reductions. It will also support the EU's green recovery from the pandemic, help spread environmental standards beyond EU borders and boost innovation in the products and technologies of the future.

2.1 A socially fair transition: tackling inequality and energy poverty through climate action

The transition towards climate neutrality can be a unique opportunity to reduce systemic inequality. Carbon pricing instruments, for example, raise revenues that can be reinvested to address energy poverty and mobility challenges for the vulnerable, spur innovation and economic growth, and create employment. This is not just a matter of fairness and solidarity it is a wider societal necessity to tackle inequities that existed before the European Green Deal and that would worsen without resolute action against climate change and towards zero pollution.

This is why **solidarity is a defining principle of the European Green Deal** – between generations, Member States, regions, rural and urban areas, and different parts of society – as exemplified by the Just Transition Mechanism and a number of other instruments put in place at EU level in recent years. Reaching climate neutrality will require a shared sense of purpose, collective efforts and a recognition of different starting points and challenges. Many citizens, especially younger people, are ready to change their consumption and mobility patterns when empowered by relevant information in order to limit their carbon footprint and to live in a greener, healthier environment. However, this package also addresses the concerns of those whose employment or income are affected by the transition.

This approach is reflected across the Fit for 55 package, from sharing efforts to reach climate targets among Member States based on their relative wealth to taking into account their different capabilities when distributing revenues and to addressing inequalities within each Member State. This reflects the need for increased solidarity and social fairness to match our increased speed and ambition.

In this spirit, a **new Social Climate Fund** will provide dedicated funding to Member States to support European citizens most affected or at risk of energy or mobility poverty, to accompany the introduction of the Emissions Trading to road transport and buildings. Energy poverty alone affects up to 34 million people in the European Union today. The Fund will help mitigate the costs for those most exposed to fossil fuel price increases during the transition. The new Fund will promote fairness and solidarity between and within Member States while mitigating the risk of energy and mobility poverty. It will build on and complement existing solidarity mechanisms[3]. The Social Climate Fund will provide €72.2 billion in current prices for the period 2025-2032 in the EU budget from the new Emissions Trading System. It will enable Member States to support vulnerable low and middle-income households, transport users, and micro-enterprises affected by the impact of the extension of emission trading to building and transport. It will entail support to investments to increase the energy efficiency and renovations of buildings, clean heating and cooling, and integrate renewable energy in a manner that can sustainably reduce both CO_2 emissions and energy bills for vulnerable households and micro enterprises. It will also finance access to zero- and low- emission mobility. Where needed and as long as it is required, the Fund can cover direct income support, while green investments through the Fund, and through a.o. the Recovery and Resilience Facility and the European Regional Development Fund, are carried out and deliver their benefit.

[3] e.g. Cohesion Fund, Just Transition Fund and European Social Fund Plus.

Its volume will in principle correspond to 25% of the expected revenues from the new emissions trading covering the building and road transport sectors, starting one year before carbon pricing comes into effect in order to be ready for the change. It will be combined with national contributions of at least to 50 percent. The Commission will shortly propose an amendment to the Own Resource Decision and the Multiannual Financial Framework 2021-2027 to accommodate this new instrument. In addition, the Commission intends to lay down further guidance to Member States through a proposal for Council Recommendation as to how best to address the social and labour aspects of the climate transition.

The Commission will assess the functioning of the Social Climate Fund in 2028, also in light of the desired effects of the Effort Sharing Regulation and the application of emission trading to the new sectors.

To strengthen the social dimension further the Commission calls on Member States to use a part of revenues generated from the auctioning of allowances for the buildings and road transport sectors to mitigate the impact on those low and low-middle-income vulnerable households and transport users, in addition to the Social Climate Fund.

Member States with a higher share of fossil fuels in the energy mix, higher greenhouse gas emissions, higher energy intensity and lower GDP per capita will also benefit from an **enhanced Modernisation Fund**. Resources in this fund will depend on the carbon price, but the fund will be bolstered with an additional 192,5 million allowances.

Finally, there will also be continuous **solidarity under the Effort Sharing Regulation and the EU Emissions Trading System** where in particular one tenth of allowances for auctions are redistributed among Member States.

2.2 A competitive transition: New opportunities through industrial and sectoral change

Achieving the 2030 target will require systemic transformation across the economy. The forthcoming revisions of National Energy and Climate Plans and Governance Regulation will ensure an integrated planning, implementation and monitoring of the green transition towards 2030. They will allow the EU and its Member States to progress in a balanced manner. The Fit for 55 proposals reflect this, with action across industry, transport, buildings and energy. Complementary and targeted policies at EU and national level will accelerate the change in behaviour, technological innovation and deployment, and development of new infrastructure. A cornerstone of the package is to build on the important achievements of the **EU Emission Trading System** by strengthening it and applying it to new sectors where so far emission reductions have been lacking. The experience of the last 16 years has shown that emissions trading is a highly effective mechanism to bring down emissions in a cost-effective way, while the revenues it generates can be used to support the transition to cleaner production and to stimulate innovation.

Next to a carbon price signal, clear **targets** are needed to drive change such as in the revised **Effort Sharing Regulation (ESR),** which will empower Member States to take national action to tackle emissions in the buildings, transport, agriculture, waste and small industry sectors. The proposal should deliver an EU-wide reduction of 40% in emissions from these sectors by 2030, compared to the situation in 2005. The principles for attributing the relative effort to each Member State remain the same as before. Their different capacities to take action will continue to be recognised by setting national targets based on GDP per capita, with adjustments made to take national circumstances and cost efficiency into account.

Applying emissions trading to new sectors complements the other policies of the package to drive changes in public and private investments, consumer behaviour and business practices. The Commission's impact assessments show that a decision not to apply emissions trading to these areas would require much stronger regulatory measures in all sectors than proposed in this package, notably in fuel standards, renewable energy and energy efficiency as well as taxation.

2.2.1 Industrial transformation and carbon pricing

The green transition presents a wealth of opportunity to the EU industry as the world follows our lead in developing markets for clean new technologies and products and providing sustainable, local and skilled jobs across the EU. EU industry is ready to invest, but needs predictability and a coherent regulatory framework, access to infrastructure and support for innovation.

The package includes new requirements for industry to decarbonise production processes, but also support mechanisms for the uptake of new technologies. The Innovation Fund, which supports business and SMEs' investment in clean energy, will grow its financing for innovative projects and infrastructure to decarbonize industry. Particular attention will be given to projects in sectors covered by the Carbon Border Adjustment Mechanism (CBAM).

Reflecting the need for steeper emission reductions, the Commission is today proposing that by 2030 sectors covered by the revised EU ETS[4] will need to reduce their greenhouse gas emissions by 61%, compared to 2005 levels. To achieve this, we need to lower the annual emissions cap in line with the pathway to meeting the higher 2030 ambition.

To strengthen the role of carbon pricing in the transport sector, the Commission proposes to gradually extend the current EU ETS to the **maritime sector** over the period 2023 to 2025. Greater efforts will also be required from **aviation** operators to reduce their emissions, which is why the Commission is proposing to phase out the free emissions allowances this sector currently receives. In order to also address aviation emissions at global level, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) will be implemented through the EU Emissions Trading System Directive. We will both pursue domestic policies and continue working with our partners at international level through the International Maritime Organization and the International Civil Aviation Organization (ICAO).

Fossil fuels used by **road transport and buildings** are substantial sources of emissions and pollution. As they have been very difficult to decarbonise so far, they are also full of innovation and job creating potential. For instance, emissions trading in road transport will increase incentives to supply cleaner fuels for existing vehicles. It will lead to an evolution of the available fuels on the market for the existing fleet, pushing providers to

[4] Power sector, energy-intensive industry sectors including oil refineries, steel works, and production of iron, aluminum, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids and bulk organic chemicals, as well as aviation and maritime sectors.

decarbonise their fuels. The carbon price in itself, however, does not guarantee a quick transition to zero emission mobility for which complementary policies, including on charging infrastructure are needed.

Similarly, applying emissions trading to fuels in the buildings sector will help bring cleaner heating fuels to the market, shorten payback periods for investments in renovation and accelerate fuel-switching in heating and cooling in existing buildings. This will be complemented by policy measures to improve the energy efficiency of buildings and energy appliances and systems so that the overall energy needs in our homes and in heating and cooling will also be reduced.

This is why the Commission proposes to **start applying emissions trading from 2026 for road transport and buildings**. This will be done in a separate system focused on upstream fuel suppliers, putting the responsibility on fuel producers to comply with the system, rather than requiring individual households or road transport users to take part directly. Emissions from road transport and building sectors will be capped, with the cap reduced over time so that total emissions fall.

If international partners do not share a comparable ambition to the EU, there is a risk of carbon leakage whereby production is transferred from the EU to other countries with lower ambition for emission reduction. If this risk materialises, there will be no reduction in global emissions. This is why, as outlined in further detail in Section 4 of this Communication, the Commission is proposing a **Carbon Border Adjustment Mechanism** putting a price on imports of a limited number of high-polluting goods based on their carbon content.

This industrial transition to 2030 – and beyond to climate neutrality – must be a collective and inclusive effort, co-designed with the industrial ecosystems. The updated Industrial Strategy announced the co-creation of **transition pathways** with social partners and other stakeholders to chart how best to accelerate and benefit from the twin transitions, looking at the scale, speed and conditions facing each ecosystem. The pathways will identify the scale of the needs, including reskilling, investment or technology needs and devise actions to meet them, building on inputs such as industrial strategy roadmaps. Priority is given to ecosystems that commit to the transition, face the most challenges and have been heavily affected by the crisis, such as in mobility, construction and energy intensive industries.

The Commission acknowledges that the green transition can only succeed if the EU has the skilled workforce it needs to stay competitive. Education and training are central to raising awareness and boosting skills for the green economy in the instruments such as the green strand in Erasmus+ and the Education for Climate Coalition. With the European Skills Agenda for sustainable competitiveness, social fairness and resilience the Commission is rolling out flagship actions to equip people with the right skills needed for the green and digital transition. Under the Agenda, the Commission also facilitates the development of commitments for re- and upskilling in all industrial ecosystems. Various ecosystems, including the automotive ecosystem, have already committed to re- and upskill their workforce across the entire value chain, as part of the Pact for Skills.

2.2.2 Cleaner mobility and transport fuels

Next to carbon pricing, other measures are needed to put transport on a firm path to zero emissions, and drive down air pollution as transport represents almost a quarter of the EU's greenhouse gas emissions and is the main cause of air pollution in cities. Emissions remain higher than in 1990 and a 90% reduction in overall transport emissions by 2050[5] will be required to reach climate neutrality.

The Fit for 55 package therefore includes four proposals promoting cleaner vehicles and fuels in a technologically neutral way. The **revision of the CO_2 emission standards** for new cars and vans aims at further reducing the greenhouse gas emissions of these vehicles, providing a clear and realistic pathway towards zero-emission mobility. Consumer demand for zero emission vehicles is increasing sharply already[6].

The **Alternative Fuels Infrastructure Regulation** will ensure the necessary deployment of interoperable and user-friendly infrastructure for recharging and refuelling cleaner vehicles across the EU, keeping pace with the development of the market and guaranteeing that rural and remote areas will also be covered. The proposed mandatory targets for alternative fuels infrastructure are key to support the penetration of cleaner vehicles and the continued growth of this market which presents extraordinary opportunities for the EU car industry.

All these measures reinforce and complement each other. Knowing that the average car lasts 10 to 15 years, putting a price on carbon for road transport is urgent to make the existing fleet drive cleaner. In addition, more ambitious CO_2 standards will help to get more zero emission vehicles on the road quickly, while infrastructure obligations will put in place the necessary charging and refuelling stations to serve the millions of new vehicles that are expected by 2030 and while we continue to build a sustainable and globally competitive battery value chain.

The transition of the automotive industry and its supply chain is already happening. This requires using financial resources such as the Innovation Fund and possibilities under State aid rules for investments to create new business opportunities in different segments of the industrial ecosystem. In addition, the European Social Fund Plus (ESF+), InvestEU and other EU funding programmes can be used to support re- and upskilling measures.

The Commission is also proposing to promote the uptake of **sustainable fuels in the aviation and maritime sectors** complementing the ETS for the aviation and maritime sectors which makes polluting fuels more expensive for suppliers. The **ReFuelEU Aviation** to promote sustainable aviation fuel will oblige fuel suppliers to blend an increasingly high level of sustainable aviation fuels into existing jet fuel uploaded at EU airports, as well as incentivise the uptake of synthetic fuels, known as e-fuels. The upcoming zero emission aviation Alliance will complement this work to ensure market readiness for disruptive aircraft configurations (e.g. hydrogen, electric). The Commission also calls on the Council and the European Parliament to agree quickly on the updated Single European Sky regulatory framework, which is estimated to help cut aviation emissions by up to 10%.

The **FuelEU Maritime** proposal to promote sustainable maritime fuels will create new requirements for ships, regardless of their flag, arriving to or departing from EU ports, by

[5] As compared to 1990 levels.

[6] Almost half a million new electrically chargeable vehicles (ECVs) were registered in the EU in the final quarter of 2020. This was the highest figure on record and translated into an unprecedented 17% market share. It also brought the annual total to one million new ECVs, which means that the existing electric fleet doubled in just 12 months (Quarterly Report of European Electricity Markets, Q4 2020).

imposing a maximum limit on the greenhouse gas content of the energy they use and making these limits more stringent over time. The upcoming Renewable and Low-Carbon Fuels Value Chain Alliance will boost the supply and deployment of the most promising fuels for all modes of transport.

Certainty about emissions performance in these sectors can only be provided by making sure that new fuels respect the sustainability criteria for renewable energy sources. This link must be preserved and we must ensure that we promote only the cleanest advanced biofuels and novel electro-fuels with the best emissions performance. In aviation, ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) will be implemented. These measures are complemented by the revised Energy Taxation Directive, which will make cleaner fuels more attractive in all transport modes and close loopholes for polluting fuels.

2.2.3 Energy

Energy use accounts for 75% of the EU's emissions, so the transformation of our energy system is central to our climate ambitions. Saving more energy and using more renewables in the energy we do use is a key driver for jobs, growth and emission reduction.

To reach the 2030 target, the updated **Renewable Energy Directive** proposes to increase the overall binding target from the current 32% to a new level of 40% of renewables in the EU energy mix. This will be complemented by indicative national contributions, showing what each Member State should contribute to reach the collective target. The proposal supports Member States in making the most of their cost-effective renewable energy potential across sectors through a combination of sectoral targets and measures. It aims at making the energy system cleaner and more efficient by fostering renewables-based electrification and, in sectors such as industry and transport where this is more difficult, it will promote the uptake of renewable fuels, such as clean hydrogen.

Reduced energy consumption allows us to bring down both emissions and energy costs for consumers and industry. The revision of the Energy Efficiency Directive proposes to increase the level of ambition of the energy efficiency targets at EU level and to make them binding. This should lead to 9% reduction in energy consumption by 2030, compared to the baseline projections[7]. As part of this, national indicative benchmarks for energy efficiency calculated with a new formula will also guide Member State action. The revision of the Energy Performance of Buildings Directive, planned for later in the year, will identify specific measures to accelerate the rate of buildings renovations, contributing to energy efficiency and renewable goals and greenhouse gas emissions reductions in the buildings sector.

The tax system for energy products must both preserve the internal market and support the green transition by setting the right incentives. Therefore, a revision of the **Energy Taxation Directive** proposes to align the minimum tax rates for heating and transport fuels with EU climate and environmental objectives, while mitigating the social impact.

[7] The reference scenario used as a baseline for defining the level of ambition of the Union's targets has been updated in the legislative proposal for the revision of the Energy Efficiency Directive. The targets will from now on be calculated using the 2020 Reference scenario baseline whereas the current energy efficiency targets were calculated using the 2007 Reference scenario baseline.

The new rules will remove outdated exemptions, for example in aviation and maritime transport, and other incentives for the use of fossil fuels, while promoting the uptake of clean fuels.

2.3 A green transition: Protecting nature and increasing the EU’s natural carbon sink

The twin climate and biodiversity crises cannot be treated in separately. We either solve the climate and nature crises together, or we solve neither. This also means that we should not take more resources than the planet can afford to share with us. If we help delicate land and ocean ecosystems recover, they can provide for life on the planet and fulfil their role in the fight against climate change. Restoring nature and enabling biodiversity to thrive again is essential to absorb and store more carbon.

We therefore need to increase the capacity of the EU’s forests, soils, wetlands and peatlands, oceans, and water bodies to act as carbon sinks and stocks. In a modernised agricultural sector, we also need farming practices that put land and nature first and regenerate the quality of our soils to ensure our food security.

As part of the updated **Land Use Land Use Change and Forestry Regulation**, the Commission is proposing to set higher ambitions for the expansion of the EU’s natural carbon removals, which is key for balancing out emissions and reaching climate neutrality. The new proposal looks to reverse the current trend of diminishing CO_2 removals and increase the quality and quantity of the EU’s forests and other natural carbon sinks. It proposes to set an EU target of net greenhouse gas removals in the LULUCF sector of 310 million tons of CO_2 equivalent by 2030. Specific national targets are proposed to contribute to this shared goal. Beyond 2030, the Commission will assess progress and envisages proposals to set this sector on the pathway to reaching climate neutrality – considering emissions and removals from the LULUCF sector and non-CO_2 agricultural emissions.

Member States will retain a certain flexibility in dividing the effort between the Effort Sharing Regulation and LULUCF sectors, underlining again the complementarity between the different proposals in the Fit for 55 package.

The Commission is also taking multiple measures to incentivise good practices in the production of biomass, and to ensure supply and demand for woody biomass remain within the limits of sustainability[8] and are in line with our objectives of restoring biodiversity, improving the health of nature, and staying within planetary limits.

The proposal on renewable energy generation includes **strengthened sustainability criteria for bioenergy** by extending their scope of application and by enlarging no-go areas for sourcing. Bioenergy currently accounts for around 60% of renewable energy production and, while that share is projected to decline between 2030 and 2050, the overall demand for renewable energy will increase. The proposal confirms the cascading principle, which privileges the highest value added use of wood, and ensures that national support schemes for the use of sustainably sourced biomass are in line with it and avoid harmful impacts on biodiversity.

[8] JRC Publications Repository - Brief on the role of the forest-based bioeconomy in mitigating climate change through carbon storage and material substitution (europa.eu).

The **new EU Forest Strategy** presented together with the Fit for 55 package, as well as, the forthcoming New Soil Strategy, EU Nature Restoration Law and Carbon Farming Initiative planned for later in 2021, will further strengthen the EU's natural carbon sinks, ensure that biodiversity has a key place in the overall approach and support the crucial social and economic functions of forestry and forest-based sectors.

3. OPPORTUNITIES AND INCENTIVES: INNOVATION AND INVESTMENT FOR A COMPETITIVE TRANSITION

The transition to a climate neutral economy supports innovation. The European Green Deal is a growth strategy and as outlined in the EU's updated Industrial Strategy, the Fit for 55 proposals offer significant opportunities to develop, deploy and export low-carbon technologies and green jobs[9].

By setting a clear policy framework with detailed targets and policies, the Commission is increasing investor certainty and reducing the risk of locking in investments in carbon intensive industries that will become obsolete before too long and lead to stranded assets. The EU gains from a first mover advantage with increasing global action on climate change. Investments in a low carbon economy can spur economic growth and jobs, accelerate the clean energy transition, increase long-term competitiveness and play a role in the green recovery.

The EU's long-term budget and its recovery package **NextGenerationEU** are specifically tailored to supporting the green transition. 30% of programmes under the 2021-2027 Multiannual Financial Framework are dedicated to support climate action, for example through cohesion policy, agriculture, and the LIFE programme for climate and environment. The target of using 35% of research and innovation funding under Horizon Europe for green investments as well as the various partnerships and missions[10] under the programme provide necessary resources for building sustainable and innovative solutions to the green transition. Horizon Europe provides substantial support for SMEs, in particular start-ups and spinout companies to develop and scale up game-changing innovations.

In addition, Member States' national recovery and resilience plans financed under the **Recovery and Resilience Facility** need to contribute to the green transition with measures accounting to at least 37% of the plans' allocations. But public funding will not be sufficient. The Strategy for Financing the Transition to a Sustainable Economy will help unlock the private investment needed to finance this transition[11].

The Commission will continue to incentivise investments in the green transition. In reviewing the environmental and energy State aid guidelines the Commission will pay particular attention to ensure that they mirror the scope and ambition of the European Green Deal. Whilst the recent evaluation of the current IPCEI Communication showed that the provisions work well, some targeted adjustments would be necessary, including to further enhance their openness and facilitate participation of SMEs and to provide guidance on the criteria to pool funds from national budgets and EU programmes.

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[9] See the Impact Assessment for the Communication on Stepping up Europe's 2030 climate ambition, SWD (2020) 177 final.
[10] For the green transition, the missions on Climate neutral and smart cities; Healthy oceans, seas, coastal and inland waters; Soil health and food and Adaptation to climate change, including societal transformation are particularly relevant.
[11] COM (2021) 390 final

To support this, the Fit for 55 proposals contain their own dedicated financial instruments to support a fair transition, based on the revenues generated by the **extension and strengthening of emissions trading**. This underlines once more the interconnection between the different parts of this package of proposals. Existing solidarity mechanisms and funds are strengthened to address distributional impacts and boost further investment in innovative low-carbon solutions. The size and scope of the Innovation Fund is extended to provide support to projects in the form of carbon contracts for difference to trigger emission reductions in industry**.**

4. A SUSTAINABLE EU IN A SUSTAINABLE WORLD

While only accounting for 8% of global CO_2 emissions, the EU recognises its responsibility for a higher share of cumulative emissions. The EU is committed to decisively forge a path towards a green, competitive, inclusive, circular economy. The European Green Deal, as our growth and competitiveness strategy, is contributing to transform the global narrative, affecting political and business markets, and offering an example to follow.

Global engagement and international cooperation is key to address the climate crisis and the EU actively engages with partner countries bilaterally and multilaterally.

The Fit for 55 package is a key milestone on the road to Glasgow, where the next United Nations Climate Change Conference, also known as COP26, will be held later this year. It will be the backbone of the EU's delivery on its commitments to the planet and the world, as signed up to in the Paris Agreement.

The EU is determined to ensure that decarbonisation gains in the EU should not simply push carbon emissions outside our borders. Such carbon leakage is currently prevented by the issuance of free allowances under the Emissions Trading System (ETS). That system has been effective in addressing the risk of leakage but it also dampens the incentive to invest in greener production at home and abroad.

In this spirit, the Commission is today proposing a **Carbon Border Adjustment Mechanism** (CBAM). Designed as a climate action instrument, it introduces a market dynamic that protects the integrity of EU and global climate policy by reducing GHG emissions in the EU and globally, and induces the relevant sectors to modernise, become more sustainable, and drive down their carbon content.

The CBAM will be gradually introduced for a few selected products. A simplified system will apply in the first years with the objective of facilitating a smooth roll out of the mechanism. The proposal for a CBAM ensures that the same carbon price will be paid by domestic and imported products and will thus be non-discriminatory and compatible with WTO rules and other international obligations of the EU. In the sectors concerned, CBAM will be gradually phased-in while free allowances are phased out, ensuring that the new system provides stronger incentives for the EU and foreign industries to innovate and reduce emissions. Moreover, sectors and companies outside the EU that may already have lower carbon content in their production **cycles** or in which a similar system of carbon pricing is applied will benefit from this under CBAM. As such, it is an invitation to our international partners for jointly increasing climate ambition.

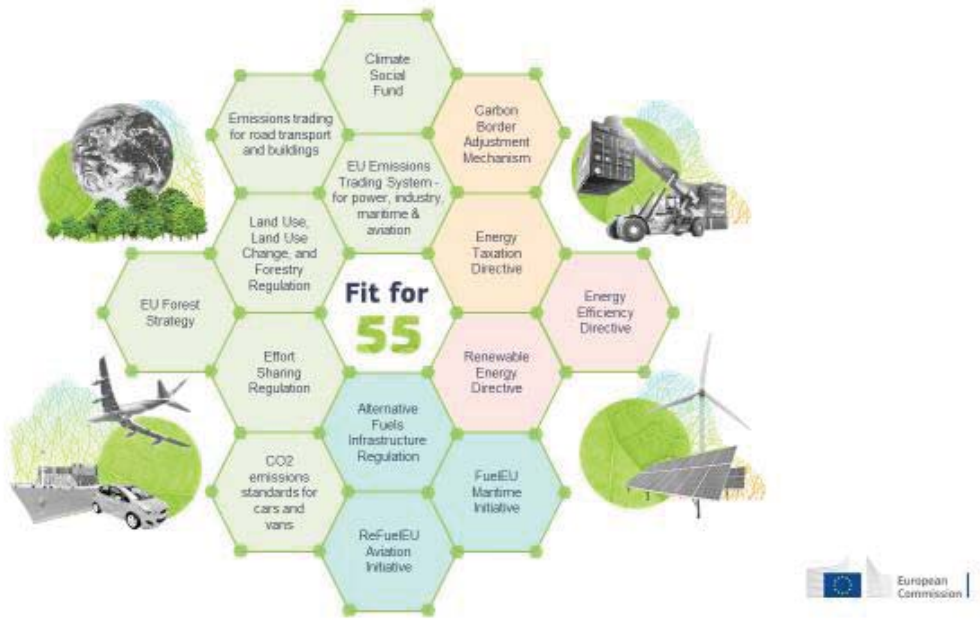
The global move away from fossil fuels is already well under way. And the effects go beyond climate and environment – they are also geopolitical. The EU must adjust its policies accordingly to ensure a stable transition, including outside of its borders. In this spirit, the European Commission will soon come forward with new legislation to minimise the EU’s contribution to deforestation and forest degradation worldwide and embed sustainable corporate governance in companies’ strategies.

We expect partners to fulfil their Paris commitments too and are ready to work together by strengthening **EU climate diplomacy**. In order to enhance cooperation with our international partners and facilitate the global transition to a net zero economy, the full range of the EU’s external policy instruments will be harnessed to align with these higher goals. As part of its climate diplomacy in bilateral partnerships and multilateral organizations, the EU will ensure that it consults, explains, assists and where possible accommodates partners, while keeping the main objectives as laid down in the Paris Agreement in focus. This also includes support to climate finance to help vulnerable countries adapt to climate change and invest in reducing greenhouse gas emissions. The EU and its Member States have consistently been the world’s largest contributor of public climate finance to low- and middle-income countries, and this will continue, with particular attention to the needs of the least developed countries.

5. CONCLUSION

The European Union is built on the premise of developing common policies to achieve our common interests. It requires solidarity between its Member States and between its citizens to achieve these goals and enjoy its benefits, with everybody acting in line with their own capacities and competences, and respecting different national specificities and starting points in reaching the end goal. The Fit for 55 package is designed in this spirit: efforts are shared between Member States in the most cost effective way, acknowledging our differences, and support is given to those most in need, to ensure that the transition reaches everybody in a beneficial way.

The package of proposals has been carefully crafted to create the right balance of policy measures and revenues generated to design and drive a just and transformational change across the t EU economy. Changing the weight of each tool inevitably has knock-on effects on several others, and removing any of the proposed measures requires a tuning up of proposals in other areas. To make the European Union Fit for 55 and reduce in time our emissions by at least 55%, we need all these tools and this balance.



The Fit for 55 package recognises that the EU citizens need to be offered better information, affordable options and appropriate incentives to make the individual changes that collectively help us live in balance with our environment and our planet. Citizens of all regions and ages will be closely involved in the implementation, for instance through the European Climate Pact and citizens' panels of the Conference on the Future of Europe. It also acknowledges the effectiveness of putting a price on carbon and marshals the economic power of companies and markets to deliver structural changes to our economy that provide the cleaner, healthier products and services that we need. Finally, it enables the EU to shape long-term investments, lead markets and enforce new green standards. It is this combination that will make the EU fit for a climate neutral future.

The challenges of climate change require a global response and the EU will continue engaging actively with its partner countries to support the climate and energy transformation globally.

The Commission has now presented the necessary proposals for the EU to fulfil our commitments and targets, and to genuinely embrace the transformation that lies ahead. We invite the European Parliament and the Council to swiftly begin their legislative work on the proposals presented today, and to ensure that they are treated as a coherent package, respecting the multiple interconnections between them.

The make-or-break decade has already started. The EU needs its policy toolbox to be Fit for 55 in place as soon as possible to meet our 2030 targets and set us firmly on the pathway towards becoming the first climate-neutral continent by 2050.