



Waiting for the “Fit for 55” Package

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On 14 July, the European Commission (EC) will publish the main part of a package of legislative changes called “Fit for 55”, which aims to reduce emissions in the European economy by at least 55% by 2030 (compared to 1990 levels). Further proposals will be presented by the end of the year. The changes will relate not only to energy issues, but to almost every aspect of the economy, and will have a significant impact on the national policies of the Member States. While waiting for the publication of the details of the package, the EU countries are getting ready to negotiate reform of the CO₂ emissions trading system. The pace of the modernisation of the Polish economy will depend on the outcome of these talks.

Scope of the Legislative Activities. The EC is determined to implement the assumptions of [the European Green Deal \(EGD\)](#), while also taking into account the need to rebuild the European economy after the pandemic. On 14 July, the EC will present plans to reform the Emissions Trading System (ETS) and create a carbon border price-adjustment mechanism (CBAM). It will also propose a revision of the regulations on effort-sharing (ESR) related to emissions not covered by the ETS, energy taxation, renewable energy sources (RES), energy efficiency, emissions related to land use and forestry (LULUCF), the development of alternative fuels infrastructure, and CO₂ emission standards in the automotive sector. Regulations on the gas market, reduction of methane emissions in the energy sector and energy efficiency of buildings also will be amended, but the details will not be presented until the fourth quarter of this year. All these initiatives, due to their wide scope, will affect the EU economy, particularly industry, agriculture, and the lifestyle of Europeans, therefore they are to be coordinated with each other.

Uncertainty of the Changes. The starting point for the development of the package was the EC’s proposal for the 55% target and the announcement of forthcoming reforms in September 2020. Only later did the Member States reach consensus on increasing climate ambitions, and in April 2021, the Council and the European Parliament (EP) agreed

to include them in EU climate law. In May this year, the Council urged the Commission to swiftly present the legislative package, emphasising the need to provide an in-depth analysis of its environmental, economic, and social impacts on the Member States. The conclusions of the Council meeting also indicated that while the Member States do not question the EU’s new climate target to reduce emissions, there is considerable concern about how to achieve it.

In line with the general principles of the EGD, the Member States expect the package to reconcile the EU’s efforts to achieve climate neutrality with ensuring the competitiveness of the European economy, and to enable a “just energy transition”. They also hope that the EC will leave them freedom to choose their way to achieve the new goals, through, for example, increasing energy efficiency or using RES. The argument of maintaining technological neutrality (i.e., equal treatment of various energy-generation technologies by the EU) is also often raised, especially in the context of vivid discussions about [the EU’s “green taxonomy”](#), the role of gas in the EU, and the inclusion of low-emission energy sources in the RES Directive.

In view of the prolonged uncertainty about the details of the package, the EU countries are communicating their needs in advance, trying to pressure the EC. For example, in

March this year, Czechia, France, Hungary, Poland, Romania, Slovakia, and Slovenia sent a joint letter to the EC on the role of nuclear energy in EU climate and energy policy. In its position addressed to the EC in June, Germany lobbied for more stringent climate protection targets for the automotive and aviation industries in the EU. The EC also receives numerous positions from sectoral associations (e.g., cement or coal producers), which are also afraid of the upcoming changes.

Carbon Controversies. The scope of the planned reforms is very wide. Each action (including increasing energy efficiency, the use of RES, or the absorption of emissions by forests) will contribute to the reduction of the emissions of the EU economy. However, it is known from the EC's announcement that charges for CO₂ emissions are to be the main tool used to achieve climate goals. Therefore, the key role will be played by the ETS reform, which currently covers about 40% of CO₂ emissions in the EU and relates to the energy sector, manufacturing industry, and airlines operating in the European Economic Area. The EU sets an overall cap on emission allowances in the ETS and companies buy allowances or, exceptionally, get them for free. The supply of allowances decreases year by year, which increases their price. The revenues from the sale of the emissions allowances go to the budgets of the Member States and, according to the current guidelines, at least 50% of these revenues should be allocated to climate and energy-related purposes, which may also change as a result of expected reforms. The goal of greater emissions reductions in the EU will be reflected in the accelerated reduction of the number of emission allowances. Moreover, the market stability reserve (MSR), which also affects the supply of allowances, is to be reformed. An issue raised by Poland is the reform of the distribution of the auction pool of emission allowances so that their distribution is based on data on emission reductions in the EU from 2016–2018, and not 2005–2007. The idea for Poland is to receive a larger pool of allowances at the expense of countries that have already significantly reduced their emissions. The number and method of distribution of allowances will be the subject of negotiations between EU countries, probably in the second half of 2021.

The most controversial, however, is the EC's willingness to extend the ETS to construction and road transport, which currently account for around 30% of the EU emissions. Member States are divided on how to implement this shift, either by integrating these sectors into the existing mechanism or by creating a parallel ETS with separate prices. Some, for example, Visegrad Group members, are opposed to an extension of the ETS, raising the issue of the expected excessive burden on households (as a result of an

increase in fuel prices, for example, which in turn could require compensation for the poorest citizens) and deepening energy poverty in the EU. The French experience with [the 2018 "yellow vests" protests](#) is also cited as a counter-argument to the expansion of the ETS. Germany, which already includes construction and transport in the national emissions trading system, may withdraw from supporting the expansion of the European ETS if the Greens are successful in the Bundestag elections.

As part of the reform of the CO₂ fee system, [after years of discussions the EC is also planning to introduce the CBAM](#), aimed at preventing so-called carbon leakage, that is, the relocation of industrial production to countries with lower environmental standards. Products with a high carbon footprint imported into the EU, such as steel, iron, cement, fertilisers, aluminium, or electricity, will be subject to additional charges, for example, in the form of a tax, or their import is to be included in the ETS mechanism. EU countries, in order to protect their enterprises and jobs, will most likely accept the EC's proposal; however, non-EU partners, including China, Russia, Turkey, and Ukraine, have already expressed concerns about the EU's plans. Japan and the U.S., although they share the EU's climate ambitions, are sceptical about the CBAM. Taking into account the opposition from partners and even the risk of trade retaliation, the EC aims to establish the CBAM in line with World Trade Organisation (WTO) assumptions.

Conclusions. While waiting for the EC's proposals, the Member States are signalling which elements of the package are of the most strategic importance to them and defining their initial negotiating positions. It can be expected that they will strive to ensure that the legislative acts of the "Fit for 55" package reflect their interests, which will result in disputes between them, as well as with the EC and the EP. Divisions within the EU on how to implement climate ambitions may negatively affect the Union's credibility during the COP26 climate negotiations to be held in Glasgow in November.

Polish negotiators will face many challenges, especially in terms of seeking alliances and reducing the social costs of reforms. However, the "Fit for 55" package should also be seen as an opportunity for the country's development. The ETS reform may constitute, for example, a chance to increase the pool of allowances in the solidarity mechanism and in the Modernisation Fund, of which Poland is already the main beneficiary. In turn, the expected further increase in the prices of CO₂ emission allowances will most likely accelerate political decisions affecting the modernisation of and investments in the energy sector and increasing the competitiveness of the Polish economy.