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**The 'Fit for 55' package under changed circumstances**

Dear Minister,

The dramatic developments around the Russian invasion of Ukraine have clearly demonstrated that the EU's global strength comes from its economic power based on European values. It is of utmost importance that the EU takes good care of its economy. Successive shocks show the urgency of building a more resilient European economy and to cushion the secondary effects of this crisis (such as inflation, energy and raw material price increases and supply shortages, supply-chain disruptions).

Already before the invasion, high energy prices had severely impacted many industrial sectors across Europe. Now, energy prices soar to levels previously unimaginable, and many companies have to curtail production or close plants. In order to ensure this will be a temporary, rather than a permanent and gradually worsening situation, speedy and targeted action is needed, including measures to regulate the gas price temporarily and bringing down barriers to an integrated European energy market.

BusinessEurope continues to support the ambition of the 'Fit for 55' package and its goals. Extensive development of low-carbon and renewable energies, hydrogen and alternative fuels, and increased energy efficiency, continue to be important elements of Europe's response to the energy crisis. However, it is paramount that our economy stays efficient, and this requires a reconsideration of timelines for realistic energy and climate policies. We must avoid abrupt disruptions of energy supply which would have very damaging consequences for the European economy.

It is also crucial that we ensure sufficient investments to facilitate the green transition of industry, whose challenges have only increased. Recent events will make it harder to finance relevant investments, which is why new, comprehensive impact assessments and generation scenarios are needed, taking into account the changed circumstances.

On the basis of these considerations, we must reassess the package, in order to find a balance between delivering on the goals for 2030 and 2050, as well as finding a pathway through this transition that is economically and socially bearable.

Some of the most pressing issues include:



- For the **EU ETS** to be more resilient against external shocks, such as the COVID-19 pandemic and the energy price crisis, more flexibility should be introduced to the market. This can be done by connecting the auction share to an index of economic output (Art. 10 (1)) or increasing the “buffer” available for free allocation (Art. 10a (5a)-(5b)), while envisaging a more active role of the Market Stability Reserve in quickly placing additional allowances in the market. These measures would increase the EU’s ability to support the economic revival in Europe after the current crises, while still building on the 2030 ambition.
- In the context of negotiations around **ETS and CBAM**, there are proposals for extremely shortened timelines for the switch from freely allocated allowances to the CBAM charge as the main instrument for carbon leakage protection. Introducing a border adjustment on the scale proposed by the Commission would be a first-in-the-world step. While we have some econometric projections, including impact assessments in different member states which raise serious concerns, the eventual effects of such an instrument cannot be known at this point. Therefore, we should not reduce free allocation for CBAM sectors below benchmark levels before the instrument is has been tested thoroughly, namely not before 2030. By only applying the CBAM to the emissions over the ETS benchmark until then, the EU will be able to test the effects of the CBAM in real-world conditions, while avoiding any double-protection.
- In addition, a **CBAM** without a solution for exports would immediately lead to European goods being at risk of becoming uncompetitive on world markets. Since European goods are on average less carbon-intensive, this would lead to a global increase in emissions. By maintaining free allocation (or an equivalent of it) for export production, this can be averted.
- The principle of **technological neutrality** must remain a cornerstone of EU climate policy. Different technologies will succeed in different use-cases and conditions, which vary greatly within and among member states. This is true especially for road transport, where the infrastructure conditions and transport needs are extremely diverse. Therefore, seen in the medium to long term perspective, a pure tank-to-wheel zero-emissions goal for cars and vans is impractical and risks large negative employment effects along the automotive value chain. It is also necessary to maintain the derogation for small volume manufacturers, to ensure that an excellent technological heritage is not depleted in exchange for a limited environmental benefit.
- The energy system of the future will look fundamentally different from today – with an increased share of intermittent renewable electricity generation. The nature of the challenges we face will shift: increasing energy use will not inevitably lead to large increases in emissions as the economy will gradually decarbonize. In light of that shift, formulating **energy efficiency goals** in terms of absolute reduction of energy consumption is no longer adequate. Optimizing energy intensity in production processes across the board for instance is a far more relevant and positive indicator, aligned with the goal of sustainable growth. This process must be accompanied by



expanding the number of energy interconnections in Europe and by using existing links more effectively.

- Europe will not be able to reach the current climate targets or decrease its dependencies if the **permitting and licensing timelines for renewable and low-carbon energy projects** are not rapidly sped up. The RePower EU communication is a good starting point here, but the steps taken need to be fleshed out further. A prime example is wind power, where annual capacity additions fall far short of the amounts needed to hit 2030 targets, and the development of wind projects often takes 6-8 years. These timeframes are not sustainable and must be accelerated if the EU is serious about its climate ambitions. Procedures, including environmental impact assessments, must be simplified to speed up and facilitate the deployment of renewable and low-carbon generation capacity.
- From the beginning, European businesses have asked to maintain the coherence among the measures making up the 'Fit for 55' package. Unfortunately, we are still lacking an overall assessment of the **cumulative effect of the package**, in terms of employment, investment and additional costs, per sector and member states. The European Parliament has requested this data at the end of 2021. It is crucial that the Commission provides a more detailed assessment before positions are adopted in the Council and the Parliament, both in the interest of democratic transparency and to provide regulatory foresight for companies.
- According to the Commission's own estimate, to reach the targets foreseen in the 'Fit for 55' package, annual **investments into decarbonisation** will have to increase by more than € 360 billion. The efforts to deal with the crisis situation will only increase financing needs. A substantial part of these investments are not currently market-viable and require public support. European businesses are encouraged by the increased opportunities for the use of instruments such as Carbon Contracts for Difference (CCfDs) and schemes ensuring access to affordable low-carbon energy— at the same time more investment into research, scaling and operation of low-carbon solutions and breakthrough technologies will be needed.

The European business community is committed to achieving net-zero by 2050 and stands ready to contribute to the massive societal challenge the EU is facing. We stand ready to engage on any of the points above to ensure the success of the transition.

Yours sincerely,

Markus J. Beyrer