

## Position Paper

# The European Fit for 55 package

## IndustriAll Europe's initial reaction

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On 14 July 2021, the European Commission presented its Fit for 55 package (FF55). The package, made up of 13 legislative proposals, is the Commission's plan to adapt the EU climate policy framework to the new emissions reduction target for 2030. The package will trigger an unprecedented acceleration of the decarbonisation that will have an impact through all industrial sectors. While supporting the objective of reaching climate neutrality by 2050, IndustriAll Europe wants to secure a Just Transition for European workers based on a detailed mapping of labour challenges in industrial sectors and regions. Attention to labour consequences must be mainstreamed across the whole package and closely monitored with specific mechanisms. This position paper presents IndustriAll Europe's initial reaction to the package as a whole and a series of preliminary assessments of the key files of the package.

### Overview

In 2021, the European Union adopted a Climate Law that makes the climate neutrality objective legally binding for 2050 and that has set a new target for 2030 to reduce net greenhouse gas emissions by at least 55% compared to levels in 1990. In July 2021, the Commission adopted the Fit for 55 package to deliver the additional emissions reductions for 2030 through a revision of all relevant policy instruments (see the [series of proposals](#)).

This massive package contains an unprecedented amount of policy proposals to revise the entire EU climate policy framework. The Emission Trading System (ETS) Directive; the Effort Sharing Regulation; the Renewable Energy Directive; the Energy Efficiency Directive; the Energy Tax Directive; the Regulation setting CO2 Emissions Performance Standards for Cars and Vans, will all be revised. A Strategic Plan for the quick deployment of the alternative fuels infrastructure and a new Forest Strategy have been proposed, building on existing instruments. In addition, the package contains a proposal to set up a Carbon Border Adjustment Mechanism (CBAM), as well as a proposal to establish a Climate Action Social Fund to accompany the creation of an ETS for the fuels used in road transport and heating. Lastly, two initiatives called 'ReFuelEU Aviation' and 'FuelEU Maritime' have been launched to accelerate the uptake of green fuels in aviation and shipping.

According to the current version of the European Commission 2021 Work Programme, the package will be complemented in December by a proposal to amend the Energy Performance of Buildings Directive, by a Circular Economy Package, a revision of the third gas package, a proposal for a post-Euro 6/VI vehicle

emission standards for cars, vans, lorries and buses and, last but not least, by a proposal for a Council Recommendation as to how best to address the social and labour aspects of the climate transition.

## IndustriAll Europe's general reaction

IndustriAll Europe supports the objective of reaching climate neutrality by 2050 through policies that will secure a Just Transition for all workers<sup>1</sup>. When it comes to the revised 2030 targets and the subsequent revision of the EU climate policies, industriAll Europe in November 2020 called for an EU climate policy that would build a credible pathway towards the revised 2030 Emission Reduction Target and allow social partners to anticipate possible disruptive changes for industrial value chains and related jobs in Europe<sup>2</sup>. As trade unions, our role is to do everything we can to ensure that the necessary change will not jeopardise the working and living conditions of workers.

IndustriAll Europe wants the Fit for 55 package and its implementation to stimulate investment, create quality jobs, provide health and environmental benefits to EU citizens, while working to keep and develop strong industrial value chains in Europe through the promotion of innovation.

The Fit for 55 package presented by the European Commission is an impressive package made up of complex and interdependent specific proposals. Given the number of jobs that are at stake and the risk of deepening inequalities in Europe, the package requires a careful social and industrial assessment. On the other hand, the global climate crisis requires urgent and strong action to dramatically reduce greenhouse gas emissions everywhere in the world as well as in Europe. Starting from the assumption that there is no social justice without climate action, and no climate action without social justice, industriAll Europe is proposing a preliminary assessment that acknowledges the complexity of the debate. IndustriAll Europe will engage in discussions with EU policy makers to shape this unprecedented acceleration of climate action in a way that will not expose the European industries and their workers to any disruptive changes, but keeping in mind that the inevitable restructurings will have to be anticipated and managed in a socially responsible manner.

### 1. Climate action requires Just Transition

IAE supports the objective of climate neutrality by 2050 and recognises the need for increased ambition in 2030 to reach this, but wants Just transition principles to be translated into action. However, as it stands, the FF55 package is not balanced. It will trigger a dramatic and necessary acceleration of decarbonisation in Europe, but without providing the additional tools or resources to deal with the consequences for workers.

The current EU Just transition Mechanism has been set up to support regions depending on coal and energy intensive industries in their efforts to cope with structural change. However, it largely overlooks the impact of the decarbonisation in many other industrial sectors, such as the automotive related value chains. As a result, the existing policy planning risks missing important aspects of structural change due to the necessary shift to climate neutral industry. The scope of the Just Transition Mechanism and the related processes must be enlarged to take into account labour and employment impacts across industrial sectors and regions. The automotive sector is the most obvious sector that needs to be integrated in the

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<sup>1</sup> See Position Paper 2019/INDUSTRIALL 103, <https://news.industrialall-europe.eu/p/position-papers>

<sup>2</sup> [https://news.industrialall-europe.eu/content/documents/upload/2020/11/637418363805326269\\_EN%20-%20Green%20Deal%20-%20Europe's%20Green%20Deal%20mapping%20the%20route%20to%202030.pdf](https://news.industrialall-europe.eu/content/documents/upload/2020/11/637418363805326269_EN%20-%20Green%20Deal%20-%20Europe's%20Green%20Deal%20mapping%20the%20route%20to%202030.pdf)

mechanism, especially for regions highly specialized in technologies that are specific to conventional combustion engines.

IndustriAll Europe also deplores the lack of additional resources to cope with the labour impact of the Fit For 55 package. It should be reminded that in May 2020, the European Commission proposed to dedicate €40bn to support regions depending on coal. After the deal of July 2020, €17.5 bn was dedicated to the Just Transition Fund. This amount is already insufficient to cope with structural changes in coal regions and using it to also support regions depending on other sectors, such as automotive, is not an option. It would merely make the JTF and the related mechanism irrelevant. What we need is an EU Funding Strategy for Just Transition, where new and additional resources will strengthen and complement existing funds and programmes (e.g. Just Transition Fund, ESF+, ERDF, EGF). As a first step, Member States must be incentivized to use the additional revenues coming from the EU Emissions Trading System, additional VAT or excise duties revenues made available because of the current energy price spike.

IndustriAll Europe also stresses that the implementation of the package is not happening in a social vacuum. In the world of work, pervasive precariousness, pressure on wages, attacks against industrial relations and collective bargaining, as well as the impact of austerity policies on public services and welfare have increased inequalities and exacerbate the risk of poverty. In addition, recent developments - when it comes to energy prices - are dramatically impacting workers' purchasing power and leading many European citizens into energy poverty. Therefore, new ways to ensure all European citizens' access to energy must be established and structural causes of the high energy prices must be tackled (see below). Also, the full spectrum of social programmes and protections must be strengthened. This includes health and welfare, unemployment insurances, pensions and above all education, re-education, training and re-training, as well as comprehensive life-long learning systems. Thankfully, in some Member States, strong industrial relations have delivered negotiated solutions to cope with the social dimension of the transition towards a climate-neutral economy and EU efforts to deliver a Just Transition cannot weaken these negotiated solutions.

As proposed, the FF 55 package raises a series of serious concerns regarding its impact on power purchase, inflation, poverty, as well as on employment. Those risks are especially serious in poorer EU Member States that rely highly on energy-intensive industries and have a highly carbonised energy mix. The EU must deliver specific answers to those concerns and ensure that the package will not undermine the solidarity principle on which the EU is built and will leave no region behind.

In addition, Member States must be invited to update their National Energy and Climate Plans, in close dialogue with national social partners, and in particular the parts dealing with social and employment consequences. With the Fit for 55 package and the additional efforts expected, we need to get a clearer picture on the impact on jobs, especially in industrial sectors, as well as on living standards.

IndustriAll Europe has serious concerns about the impact that some proposals might have on social inequalities, especially in the poorest European regions. If the package contains interesting proposals (e.g. the proposal to set up a €72.2 bn European Social Climate Action Fund), it will not be enough to prevent a deepening of social inequalities. The Green Deal will only be social if it goes hand in hand with a fair taxation regime and a massive public and private investment programme for the benefit of the people. It should also go hand in hand with a reform of the EU economic governance and significant progress to transform the promise of the Social Pillar into concrete policies at European and national level to raise working and living standards of people across the continent.

## 2. A legal framework for the anticipation of change through workers' participation

Just Transition is a synonym for the anticipation and management of change. The scale of transformation underway today as a result of the accelerated twin digital and green transition demands a policy and legal framework capable of meeting the promise that no one will be left behind. With the Fit for 55% package, the Commission must not only deliver on climate ambition, but also greater ambition for Just Transition to ensure social acceptance, especially in Member States that do not have sufficient national arrangements in place.

Resources are only part of the story. Rarely is the link made to the need for a real toolbox of rights to ensure that transitions are smooth for individual workers. You cannot just throw money at this problem.

As a European trade union federation representing industrial workers, we know the vital importance of anticipating restructuring. Restructuring can wreak generations of damage if badly managed – for those who lose their jobs and those who ‘survive’. Europe’s tools to anticipate economic change are woefully inadequate – often limited to broad skills strategies. Just as European leaders seem to have learnt the lessons of 2008-2009 in terms of Keynesian capital investment, now we need the lessons to be learnt about economic restructuring by our political leaders.

In January 2013, after three years of major financial crisis, Spanish Socialist MEP, Alejandro Cercas, presented a unique proposal to the plenary chamber in Strasbourg. Using the then new parliamentary right to initiative legislation (TFEU Article 225), he presented draft legislation on the information and consultation of workers, anticipation and management of restructuring.

Today, as in 2013, different national and regional policy and legal frameworks regarding the management of change operate in the EU, increasing inequalities between workers and creating distortions between companies. In that context, the ‘Cercas initiative’ intended to establish a European level playing field by setting EU minimum standards promoting a pro-active and socially responsible approach to anticipating and managing change. The proposals set out measures to anticipate change, ensure the sustainability of the company and employability of the workforce, as well as the need for detailed social plans in cases of restructuring with clear roles for all stakeholders (social partners, public authorities).

A European framework dealing with the anticipation of change and workers’ participation must contain the following elements:

- Strengthened rights to information, consultation and participation, as workers’ representatives/trade unions have a key role to play in ensuring the long-term viability and sustainability of European workplaces. To this end, workers must have a stronger voice and be involved at a very early stage of the decision-making process. Existing legal instruments for information, consultation and participation must be fully respected, enforced and be better linked between the national and European levels.
- A toolbox of rights to ensure that transitions are smooth for individual workers: active labour market policies must address the urgency for education and training that ensures reskilling and upskilling to equip workers for jobs within and between transforming industries. Every worker, regardless of contract, must have the right to quality training and life-long learning.
- Ensure that companies’ long-term strategic planning takes into account employment and skills needs, focused in particular on permanently developing the skills and competences of their workforce as well as active labor market policies.
- Anticipating and managing strategic competence requirements is also central to a European industrial policy agenda based on innovation and creation of new industries and jobs.

- Enable the implementation, through collective bargaining, of voluntary working time reduction mechanisms, collective and/or individual, as well as early retirement schemes in sectors and companies negatively impacted by decarbonisation and where these solutions are needed.
- Secure the role of social dialogue and collective bargaining, as negotiated solutions between social partners are essential to guarantee that fair responses are found through tailor-made agreements. Where necessary, public authorities have to play their part in the process.
- Finally, establish support mechanisms for workers who fall victim to economic change by facilitating transition from one job to another. The Cercas report proposed a detailed list of alternatives to minimise the worst negative impact on employment.

None of these proposals are really new. They have been successfully implemented as already demonstrated in a number of Member States and regions, and they now need to be promoted at EU level. It is high time that the European Commission puts forward a proposal for a European legal framework on the anticipation and management of change while acknowledging that the resolution from 2013 of course needs to be updated to fit the reality today and without weakening the existing workers' rights. This would be a stepping stone towards a more resilient and sustainable European economy and society – turning Just Transition from rhetoric to reality.

### 3. A sound industrial policy

As stated in previous positions<sup>3</sup>, keeping and building strong industrial value chains in the EU is crucial to reach EU climate objectives, since job creation will be among the main levers of public support for the EU climate policy, but also because industries have the potential to deliver solutions to decarbonise the EU economy. IAE wants to improve coordination and coherence between the Green Deal and the EU Industrial Strategy. The FF55 package must better address the EU industrial strategy and its recent update, as well as the upcoming ecosystem transformation pathways.

To be coherent with the EU industrial strategy, the review of the EU climate legislation related to the move to 55% must be based on 2030 in-depth sectoral impact assessments in order to identify what is achievable in the coming decade in the sectors at stake. It should be kept in mind that many industrial sectors cannot follow a linear emission reduction pathway with the technologies currently in use. Those sectors will require the rollout of breakthrough technologies to be decarbonised as well as a dramatic reduction of their energy and primary raw material consumption. In the same way, the heavy investments that are needed to transform installations in these sectors require a high level of confidence in technologies that are often not yet mature, and 2030 is less than an investment cycle away from now. Hence, any revision of the regulatory instruments impacting a sector should first clarify the level of readiness of the possible breakthrough technologies to decarbonise the sector at stake, as well as the time and the investment needed to spread their use. Deciding on the revision of the EU 2030 EU climate instruments, without having a clear picture of a technology roadmap with concrete deliverables in the different sectors, might put at risk industrial value chains and related jobs. Such an approach would be a major strategic mistake. Instead, the co-creation of Transition Pathways for industrial ecosystems, coordinated by the EU Industrial Forum, must clearly identify what is needed to enable the European industry to become climate neutral in 2050. It should also provide a detailed timeline to roll out the necessary technologies and infrastructures.

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<sup>3</sup> This section reiterates industriAll Europe's position on the EU 2030 climate policy framework as described in the position paper 2020/114 : [https://news.industrial-europe.eu/content/documents/upload/2020/11/637418363805326269\\_EN%20-%20Green%20Deal%20-%20Europe's%20Green%20Deal%20mapping%20the%20route%20to%202030.pdf](https://news.industrial-europe.eu/content/documents/upload/2020/11/637418363805326269_EN%20-%20Green%20Deal%20-%20Europe's%20Green%20Deal%20mapping%20the%20route%20to%202030.pdf)

For industriAll Europe, it is of the utmost strategic importance for the EU to build the European industrial leadership in the value chains leading the transition. As far as energy is concerned, our industries are highly dependent on globally competitive electricity and energy costs. The EU has a strong industrial know-how and historical leadership in primary and secondary manufacturing production. This must be kept and strengthened while respecting the technology neutrality principle as well as the specific circumstances of each Member State. We also want the package to respect the right of Member States to decide on their energy mix and to choose the most appropriate technologies to achieve the 2030 EU climate targets.

The package must support Member States in their efforts to ensure energy security of supply, keeping in mind the need to complement intermittent energy sources.

This is a matter of present and future employment, but also a matter of strategic autonomy for the EU. Energy equipment must be seen as strategic and dealt with as such. IndustriAll Europe supports the joint development of European industrial alliances to strengthen European leadership in technologies that are needed to reach climate neutrality. The EU and its Member States should prevent hostile and opportunistic takeovers from third countries and oppose plants and site closures that could undermine the EU technological sovereignty regarding the low-carbon transition. For the sake of autonomous strategy, technologies that are less dependant on imports, or that have access to multiple independant providers and with a high degree of local EU employment should be privileged.

To avoid a fragmented approach across Member States, the EU should also extend the use of “important projects of common European interest” to promote industry alliances along key technologies and sectors to reach carbon neutrality. In addition to the existing industry alliances on batteries, hydrogen-related technologies, raw materials and circular plastics, the EU should identify where additional coordination among Member States is needed to create solid industrial value chains. A territorial approach must lead to a balanced location of industry alliances’ related projects across the EU.

Establishing a full-scale Carbon Capture and Storage (CCS) value chain will be of the utmost importance for hard to abate sectors. CCS will give more time to develop breakthrough alternative technologies, meanwhile helping European industries to avoid carbon leakage to other continents.

The Fit for 55 package must strike the right balance between the need to use forests as carbon sinks and biodiversity reservoirs on the one hand and, on the other hand, the need to support the forestry supply chain to deliver the renewable goods and the bio-energy products that have an active role to play to decarbonise the whole economy. Wood products are part of the solution, especially given the circular nature of the forest industry.

The EU industry will not be decarbonised in 30 years through a purely market-driven approach and now needs long term signals. The revision of the 2030 targets and of the EU climate policy instruments must also be coordinated with a revision of the EU competition law, notably regarding state aids. These rules should allow Member States and sub-national public authorities to better support industries on their specific path towards ‘climate neutrality’.

The transition requires coherence among EU policy instruments, especially when it comes to mobilising the required investments. Therefore, the EU taxonomy should include all European low-carbon energies, according to the principle of technological neutrality.

Decarbonisation will require the quick rollout of new technologies or a dramatic scaling up of others that will exacerbate raw materials needs. The Raw Materials Action Plan must be adapted to the revision of the 2030 climate package in order to secure the supply of the necessary raw materials. The circular



economy package must also, wherever possible, limit the use of primary raw materials and significantly contribute to reaching the 2030 climate targets. State aids and support provided to companies must prioritise investments aiming at reducing energy and primary raw material consumption.

Companies also have a responsibility to bridge the investment gap. Tax fraud or tax avoidance has deprived public authorities of significant amount of public money that could have been used in support of reaching the climate neutrality objectives. In the same way, multinational companies' dividend policy or share buyback programmes undermine their capacity to invest in the modernisation of the industrial supply chains. Companies also have a responsibility to use the results of EU-funded innovation, including through the EU's Emissions Trading System (ETS), to invest and create quality jobs in Europe.

#### **4. A fair global regime based on a level playing field and international justice**

The social principles that must guide the EU's climate actions are also valid throughout Europe and beyond. Just Transition matters to all workers where structural change is taking place. IndustriAll Europe, together with its sister organisation, IndustriALL Global, and the ITUC and ETUC, will fight to ensure that Just Transition receives prominent attention in the UN climate negotiations in order to force all countries to implement climate policies that leave no workers behind. Upcoming climate negotiations, and first and foremost, the UN COP26, must deliver meaningful solutions for workers.

The Fit for 55% package must also be enshrined in a global set of rules that will fight against all forms of dumping and ensure that all countries do their fair share of the efforts to reduce emissions and tackle climate change consequences, taking into account the common but differentiated responsibilities and respective capacities to act. Even though some countries, notably in Europe, have a leading role to play - given their historical responsibility and level of development - climate science requires a deep, rapid and global emission reduction effort and all emitters have to contribute to these efforts. Global climate action also requires solidarity between countries, notably to provide adequate financial and technological support to the most vulnerable in their efforts to reduce emissions and to adapt to the already unavoidable consequences of climate change. UN Climate negotiations must urgently accelerate climate action from all major economies while increasing solidarity with the most vulnerable in the global South.

With the Fit for 55% package, the EU is obviously taking a leading position in global climate action. IndustriAll Europe stresses the importance of having a level playing field with European trade partners on EU as well as foreign markets. The proposed Carbon Border Adjustment Mechanism (CBAM) is an important part of the answer to the competitiveness challenge due to the acceleration of emissions reduction, but the risk of carbon leakage will require additional measures both from the EU and from international fora. Since trade is and will remain an important driver of growth for the EU industry, industriAll Europe remains supportive of a fair and regulated trade system, as well as of a trade policy that supports the insertion of the European industry within global supply chains, enhances market access and guarantees a level playing field.

#### **5. Rising energy prices must be tackled**

Energy prices have dramatically increased in Europe for the last year. From 2019 to 2021, retail gas prices increased by 14% on average in the EU whereas wholesale prices increased by 429%. Electricity prices have gone through similar trends with an increase of 7% in the retail price and of 230% in the wholesale price. Even though there are significant differences among Member States when it comes to price setting mechanisms, especially for the retail price, the current energy price crisis is impacting workers' power purchase and threatening the European industry and its workforce.

A soaring of global demand due to the recovery, combined with an unexpected supply contraction from Russia, largely explain the spike in the gas price. This increase of the commodity price entails an increase of the electricity price that has been amplified by seasonal weather conditions as well as by a carbon price now above 60 EUR/T CO<sub>2</sub>. Given the importance of gas in the EU energy mix (a quarter of EU overall energy consumption) and given the reliance on gas imports (90% of EU gas consumption is imported), the EU is highly vulnerable to price fluctuation on global energy markets.

The EU has recently published a toolbox to tackle energy prices. This long-awaited document lists the initiatives that Member States can implement within the framework of the EU Energy and Single Market rules. Compensation measures and direct support for poor end-users, safeguards to avoid disconnections, tax reductions, reform of the renewable support schemes, and provision of state aids to companies and industries are among the most important recommendations to Member States. Those measures must be implemented with the highest urgency based on social dialogue with national social partners and taking into account Member States' specificities.

The European Commission is also investigating possible "anti-competitive behaviour" of companies operating on the EU Market. IndustriAll Europe would like the investigation to also consider the extraordinary profits made by private companies active in the European Energy Market that produce, transport or distribute energy. Providing clarity on these profits and on the possible windfall profits made by companies can lead to a fair redistribution of wealth across society to mitigate the impact of the rising energy prices.

The European Commission will also entrust the European Securities and Market Authorities (ESMA) with the task of enhancing its monitoring of the EU carbon market. IndustriAll Europe welcomes such an investigation, but deplores that it is limited to the role of speculation in the carbon price increase. The recent proposals to change the scope of the ETS (inclusion of intra EU shipping) or to modify some of its rules (such as the end of free allocation for airlines) might have triggered hedging behaviour from some companies that wanted to anticipate their future compliance needs under the EU ETS. IndustriAll Europe asks the European Commission to propose and implement measures to avoid a situation in which future compliance needs in some sectors can impact the short term competitiveness of industrial sectors as well as the electricity price paid by consumers, including households.

Enhancing solidarity among Member States through cross-border initiatives, joint procurements, and energy storage is also part of the necessary initiatives expected from the European Commission. IndustriAll Europe strongly supports measures that would operationalise solidarity among Member States to purchase, store or transport energy.

However, industriAll Europe deplores the lack of attention to a series of rules of the EU energy market. For instance, the 'marginal pricing method' used on the EU electricity market considerably amplifies the impact of the gas price increase on the electricity price. Still, the Commission reiterates that this is the most efficient system for liberalised electricity markets. In the same way, the European Commission is assuming that the current price increases "are likely to be temporary". Such an assumption will not allow the in-depth review of an EU Energy Policy built on ideological principles that do not deliver in the real world the supply of the affordable decarbonised energy the EU needs to reach climate neutrality and secure its "open strategic autonomy".



## ANNEX 1: CBAM

The Commission proposes	IAE preliminary analysis
<ul style="list-style-type: none"> <li>• To set up a mechanism modelled on the Emissions Trading Scheme (ETS) for EU importers.</li> <li>• Initial scope imports of 30 goods from iron and steel, cement, fertilisers, aluminium and electricity sectors.</li> <li>• Review and possible extension to other goods and indirect emissions. Proposal expected before the end of the transitional phase.</li> <li>• The companies concerned will have to provide emission certificates (or CBAM certificates) according to the carbon intensity of the imported products. The price of the certificates will be aligned with the price of ETS allowances. In order to make this monitoring possible, companies will have to declare their imports to a competent national authority.</li> <li>• A reporting system will be rolled out from 2023. From 1 January 2023 to 31 December 2025, importers will have to report the emissions contained in their products as well as the carbon price already paid or not paid abroad. However, they will not have to provide any emission certificates during the three-year transition period.</li> <li>• The mechanism will be introduced in a gradual way and it will be compatible with the rules of the World Trade Organisation (WTO). It will also take account of the carbon price paid in other countries and of the emission efficiency of third country producers so that this mechanism is carefully balanced and non-discriminatory.</li> </ul> <p><b>Free allocations and use of revenues</b></p> <ul style="list-style-type: none"> <li>• CBAM is an alternative to free allocation, but there will be a transition period. Free allowances will be reduced by 10% each year</li> </ul>	<p><b>Things we positively assess:</b></p> <ul style="list-style-type: none"> <li>• EC has delivered on a key political commitment with a sophisticated and pragmatic proposal that fits with many key requirements: legal base, WTO-compatible, stepwise approach, notably to phase out free allocation.</li> <li>• A first step to level the playing field, with temporary phase and early review.</li> </ul> <p><b>Things requiring further discussions:</b></p> <ul style="list-style-type: none"> <li>• A limited sectoral scope is welcome to set up the system, but this limitative list of goods requires further investigation to see whether some goods in the covered sectors are missing.</li> <li>• The proposal to combine CBAM with free allocation during the transition phase is welcome. However, the shift from one carbon leakage protection system to another requires key conditions to be met. CBAM must demonstrate that it works as expected and conditions for the uptake of low-carbon products must be there (breakthrough technologies, infrastructures, lead market). Final decision on the pace of a possible free allocation phase-out must be taken in the context of the review process, as described in article 30 of the CBAM regulation proposal. The Review process should also monitor the possible impact of CBAM on downstream sectors (e.g. automotive, rail supply).</li> <li>• The risk of resource shuffling should be better tackled, notably for product segments where there are different technology routes, as well as for aluminium.</li> </ul>

<p>from 2026, over a 10-year period, so that means a complete phase-out by 2036.</p> <ul style="list-style-type: none"><li>• CBAM certificates to be surrendered, adjusted to free allocation, distributed for goods under CBAM (Art. 31).</li><li>• Part of the revenues will be used to finance the CBAM authority and the rest will be going to feed the EU budget as own resources.</li></ul>	<ul style="list-style-type: none"><li>• The CBAM should also include indirect costs while avoiding double protection to ensure WTO compatibility</li><li>• Use of Revenues: CBAM as a new own resource is misleading. Perception of a cash cow for domestic use might exacerbate resistance from trade partners. It gives no role to accelerate innovation or to support Just Transition.</li><li>• Exports are missing from the scope of the proposal, whereas they matter to European Energy intensive Industries and their competitiveness on global markets might be at risk with a higher carbon price and a phaseout of free allocation. Export rebates might be an option, but this is legally uncertain at this stage. Should that solution not work, other options could be explored (e.g. WTO negotiations to make low-carbon products competitive globally, global agreement on export credits for low carbon goods). In the meantime, the continuation of free allocation mitigates that risk.</li><li>• The risk of trade tensions must be avoided through a rapid clarification of key aspects of the Proposal (e.g. Art. 31 to ensure there is no double protection). This will also require a massive diplomatic effort in bilateral and multilateral fora (WTO, OECD, G7 and G20, UNFCCC).</li><li>• With these efforts, specific attention must be paid to the EU neighbouring countries.</li><li>• The specific situation of LDCs should be examined and using a share of CBAM and ETS revenues to fund climate action and Just Transition in industrial sectors through an international fund, such as the Green Climate Fund, could contribute to alleviate some concerns in third countries.</li></ul>
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## **IndustriAll Europe's key demands for CBAM**

- In principle, iAE is in favour of introducing a border adjustment mechanism. With such a mechanism, we can ensure that the decarbonisation of industry does not expose the workforce in Europe to carbon leakage.
- In practice, iAE has serious reservations on a series of key points:
  - The free allocation possible phase-out must be conditional to a successful CBAM implementation that clearly mitigates the risk of carbon leakage
  - Indirect emissions, indirect costs, exports and downstream manufacturing sectors must be in the scope of CBAM, and at least inserted in the review foreseen in Art. 30.
- Explore specific solutions for exports.
- Use a share of the CBAM and ETS revenues to catalyse innovation and Just Transition in industrial sectors globally, with strong social conditions attached.
- Include CBAM in trade agreements
- Build a strategy to secure global consensus on CBAM and avoid trade tensions and social disruption in trade partners.
- To avoid negative consequences for workers in non-EU countries that are not exempt from the CBAM, the EU must:
  - Give enough time to third countries to implement climate policies that would allow them to limit as much as possible the consequences of the CBAM implementation
  - Use the transition phase – that could be slightly extended if needed – to promote practical arrangements that would allow these countries to mutually decarbonise without generating trade tensions
  - Use all the means available in the EU neighbourhood policy to ensure policy coordination when it comes to climate and trade
  - None of the above demands can lead to the weakening or undue delay of the CBAM implementation

## ANNEX 2: ETS reform

The Commission proposes	IAE Preliminary Analysis
<p><b>Scope</b></p> <ul style="list-style-type: none"> <li>• Extension of the scope of the EU ETS to cover maritime transport. The Commission proposes that the EU ETS covers all intra-EU voyages and 50% of extra-EU voyages.</li> <li>• No extension of the scope to extra-EEA flights (intra-EU flights are already covered by the current ETS). However, the Commission proposes a complete phaseout of free allowances for intra-EEA aviation between 2024 and 2027, as well as higher taxes on kerosene as part of the Energy Taxation Directive (see below).</li> <li>• For road transport and buildings, see Annex 3 below.</li> </ul> <p><b>Cap</b></p> <ul style="list-style-type: none"> <li>• Emission reduction target in the current EU ETS is 43% by 2030 compared to 2005. The Commission proposes to increase that target to 61% emission reduction by 2030 compared to 2005.</li> <li>• This means that the current Linear Reduction Factor (LRF) would be changed from 2.2% to 4.2%.</li> <li>• This LRF would be combined with a one-off downward adjustment of the cap so that it has the same effect as if it would have applied from 2021. It should be noted that the cap would be increased by a certain number of allowances to compensate for the inclusion of maritime transport in the scope.</li> <li>• MSR: The 24% MSR intake rate is maintained until 2030. A buffer intake rate is introduced, whereby when Total number of allowances in circulation (TNAC) is between 833 and 1096 million, the MSR absorbs a number of</li> </ul>	<p><b>Background</b></p> <ul style="list-style-type: none"> <li>• With the start of the ETS phase IV and recent price developments, the ETS has entered into a new era with increased carbon price (EUA prices are currently at €60, whereas they were below €30 at the start of 2021 and below €20 until September 2018).</li> <li>• The announced measures (strengthening of the cap, re-calculation of benchmarks, phaseout of free allocation) will progressively, but significantly, enhance that trend – all things being equal.</li> </ul> <p><b>Things we positively assess:</b></p> <ul style="list-style-type: none"> <li>• The ETS related funds will get significant additional resources. The <b>Innovation Fund</b> will receive 200 million additional allowances, including 150 million coming from the new ETS for road transport and buildings. The <b>Modernisation Fund</b> will use an extra allowances envelope equivalent to 2.5 % of the cap.</li> <li>• <b>Carbon Contracts for Difference</b> will be eligible for the Innovation Fund.</li> </ul> <p><b>Things requiring further discussion:</b></p> <ul style="list-style-type: none"> <li>• <b>Free allocation is partly conditional to investment</b> in industrial sites. This is a positive development, but we should explore whether linking that conditionality to longer term investments and planning would make sense (i.e. investment strategy to reach carbon neutrality).</li> <li>• When setting targets for the EU ETS, account should be taken of the limited potential of industrial sectors to</li> </ul>

allowances equal to the difference between the TNAC and the lower threshold.

#### Free allocation and benchmarks

- Proposal to adopt a more stringent benchmark approach and revision of the scope of the benchmark to remove existing barriers to low-carbon technologies.
- Sectors covered by the CBAM should not receive free allocations after a transition period to gradually phase them out. Under the current ETS, these allowances are fixed until 2025. From 2026 onwards, they will be reduced by 10% per year, to be completely abolished in 2036.
- Free allocations are made conditional on the decarbonisation efforts from companies (recommendations from EED Audit reports if payback time < 5 years and cost-proportionate) in order to incentivise the uptake of low-carbon technologies. Otherwise, the amount of free allocation can be reduced by 25%.
- No free allocations are foreseen for the new separate ETS on road transport and buildings.

#### Auctioning revenues and ETS funds

- Member States would have to use all ETS revenues that are not attributed to the EU budget for climate-related purposes, including to support low-income households' sustainable renovation.
- Part of revenues coming from the new EU ETS on road transport and buildings would be used to finance a new Climate Social Fund (see further details below).
- Increase in the Modernisation Fund and Innovation Fund.
- Regarding the Modernisation Fund, whose resources come mainly from the auctioning of 2% of total allowances for the period 2021-2030, the proposal foresees to keep this percentage. The objective remains the same: to assist the ten Member States whose GDP

significantly reduce emissions by 2030 and the need to balance efforts between sectors covered by the EU ETS and sectors outside it.

- **The sectoral heterogeneity of the ETS** might raise questions while entering this new phase. ETS is covering power production, energy intensive industries, aviation and domestic shipping. These sectors have different business models, different technological constraints and different possibilities when it comes to passing the cost on to their customers. Yet, they are, and will be, more and more exposed to a single carbon price. We have seen price volatility for the last two years that is partly due to the cap decrease, but also partly driven by speculation from the financial sector, and partly entailed by hedging from companies that buy now to cover their future needs while anticipating a price increase. The ETS needs a mechanism to avoid hedging practices undermining competitiveness of companies and sectors most exposed to carbon price volatility.
- The proposed revision of benchmark values for 2026-2030 must better take into account investment cycles, technology availability, as well as economic and geographical constraints
- Industrial sites using **sustainable biomass** should not be penalised by the ETS reform. The development of sustainable biomass must be in line with the UN SDGs and the import of biomass to produce energy must be restricted to feedstocks having no adverse impact on climate

per capita at market prices in 2013 was less than 60% of the EU average in their transition to climate neutrality (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia). However, the Commission also foresees the auctioning of an additional 2.5% of the ceiling to finance the energy transition of Member States whose GDP per capita is below 65% of the EU average in 2016-2018, through the Modernisation Fund. The ten countries mentioned above, as well as Greece and Portugal, will benefit from this income. The scope of the Fund would be amended to exclude investments in fossil fuels and favour investments in climate and social priorities.

- Regarding the Innovation Fund - currently funded by auctioning 450 million allowances from 2020 to 2030 – it will be almost doubled in size (including an additional 50 million allowances from the classic ETS and 150 million allowances from the new ETS. The scope of the Fund will be adapted to facilitate Carbon Contracts for Difference.

### IndustriAll Europe's key demands for ETS

- The ETS reform must be in line with the EU Industrial Strategy. It must stimulate the transformation of the covered sectors in their efforts to become climate neutral by 2050 without threatening employment for the coming years.
- The aim of the ETS is to incentivise industrial transformation, not to be a new game of the casino economy. An oversight mechanism must stop speculative behaviours and provide clarity on the drivers of price developments, as well as on profits made by private companies and financial speculators.
- The proposed reforms must take into account sectoral and regional specificities when it comes to abatement potential by 2030.
- Auctioning revenues must better support industrial innovation in the sectors at stake through the two ETS funds, but also through the Member States' use of the revenues they collect or state aids.
- The two ETS funds should involve social partners in their governance arrangements and apply the highest social standards in their project assessment procedures.
- This socialisation of costs and risks must go hand in hand with socialisation of benefits. Support provided to private companies must lead to specific commitments when it comes to investments in emission reduction measures or in the deployment of low-carbon breakthrough technologies.



### ANNEX 3: New ETS for road transport and buildings

The Commission proposes	IAE Preliminary Analysis
<ul style="list-style-type: none"> <li>• From 2025, introduction of a separate self-standing emissions trading system to cover heating in buildings and fuels in road transport.</li> <li>• First year only, reporting obligations, and from 2026, issuance of allowances and compliance obligations.</li> <li>• Emission allowances to be issued upstream the supply chain.</li> <li>• By January 2024, EC publishes the cap for 2026, based on reduction of emissions of 43% by 2030 compared to 2005.</li> <li>• The quantity shall decrease by 5.15% each year from 2024.</li> <li>• Full auctioning (no free allocation).</li> <li>• Market Stability Reserve (MSR) of 600 million allowances and measures to react to excessive price increase are foreseen.</li> <li>• Climate Social Fund:             <ul style="list-style-type: none"> <li>○ €72.2 bn + equivalent co-financing requirement from Member States</li> <li>○ Aim = ensuring affordable and sustainable heating, cooling and mobility for vulnerable households</li> <li>○ National Climate Action Social Plans to access the Fund</li> <li>○ Frontloading of spending</li> </ul> </li> </ul>	<p><b>Background</b></p> <ul style="list-style-type: none"> <li>• Our initial position was to oppose the extension of the ETS to other sectors. However, the proposed package contains proposals and mechanisms worth discussing (see below). Moreover the EC proposal is not to extend the EU ETS, but to create a new and specific ETS for the sector. Hence, either we stick to our initial position, or we adapt it to take into account the new elements.</li> </ul> <p><b>Things we positively assess:</b></p> <ul style="list-style-type: none"> <li>• Carbon pricing for road transport complements standards for new vehicles. Without carbon pricing, it is hard to see how to tackle the emissions of the existing fleet and even if stricter CO2 standards will also contribute to reaching the 2030 emission reduction target for road transport.</li> <li>• In line with the well-to-wheel approach that iAE supports to decarbonise road transport.</li> <li>• Carbon price can accelerate fleet renewal (especially for commercial fleets, company cars) and the uptake of cleaner vehicles.</li> <li>• The Climate Social Fund (CSF) is the largest funding instrument ever proposed at EU level to tackle energy poverty in transport and housing. If well designed, and in combination with other instruments, it can provide a significant support to vulnerable households. But it is not sufficient to address all the citizens, and not only the poorest. Significant revenue loss in middle classes can lead to social and political upheavals.</li> <li>• Without the CSF, Member States will have to reach the 2030 emission</li> </ul>

	<p>reduction targets defined by the Effort Sharing through national measures and without an EU-wide solidarity mechanism. We do not believe a CSF without ETS would be a credible option, given the legal and political obstacles to ensure that new own resources can be earmarked for CSF.</p> <p><b>Things requiring further discussion:</b></p> <ul style="list-style-type: none"><li>• Distributive impact. A carbon pricing mechanism is regressive and will be detrimental to low-income households. But a better understanding of the situation in Europe might be needed to design a support mechanism in a relevant way.</li><li>• The Reform of the Energy Taxation Directive might be an alternative worth considering to set a carbon price on fuels while taking into account differences among the EU Member States.</li><li>• Complementary measures might help: Member States' obligations when it comes to alternative fuels, charging infrastructures and incentives to companies (OEMs) to produce affordable EVs.</li><li>• Energy poverty is first and foremost poverty. This discussion is related to the broader European social agenda (minimum wage, EPSR, etc.).</li><li>• Fighting energy poverty in transport and buildings must also be seen in a wider context, where fair taxation and economic governance must enable public authorities to massively mobilise public investment to renovate the building stock and improve transport infrastructures.</li></ul>
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### **IndustriAll Europe's key demands for the new ETS covering road transport and construction**

- iAE takes note of the European Commission's proposal to establish a new ETS system for road transport and building. Based on its previous position on the extension of the existing EU ETS, iAE

reiterates its concerns regarding the distributive impact that such a system can have, especially on low- and middle-income households.

- iAE welcomes the proposal of a Climate Social Fund to fight energy poverty (in buildings and transport), but believes that more funding will be needed to avoid a strong and negative social impact and requests the Commission to explore alternative ways of funding.
- iAE stresses that EU policies to tackle emissions from sectors not covered by the existing EU ETS must:
  - Take into account the differences that exist among regions and countries, and notably the specific situation of rural and isolated areas, especially in the poorest Member States.
  - Keep transport affordable, including individual road transport where adequate alternatives do not exist.
  - Develop synergies between various forms of instruments: standards, public and private investment, infrastructures, socially fair carbon pricing schemes.
  - Fully mobilise the potential of the EU Renovation Wave to fight energy poverty while creating jobs, including in the manufacturing of building materials and of decarbonised heating and cooling equipments.

#### ANNEX 4: CO2 Standards for cars and vans + AFI

The Commission proposes	IAE Preliminary Analysis
<ul style="list-style-type: none"> <li>• The Commission proposes to increase the emission reduction threshold for new cars to 55% by 2030 (from a current target of 37.5%).</li> <li>• The Commission also proposes to increase the emission reduction threshold for new vans to 50% by 2030 (from a current target of -31%).</li> <li>• The Commission proposes a new 2035 target of 100% reduction in carbon dioxide emissions of new cars.</li> <li>• A new Article 14a is proposed, where the EC would, every two years, (by 2025) establish a <b>progress report</b> towards zero emission road mobility, notably to assess the need for additional measures, including through financial means. This includes a series of indicators specific to mobility and the impact on consumers, progress in social dialogue, as well as aspects to facilitate an economically viable and socially fair transition towards zero emission road mobility.</li> <li>• In order to meet the targets set, the necessary infrastructure for electric and hydrogen-powered vehicles must be put in place. With the Revised Alternative Fuels Infrastructures Regulation, the European Commission therefore proposes that more than one million charging points be deployed by 2025. 3.5 million terminals are expected by 2030..</li> </ul>	<p><b>Background</b></p> <ul style="list-style-type: none"> <li>• Climate policy instruments will be the main driver of change for the automotive industry. The resulting structural change represents an unprecedented risk for employment in the sector.</li> <li>• The proposal to revise the CO2 Standards Regulation will accelerate the transition and exacerbate the related risk of employment in the industry.</li> </ul> <p><b>Things we positively assess:</b></p> <ul style="list-style-type: none"> <li>• Efforts to structure battery, hydrogen and raw material supply chains.</li> <li>• The monitoring of the transition, including from a social point of view, through <b>progress reports</b> is interesting, at least if it leads to specific initiatives.</li> </ul> <p><b>Things requiring further discussion:</b></p> <ul style="list-style-type: none"> <li>• The proposed ICE ban for 2035 de facto excludes the use of synthetic fuels, whereas it might be an important technology for hard-to-electrify modes of transport.</li> <li>• In the same way, plug-in hybrids should be allowed at least for a transition phase, and provided that their use is in line with emission reduction requirements.</li> <li>• The setting up of an ETS for road transport and the revision of the Energy Tax Directive will play a key role in reducing emissions of road transport. The complementarity between standards and pricing instruments should be strengthened.</li> <li>• REDIII should promote the uptake of renewable and low-carbon fuels.</li> </ul>

### **IndustriAll Europe's key demands for the automotive sector**

- The workforce of the automotive supply chains, especially in parts of the supply chain producing goods and equipment that are especially dedicated to ICE, must be better supported through the transition and must be at the core of the EU efforts to set up a Just Transition Framework
- Regions that are at risk because of the transition must be better identified and regional transformation better supported.
- CO2 standards and the related calendar must take into account the time needed for the industry to transform and the time needed to roll out the necessary infrastructures for charging, as well as to produce, transport and store low-carbon hydrogen and low-carbon electricity.
- Technology neutrality should be a key principle: all technologies in line with the CO2 objectives and the Sustainable Development Goals should remain in use.
- Demand must be stimulated through a mix of tax-based measures and incentives.
- Efforts to set up a battery supply in Europe, including for the provision of raw materials, must be enhanced.
- Mobility must remain affordable and the Fit for 55% package must not lead to polarised mobility patterns.

**ANNEX 5: Energy Efficiency Directive and Renewable Energy Directive**

The Commission proposes	IAE Preliminary Analysis
<p><b>EED</b></p> <ul style="list-style-type: none"> <li>• The Commission proposes to increase the Energy Efficiency Target to 36% for final energy consumption by 2030 (compared to the current 32.5%).</li> <li>• When it comes to buildings, the European Commission wants to see more efforts in the public sector, which accounts for 5% of the EU’s final energy consumption. The proposed revision thus includes an obligation for this sector to reduce its energy consumption by 1.7% per year. Member States are also expected to be required to renovate at least 3% of the total surface area of buildings belonging to all levels of public administration each year (not just ministerial buildings).</li> <li>• The energy poverty dimension is also taken into account in the Commission’s Proposal. Indeed, the European Commission wants to require Member States to ensure that a specific share of energy savings is directed towards vulnerable consumers, people affected by energy poverty, and people living in social housing.</li> <li>• According to the Commission, the share of efforts to be focused on the most disadvantaged communities will reflect the share of the population belonging to this category in each Member State.</li> </ul> <p><b>RED</b></p> <ul style="list-style-type: none"> <li>• The Commission proposes to increase the Renewable Energy Target to at least 40% by 2030, compared to the current 32%. The text does not include binding national targets.</li> <li>• The proposed revision contains a number of sub-targets, including a binding 13% reduction in the carbon intensity of transport fuel, and 1.1% annually for heating and cooling. An indicative 1.1% annual target applies to industry, and there</li> </ul>	<p><b>Background</b></p> <p><b>Things we positively assess:</b></p> <ul style="list-style-type: none"> <li>• Strengthening of the energy efficiency first principle.</li> <li>• We welcome the increasing focus on energy poverty and measures to support vulnerable consumers and end-users.</li> <li>• We welcome the references to social dialogues and the invitation to social partners to discuss EE, i.e. in the context of EE training programmes, energy poverty.</li> <li>• Further removing barriers in permitting procedures for new RES installations is an important element.</li> <li>• Member States’ coordination of offshore energy projects.</li> <li>• Lack of social dimension: SD only in the context of skills.</li> <li>• Demand for a strong social dimension, incl. labour standards in the RE value chain.</li> </ul> <p><b>Things requiring further discussions:</b></p> <p>The developments in energy prices impact many workers around Europe leading to energy poverty. Therefore, new ways to ensure all European citizens have access to energy must be established. We propose to subsidise the purchase and installation of efficient energy sources for households, such as heat pumps. This can ensure low income groups’ access to more efficient energy sources, resulting in lower expenditures on energy and thereby decreasing energy poverty.</p> <ul style="list-style-type: none"> <li>• The European hydrogen strategy should include hydrogen generated from all low-carbon energy sources</li> </ul>



<p>is a similarly non-binding target of 49% renewable energy use by buildings by the end of the decade.</p> <ul style="list-style-type: none"><li>• Bioenergy, currently 60% of energy classed as 'renewable', will remain important, but the sustainability criteria for woody biomass will be tightened. There will be 'no go areas', where the sourcing of wood for bioenergy is prohibited.</li><li>• In line with the EU Hydrogen Strategy, there are sub-targets for renewable hydrogen and synthetic fuels: 2.6% for renewable fuels of non-biological origin in transport, and a 50% renewable share in hydrogen consumption for industrial processes.</li></ul>	<p>The final energy consumption reduction will be key to reach the 2030 and 2050 climate objectives, including in industrial sectors. EE targets must be better integrated into the EU industrial strategy and the industrial ecosystem transition pathways. Sector coupling should be better supported and using IPCEIs should be explored.</p> <p>The production of additional volumes of affordable decarbonised electricity is a key condition to decarbonise the EU. Direct electrification, production of decarbonised hydrogen, production of e-fuels are all solutions crucial for developing a climate neutral industry that requires massive additional decarbonised electricity production in Europe. This must be steered by a holistic strategy to plan accordingly the development of production capacities and the related infrastructures to transport, store and distribute energy in a secure and efficient way.</p>
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### **IndustriAll Europe's key demands for the Energy Efficiency and Renewable Energy Directives:**

- Promote energy efficiency first as a priority throughout the EU Industrial Strategy and launch specific initiatives to support and accelerate the efforts made by the industry to reduce its energy intensity.
- Publish a holistic and quantified strategy to secure the supply of an affordable decarbonised electricity and the development of the required infrastructures.
- Energy efficiency and renewable energy directives must lead to strengthen European industrial value chains related to high social standards.
- EED and RED must contribute to the EU strategy to tackle energy poverty.
- EED and RED must be better coordinated with the EU Renovation wave that can also have a positive impact on the manufacturing value chain. Industrial value chains for construction materials, as well as for decarbonised ways of heating and cooling can play a crucial role here, provided that supply chains and skilled workforces are secured.