
A "Fit for 55" Package Based on Environmental Integrity and Solidarity

Designing an EU climate policy architecture for ETS and effort sharing to deliver 55% lower GHG emissions by 2030

Publication

Report

Citation

Agora Energiewende and Ecologic Institute (2021): A "Fit for 55" package based on environmental integrity and solidarity: Designing an EU climate policy architecture for ETS and effort sharing to deliver 55% lower GHG emissions by 2030, Berlin: Agora Energiewende.

The EU has raised its climate target for 2030 to at least -55 % and is now debating how to reform its climate policy architecture so that it can reach it. In a new study, Agora Energiewende and Ecologic Institute sketch a "Fit for 55" package that can ensure both environmental integrity and solidarity. It investigates four options how to regulate heating and transport emissions, focusing in particular on the pros and cons of expanding emissions trading to these sectors. The paper makes the case for a smart mix of EU-level carbon pricing and companion policies.

These are the report's key findings.

1. **The EU's "Fit for 55" climate policy architecture must guarantee environmental integrity and address solidarity.** To guarantee both, the architecture must have a robust compliance mechanism. Whatever EU climate policy architecture is chosen, each ton of CO₂ must be governed by the ETS or the Effort Sharing mechanism. At the same time, the target achievement must be a collective endeavor that supports lower-income Member States and poorer households.
2. **There are different options for strengthening the ETS and/or effort sharing while ensuring the environmental integrity of the -55% target.** A standalone ETS for transport and/or buildings, an enlarged EU ETS, or tightened effort sharing are all options that could work, and each has their pros and cons. The important thing is to define who is accountable for reducing emissions, and who will be responsible if targets are not met. When emissions trading serves as the central compliance mechanism, prices must be allowed to rise as high as necessary to reach the emission reduction target – which means not introducing a price cap.

3. **A carbon price works better if it is supported by companion policies.** This holds especially true for households and transport. Companion policies in these sectors guide investment decisions and drive innovation, while the carbon price addresses the use of existing cars and heating systems. Strengthening EU-policies such as CO₂ standards for vehicles, tightening building codes, or supporting programs for low-carbon heat grids gives consumers the low-carbon options they need to respond to rising carbon prices and to reduce emissions in line with the -55% target.
4. **Distributional effects are a challenge but there are solutions for resolving them.** 100% of revenues from carbon pricing must flow back to consumers in one way or another – as targeted support for vulnerable households, as a fund for climate policy measures, and/or as lump-sum payments. Using carbon pricing revenues for other purposes such as repaying EU debt will threaten support for higher CO₂ prices. It is better to use tools that enable consumers to reduce their energy consumption, and thus their exposure to higher prices, rather than simply trying to exempt consumer groups generally.

Language

English

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Credits

Acknowledgements:

Patrick Graichen, Ada Rühring, Matthias Buck, Murielle Gagnebin, Claudio Baccianti, Thorsten Lenck, Oliver Sartor, Lidia Wojtal, Georg Thomaßen (Agora Energiewende)
Günter Hörmandinger, Carl-Friedrich Elmer (Agora Verkehrswende)
Jakob Graichen, Felix Matthes, Katja Schumacher, Sabine Gores (Öko Institut)
Nils Meyer-Ohlendorf, Eike Karola Velten (Ecologic Institute)
Tobiasz Adamczewski (Forum Energii)
Sharon Turner (Independent Consultant)
Domien Vangenechten, Andrei Marcu (ERCST)

Funding

Smart Energy for Europe Platform (SEFEP), International
Agora Energiewende, Germany

Published by

Agora Energiewende, Germany

Year

2021

Dimension

48 pp.

Project ID

50037

Table of contents

- 1 Introduction
- 2 Options for regulating heat and transport emissions in the EU's future climate policy architecture
 - 2.1 Heating and transport in the EU's current climate policy architecture
 - 2.2 Governance options for ensuring environmental integrity for the -55% target
 - 2.3 Evaluating the reform options based on the principle of environmental integrity
 - 2.4 The timeline for implementing emissions trading in the new sectors
 - 2.5 Risks and benefits of an expanded EU ETS vs a separate trading scheme for building heat and road transport
 - 2.6 Effects of ETS reform and extension on industrial competitiveness
- 3 Why carbon pricing works better with companion policies
 - 3.1 The transformative potential of carbon pricing and the case for harmonized carbon pricing at the EU level
 - 3.3 Why companion policies are needed as part of a Fit for 55 policy mix
 - 3.4 Key EU-level companion policies for buildings and transport
- 4 Why more solidarity is needed to achieve -55%
 - 4.1 Higher national targets under the ESR require more solidarity
 - 4.2 Emissions trading for heating and transport requires more solidarity
 - 4.3 100% of revenues from carbon pricing needs to flow back to EU citizens
 - 4.4 Managing the impacts of carbon pricing requires making smart use of the EU budget for timely investments before the introduction of an ETS
 - 4.5 Managing the impacts of carbon pricing requires making smart use of ETS revenues after the introduction of an ETS
- 5 Annexes
 - Annex 1: The case for carbon pricing in buildings and transport
 - Annex 2: Examples of annual heat and transport costs at a CO₂-price of €50/t CO₂
 - Annex 3: EU funds available in the 2021–2030 period
 - Annex 4: Indicative revenues in a separate ETS for buildings and transport
- 6 References

Keywords

Climate
Energy
EU
Finance
Governance
Mobility

Source URL: <https://www.ecologic.eu/17824>