

# Suggestions to improve the *Fit for 55* package

## by Citizens' Climate Europe

Since the presentation of the Green Deal in December 2019, the European Union has committed to tackling the social and environmental dimensions of the climate crisis and leading by example. As one of the world's biggest economies, its ambition to become the first climate-neutral continent not only defines a new path to sustainability domestically but also triggers a global race to the top.

The *Fit for 55* package proposed by the European Commission aims to achieve the first part of this challenge during this decisive decade. Citizens' Climate Europe welcomes the EU's holistic and comprehensive approach to transforming our economies and societies. Indeed, the package sets out clear pathways for all European actors and external partners.

Nevertheless, while Citizens' Climate Europe agrees that *Fit for 55* is a step in the right direction, we believe some practical elements must be improved to accelerate and ease the transition towards climate neutrality. The following suggestions will add effectiveness, favour transparency, and ensure that citizens' concerns are addressed. Onboarding all Europeans into the transition is crucial to foster much-needed public support.

Citizens' Climate Europe asks for:

1. **An effective Climate Income** (Carbon Dividend) for *all* citizens (residents) within each Member State, funded by:
  - *all* revenues from the new Transport and Heating Emissions Trading System (ETS),
  - increases in funds from the existing ETS,
  - if applicable: surplus from the Carbon Border Adjustment Mechanism (CBAM).

Realising the high emission price levels needed to meet the goals of the Paris Agreement along a climate-realistic timeline requires sustained public support from a critical mass of citizens, many of whom will increasingly feel the effects of rising consumer prices for carbon-intensive goods and services. A Climate Income can turn this otherwise painful experience into an attractive feature.

2. **Adding a steadily rising price floor to the ETS and the Building and Transport ETS.**

Price certainty will spur investment from businesses and consumers alike, while the ETS without a price floor leaves investors in uncertainty about their minimum return on investment. A price floor also operates more efficiently without triggering unanimity issues in the EU<sup>1</sup> and shields the ETS from special interest groups' efforts to weaken it.

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<sup>1</sup> <https://www.cesifo.org/en/publikationen/2019/working-paper/legal-and-economic-case-auction-reserve-price-eu-emissions-trading>

3. **Faster phase-out of Free Allowances** on a more ambitious timescale, including **export rebates** under the CBAM.

In effect, free allowances weaken the transformative impacts of emissions pricing urgently needed for an accelerated decarbonization for exempt sectors.

Emission pricing can only be fair if no particular group in the economy enjoys privileges inaccessible to others. Export rebates are much more effective in protecting the European actors at the international level while they do not interfere with the ambitions to decarbonize the internal market.

4. **Expanding the Energy Taxation Directive (ETD) to the whole economy** with a steadily rising price trajectory.

The ETD represents an opportunity for implementing a steadily rising price on greenhouse gas emissions covering the whole economy, which, combined with ETS, can drive decarbonization in specific sectors. Moreover, an economy-wide price will make it easier to argue for export rebates without fearing retaliation by external partners.

**Citizens' Climate Lobby endorses Climate Income, a rising price floor on emissions trading, an end to free allowances, and an economy-wide price on emissions. These recommendations are critical in ensuring that *Fit for 55* is fit for 1.5 while delivering a socially just, economically feasible, and politically consensual environmental transition.**

Abbreviations used:

ETS: (EU) Emissions Trading System

CBAM: Carbon Border Adjustment Mechanism

ETD: Energy Taxation Directive

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