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NOTE

From: Presidency
To: Delegations
Subject: Fit for 55 Package
– Overview of progress of the “Fit for 55” package of legislative proposals

I. INTRODUCTION

1. The present report aims to provide an overall state of play and overview of progress made on the ‘Fit for 55’ package within the Council. To this end, the report focuses on its horizontal aspects, such as interlinkages between files, and the main issues raised in discussions so far, including where relevant relating to the level of ambition and scope of proposals. More detailed progress on each file will be described in separate progress reports that will be presented to each Council formation.

2. The ‘Fit for 55’ package was presented by the European Commission on 14 July 2021. The package of legislative proposals aims to align the EU’s climate and energy policy framework with its new economy-wide climate target for 2030 of reducing net greenhouse gas emissions by at least 55% and to put it on track to reach its objective of becoming climate neutral by 2050.
3. The underlying assumption of the Commission proposals is that climate ambition must be maintained across the files in order to meet the climate neutrality objective, which was endorsed by the **European Council** and subsequently laid down in a legally binding manner in the European Climate Law adopted by the European Parliament and the Council.
4. Together, the proposals aim to enable the EU to reach its targets in a fair, cost-efficient and competitive way, contribute to a green and just transition and to strengthening innovation of the EU economy in line with the objectives of the European Green Deal. The revision of its climate and energy legislative framework should also enable the EU to deliver on its international commitments under the Paris Agreement, in particular its updated Nationally Determined Contribution in line with the increased ambition for 2030. Moreover, the Commission’s proposals aim to contribute to the post-COVID recovery of the European economy and the long-term resilience of the European Union.
5. The package consists of a series of closely interconnected proposals either amending existing pieces of legislation or establishing new initiatives across a range of policy areas and economic sectors including climate, energy, transport, buildings, land use and forestry. In addition, a number of additional proposals are expected to be presented shortly after this report has been issued. The expected proposals on the review of the Multiannual Financial Framework and on Own Resources, to be presented on 22 December 2021, will be instrumental in further work on certain parts of the package (i.e. the Emissions Trading System, the Social Climate Fund and the Carbon Border Adjustment Mechanism).

6. To this end, the Commission proposes to use a mutually reinforcing mix of policies centered around the four building blocks below:
- a) **Carbon Pricing:**
 - i) Increasing the ambition of the EU Emissions Trading System (ETS).
 - ii) Introducing carbon pricing on imports from certain sectors that are covered by the ETS in the EU in order to diminish the risk of carbon leakage through the establishment of a Carbon Border Adjustment Mechanism (CBAM).
 - b) **Setting more ambitious EU and national targets:**
 - i) Increasing national emission reduction targets in the non-ETS sectors through the Effort Sharing Regulation (ESR).
 - ii) Increasing natural sinks, including through the setting of national targets for the land use and forestry sector (LULUCF Regulation).
 - iii) Raising overall EU targets for renewables and energy efficiency through the Renewable Energy Directive (RED) and the Energy Efficiency Directive (EED), which will notably support sectors under both the ETS and the ESR in their decarbonisation efforts.
 - iv) Aligning the taxation of energy products and electricity under the Energy Taxation Directive (ETD) with EU energy and climate objectives.
 - c) **Rules (standards):**
 - i) Increasing CO₂ emission reduction targets for new cars and vans in the Regulation on CO₂ standards for cars and vans, which, inter alia, will help Member States to meet their increased ESR targets.

- ii) Proposed targets for roll-out of easy-to use and interoperable (re)charging and (re)fuelling infrastructure in the Alternative Fuels Infrastructure Regulation (AFIR), which will inter alia support achieving the emission reduction targets referred to above.
- iii) The ReFuelEU Aviation and FuelEU Maritime proposals set obligations for sustainable fuels in these sectors that will complement their efforts notably in relation to carbon pricing measures (ETS).

d) **Support measures:**

- i) To mitigate the social and distributional impacts of the proposed separate emissions trading system for buildings and road transport, the Commission proposes to establish a Social Climate Fund sourced from a part of the auction revenue to support vulnerable households, micro-enterprises and transport users, notably for investments to reduce emissions and energy costs as well as for temporary direct income support.
- ii) The increased ambition of the ETS is accompanied by an increase of the Modernisation Fund corresponding to 2.5% of the ETS cap to support the energy transition of a number of low income Member States.
- iii) The ETS Innovation Fund will also be increased to accelerate investments in innovative technologies and solutions in all sectors under the ETS.
- iv) The entirety of the Member States auction revenues will support climate- and energy-related projects, including decarbonisation in the road transport and buildings sectors.

7. Within the Council, the proposals are being dealt with in four different formations: Environment, TTE (Energy), TTE (Transport) and ECOFIN.

8. As concerns the European Parliament, the proposals under the package are being dealt with by five Committees (ENVI, ITRE, TRAN, EMPL and ECON¹) with a series of other Committees being associated or consulted under various procedural rules. Most of the rapporteurs and shadow rapporteurs for the proposals have been appointed. Work is at a very early stage and according to available information no final timetables have formally been established for work on any of the proposals.

II. WORK UNDERTAKEN DURING THE PRESIDENCY

9. The proposals of the ‘Fit for 55’ package have been a major priority for the Presidency which, within the various Council formations involved, has done its utmost to make as much progress as possible within the overall approach of ensuring the coherence of the package.
10. Alongside the intense work at the Working Party level, the Environment Council held a policy debate on the proposals within its remit at its meeting in October, which it will follow-up at its meeting in December. The Energy and Transport Councils will discuss the proposals in their areas of competence at their respective meetings in December.
11. In addition to the work undertaken under the responsible Council formations, the AGRIFISH and COMPET Councils have held political exchanges on the package related to topical issues dealt with under their remit. On 29 September 2021, COMPET held a policy debate on the package from the perspective of industrial competitiveness in the framework of the implementation of the updated New Industrial Strategy for Europe. On 12 October 2021, AGRIFISH held an exchange of views on the contribution of agriculture and forestry to the legislative initiatives under the ‘Fit for 55’ package. Moreover, on 26 November 2021, the COMPET Research Council will hold a debate on contribution of research and innovation in achieving cross-sectoral objectives, including the ‘Fit for 55’ targets in transport, energy, industry, land use and forestry.

¹ ENVI and EMPL jointly responsible for the Social Climate Fund. ECON is responsible for the Energy Taxation Directive proposal. However, the Parliament is only being consulted on that proposal (Special legislative procedure).

12. Due to the sheer number and size of proposals, their complexity and interlinkages, as well as their political significance, work on most files is still at a rather early stage. While there is a clear understanding among delegations that the proposals taken together should deliver the agreed level of ambition set out in the Climate Law, delegations have been seeking clarifications from the Commission on the proposals and their impacts, including at the national level. Delegations have also requested more information on the role and contribution of the individual proposals to the overall economy-wide ambition of achieving net emissions reductions of at least 55% by 2030; as well as on how the proposals interact.
13. As can be expected given the wide range of proposals, discussions have not progressed at the same pace on all files. It would appear that work is most advanced on some of the transport proposals and good progress has also been made on the energy files, whereas on the files within the remit of the Environment and ECOFIN Councils, it is rather clear that delegations need more time to fully assess the proposals and most of the progress made relates to clarifying various aspects of the proposals. In that context, it is recalled that some of the proposals represent new measures in the EU's toolbox such as the Social Climate Fund and the Carbon Border Adjustment Mechanism, whereas others such as the ETS and LULUCF contain several new elements.
14. Following the good progress made at technical level on transport proposals, the Permanent Representatives Committee (Part I) held an exchange of views on these proposals on 12 November 2021 and gave the Presidency guidance for further work. In relation to the question whether delegations could support the aim of achieving a general approach by the end of the year on any of the transport files, a broad majority indicated that it is necessary to maintain the coherence of the package and that the transport files present clear interlinkages with other proposals. These interlinkages refer not only to technical aspects but, most notably, to the ambition of the whole package. In particular, Member States stressed that before advancing on the relevant files, the direction of travel of all closely related files should be clear, whereas at this stage some proposals are still in a rather initial phase of negotiations.

1) Environment Council

15. On 6 October 2021, the Environment Council held an initial exchange of views on the five files under its remit, focusing on general and horizontal aspects of the files.
16. At Working Party level, four of the files are being dealt with by the Working Party on the Environment while the proposal on the Social Climate Fund is being discussed by a dedicated Ad hoc Working Party. A number of meetings have been held on each proposal and a first preliminary reading of the proposals, together with their impact assessments, has been or is being completed. As concerns the proposal on CO₂ emission standards for cars and vans, an initial article-by-article reading has been undertaken. At this early stage, most of the delegations are still studying the proposals and therefore their views or positions are (mostly) preliminary. In particular, the four files on the ETS reform, Effort Sharing, LULUCF and the Social Climate Fund will due to their complexity and introduction of new elements, and as regards ETS its size, require considerable further technical work.

i) Emissions Trading System (ETS) reform²

Delegations continue to view the ETS as being at the heart of the EU's climate policy. There appears to be general acknowledgement that the ETS will have to deliver its cost-efficient share of the EU's increased ambition. In this context, there have been some calls for exploring options for increasing further the ambition of the ETS but also questions on possible impacts of certain parts of the proposals on both economic sectors and households, highlighting the need to take into account the different situations of Member States.

In particular, the proposed introduction of emissions trading for buildings and road transport sectors has prompted significant concerns with regard to its social impacts on lower income households and the risk of increasing energy poverty. Questions have been raised whether the proposed Social Climate Fund will be sufficient to mitigate impacts. It has, however, also been pointed out that emissions trading in these sectors will contribute to a cost-efficient way to decarbonise them, while supporting Member States in meeting their increased national targets under the Effort Sharing Regulation.

² Three proposals are dealt with under ETS reform:

- Proposal for a Directive amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757 (do. 10875/21 + ADD 1-7);
- Proposal for a Directive amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure (doc. 10917/21 + ADD 1-3);
- Proposal for a Decision amending Decision (EU) 2015/1814 as regards the amount of allowances to be placed in the market stability reserve for the Union greenhouse gas emission trading scheme until 2030 (doc. 10902/21 + ADD 1).

In addition, a fourth proposal concerning ETS was submitted on 14 July 2021: Proposal for a Decision amending Directive 2003/87/EC as regards the notification of offsetting in respect of a global market-based measure for aircraft operators based in the Union. The proposal is dealt with separately under TTE (Transport).

In relation to the proposed elements aimed at strengthening the existing ETS and its ambition, initial focus has inter alia been on assessing the impact of the adjustment of the cap and on the provisions on carbon leakage/free allocation. In particular, questions have been raised concerning the proposed provision of the conditionality of free allocation and the speed and modalities of the phase-out of free allocation in the ETS for sectors covered by the proposed Carbon Border Adjustment Mechanism (CBAM). Initial comments on the proposals on the Market Stability Reserve (MSR) have concentrated on, inter alia, the impact of the reserve on carbon pricing. In that context, some delegations wish to revisit Article 29a on “Measures in the event of excessive price fluctuations” (not part of the Commission’s proposal).

As regards the maritime and aviation sectors, emphasis has been on fully assessing the proposals, notably in terms of their contribution to emissions reductions, their impacts on the sectors and competitiveness, while underlining the international context and the need to take into account national circumstances. Further, with regard to interlinkages with other files, delegations have called for an assessment of the cumulative impacts of the proposals on ETS, ReFuelEU Aviation, FuelEU Maritime and on energy taxation.

In relation to financial provisions, discussions have centred on the size, sourcing, scope and distribution of the Modernisation Fund and the Innovation Fund. The proposed end to support for liquid fossil fuels from the Modernisation Fund and the compulsory earmarking of all auction revenues will also require further consideration.

ii) Effort Sharing Regulation³ (ESR)

The main issues identified until now concern the proposed targets, flexibilities and the new additional reserve, including in relation to other ‘Fit for 55’ proposals. Several delegations have indicated that they see their respective new targets as very challenging. A number of delegations have called on the Commission to provide more information and data on the calculation of the national targets and asked for clarification on how the principles of fairness, cost-efficiency or increased convergence were taken into account.

³ Proposal for a Regulation amending Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement (doc. 10867/21 + ADD 1-4)

When it comes to flexibilities, delegations in general agree that they will play an important role in terms of helping Member States reach their national targets in a cost-effective manner while respecting environmental integrity. Delegations are particularly interested in further clarification of the proposed changes to the existing flexibility for Member States to use net removals from the LULUCF sector towards their target compliance under the ESR. Several delegations have also requested more information about the new additional reserve, which would be made up of possible excess net removals generated from 2026 to 2030. In addition to the questions about the concurrent functioning of the flexibilities provided for in the ESR and LULUCF proposals, some delegations have enquired about the possibility to increase the flexibility between the ETS and ESR. Delegations have also called for additional information on the interaction between the ESR and the proposed new emissions trading system for buildings and road transport.

iii) Regulation on Land Use, Land Use Change and Forestry (LULUCF)⁴

The discussions at technical level on the Commission proposal has mostly focused on the clarification of the proposed amendments to the existing Regulation, in particular in the context of the significant changes to the overall regime from 2026 onwards. However, from the discussions so far it is possible to identify a few main issues, namely the allocation of national targets for 2030 (designed to replace the current ‘no-debit rule’ as of 2026), the proposed process to design national targets under the post-2030 framework, and the flexibilities designed to help Member States comply with their targets.

⁴ Proposal for a Regulation amending Regulations (EU) 2018/841 as regards the scope, simplifying the compliance rules, setting out the targets of the Member States for 2030 and committing to the collective achievement of climate neutrality by 2035 in the land use, forestry and agriculture sector, and (EU) 2018/1999 as regards improvement in monitoring, reporting, tracking of progress and review (doc. 10857/21 + ADD 1-4).

Delegations generally acknowledge the important role of the LULUCF sector in the EU's climate policy and its increased overall ambition. Some questions have been raised about national allocations proposed for 2030, including their level of ambition and, the criteria used in their calculation, the proposed new compliance mechanism, as well as the proposed process for the setting of annual national targets for the period 2026-2029. At this stage, there are some questions about the proposal to create, as of 2031, a single land sector combining net removals in the LULUCF sector and agricultural non-CO₂ emissions and the aim of climate neutrality for the combined sector in 2035. In general, delegations recognise that flexibilities, in particular for natural disturbance events, will be very important to facilitate the Member States' compliance with the increased ambition after 2025. Discussions have focused on clarification of their technical aspects and the changes to the existing flexibilities after 2025, as well as on gaining a better understanding of the interlinkages between the flexibilities in the ESR and LULUCF proposals.

iv) Regulation on CO₂ emission standards for cars and vans⁵

There is a general understanding that the automotive sector has to contribute to the increased EU ambition and for a number of delegations the proposal is key for the overall ambition and to fulfill their increased national targets in the Effort Sharing Regulation. The focus of discussions has been on the levels of ambition of the target both for cars and vans, including the 100% target for 2035, which requires all new cars and vans to be zero-emission vehicles by that date. In particular, the main issue raised has been the pace of transition to zero-emission vehicles, i.e. whether the Commission's proposal has struck the right balance in this respect or the transition could and should happen faster (2030) or whether it is premature and more time is needed. Questions have been raised on the possibility to take account of the contribution of renewable and low-carbon fuels when assessing the vehicles manufacturers' compliance with their targets. The need to consider further the difference between Member States in the uptake of zero- and low-emission vehicles, due mainly to affordability and slow roll out of infrastructure, and the time required for the transition of manufacturing have been highlighted. In addition, issues such as the differentiation between cars and vans, the appropriateness of ending the small volume derogation and the incentives for zero- and low-emission vehicles by 2030 as well as the impact on the second hand cars market in certain Member States will require further discussion.

Delegations have underlined the need to maintain coherence with other proposals in the 'Fit for 55' Package, and stressed that the targets need to go hand in hand with the ambition of the proposal on the Alternative Fuel Infrastructure (AFIR).

⁵ Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2019/631 as regards strengthening the CO₂ emission performance standards for new passenger cars and new light commercial vehicles in line with the Union's increased climate ambition (doc. 10906/21 + ADD 1-5).

v) Regulation on the Social Climate Fund⁶ (SCF)

While there is a general acknowledgement of the need to ensure a green transition which leaves no one behind, the proposal has received mixed reactions. Several concerns and calls for clarifications have been raised regarding the following aspects of the proposal, in particular: a) absence of a standalone Impact Assessment and related data, b) legal basis, c) interplay with upcoming proposals on Own Resources of the Union and revision of the Multiannual Financial Framework, d) financial and budgetary issues (notably on the size of the SCF, source of the funding, allocation methodology and criteria chosen), e) implementation and management, f) overlaps with other funds.

For most delegations, the proposal is intrinsically linked with the inclusion of BRT sectors in the ETS, while some support the setting up of the SCF regardless of the establishment of a new separate ETS for those sectors.

In line with the mandate of the Ad hoc Working Party on Social Climate Fund⁷, the Presidency has bracketed the relevant provisions in the proposal and its annexes, on the financial aspects, linked to the Multiannual Financial Framework and the Own Resources of the Union. The aim is to begin the article-by-article examination of the proposal under the French Presidency.

2) TTE (energy) Council

17. As concerns the two files under the remit of TTE (Energy) (Renewables Directive and Energy Efficiency Directive) the Working Party on Energy has examined the proposals (and related impact assessments) intensively from July to November in a series of meetings, analysing first the main principles and provisions, then examining all articles and annexes. The two proposals have a number of important interactions both with other proposals in the Fit for 55 package (in particular AFIR, RefuelEU Aviation and FuelEU Maritime) and with upcoming legislation (revision of the third energy package for gas and revision of the Energy Performance of Building Directive).

⁶ Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund (doc. 10920/21 + ADD 1).

⁷ Doc. 11402/21.

In addition to the drawing up of a progress report, the Presidency intends to prepare a first revised text on both files, which may serve as the point of departure for further work under the French Presidency.

i) Renewables Directive (RED)⁸

Regarding RED, it would appear that delegations support the aim of the proposal as well as the overall level of ambition proposed. However, delegations do underline the importance of flexibility for Member States to apply the most cost-efficient measures, of coherence with existing legislation, and of the respect of the subsidiarity and technology-neutrality principles.

In light of the discussions, more flexibility is likely to be needed, notably regarding the proposed sub-targets for renewables in heating and cooling, district heating and cooling, transport and industry as well as the sustainability criteria for biomasses.

ii) Energy Efficiency Directive (EED)⁹

Regarding EED, delegations recognise the need for further energy efficiency measures and the importance of the ‘energy efficiency first’ principle. However, in general they plead for flexibility and the consideration of national specificities and cost-effectiveness when defining their indicative national contributions and implementing their energy efficiency policy measures.

Member States support the overall aim of increasing the efficiency of buildings in the public sector and of supporting vulnerable consumers. In this context Member States underlined the additional administrative burden imposed and criticised the excessive details of EU-level rules on energy poverty. Delegations call for further work on the definition of an efficient district heating and cooling system in order to better reflect their national circumstances and to provide the right incentives for the deployment of renewable energy in heating and cooling.

⁸ Proposal Proposal for a Directive amending Directive (EU) 2018/2001 Regulation (EU) 2018/1999 and Directive 98/70/EC as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652 (doc. 10746/21 + ADD 1-6).

⁹ Proposal for a Directive on energy efficiency (recast) (doc. 10745/21 + ADD 1-8).

The level of ambition for EED is correlated to several other provisions of the Fit for 55 package, including to the possible extension of the EU ETS to buildings.

3) TTE (transport) Council

18. On the three files under the remit of the TTE (Transport) Council (Alternative Fuels Infrastructure Regulation, ReFuelEU Aviation and FuelEU Maritime) a large number of meetings of, respectively, the Working Parties on Intermodal Questions and Networks, Aviation, and Shipping have been organised, allowing for a thorough analysis of the three proposals and their impact assessments. In addition to intensive work at technical level, on 12 November 2021, the Permanent Representatives Committee (Part I) held an exchange of views on the three transport files, during which delegations stressed the importance of the proposals as well as the need to maintain the coherence of the package, as the transport files present clear interlinkages with other proposals.

i) Alternative Fuels Infrastructure Regulation (AFIR)¹⁰

The discussions at working party level indicated overall agreement that more infrastructure will be needed to support faster transition to the use of alternative fuels in transport. General agreement has been recorded for the overall objectives of the proposal and the principal approach to measures foreseen to meeting those objectives, including the setting of binding targets for infrastructure rollout. In principle, the setting of mandatory fleet-based and distance-based infrastructure deployment targets for light-duty vehicles, and of distance-based and location-based targets for heavy-duty vehicles is supported by most Member States.

¹⁰ Proposal for a Regulation on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU (doc. 10877/21 + ADD 1-7).

In the proposed compromise texts, the Presidency attempted to address the main issues raised by delegations. In addition to numerous proposals on technical aspects, adjustments were proposed in relation to some of the targets for recharging and refuelling infrastructure, including possible flexibilities to address particular circumstances of the TEN-T network that are characterised by very low traffic density. However, the parts of the text related to the overall ambition for recharging and refuelling infrastructure on the TEN-T network remain in square brackets. Namely, there has been no solid convergence of views at this stage.

ii) ReFuelAvition Regulation¹¹

On the ReFuel Aviation proposal, discussions have shown overall support for the proposal. With three compromise proposals, progress has been made on technical issues, such as a possible opt-in for smaller airports, which are not included in the scope of the proposal, and clarifications on the anti-tankering measures.

The text regarding provisions on reporting obligations and the role of the competent authorities was also adjusted. Furthermore, the proposed level of ambition and the availability of sustainable aviation fuels in Europe were discussed.

With the third compromise proposal, the Presidency has addressed the issue of ambition level, in particular the definition of sustainable alternative fuels (SAF), the EU-wide ambitions regarding the supply of SAF and the length of the transitional period that provides flexibility to fuel providers. The positions amongst Member States vary greatly as several would like higher ambition and possibly being allowed national flexibility, while others want to widen the scope of the eligible fuels or lower the level of EU-wide obligations.

¹¹ Proposal for a Regulation on ensuring a level playing field for sustainable air transport (doc. 10884/21 + ADD 1-3).

iii) FuelEU Maritime Regulation¹²

The discussions have demonstrated the importance of the proposal for Member States. However, the proposal is also perceived to be extremely complex, from both technical and political points of view, and more time will be needed for proper examination by Member States.

The main political issues underlined during the discussions relate to the following aspects:

1) the scope, as specified both in the "substantial" scope (i.e. application to all ships above a gross tonnage of 5000) and in the "geographical" scope (i.e. the application of the proposed Regulation to ships in respect of 50% of the energy used on voyages departing from/arriving at a port under the jurisdiction of a Member State, where the last/next port is under the jurisdiction of a third country); 2) the level of ambition of the greenhouse gas intensity reduction targets; 3) the scope of the on-shore power supply (OPS) requirements; or alternative zero emission technologies for ships in ports, 4) the certification of renewable and low-carbon fuels; and 5) the governance of the proposal (including enforcement and penalty aspects). The interlinkages with other proposals have also been discussed, both within and outside the package, in particular with the AFIR, RED, ETS and MRV proposals.

The Presidency is currently in the process of preparing a compromise text that will be limited to editorial aspects.

4) Economic and Financial Affairs Council (ECOFIN)

19. The two proposals under the remit of the Economic and Financial Affairs Council (ECOFIN), i.e. the Carbon Border Adjustment Mechanism (CBAM) and the Energy taxation Directive (ETD) are being dealt with by respectively a dedicated Ad Hoc Working Party (CBAM) and the Working Party on Tax Questions (Indirect Taxation – Excise duties/Energy taxation). The details on the state of play on these dossiers will be set out in the Presidency report, which will be submitted to the ECOFIN Council of 7 December 2021.

¹² Proposal for a Regulation on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC (doc. 10327/21 + ADD 1-3).

i) Carbon Border Adjustment Mechanism¹³

The principal objective of the Commission proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (CBAM) is to address the risk of carbon leakage, caused by asymmetrical climate policies of non-EU countries (where policies applied to fight climate change are less ambitious than those of the EU).

On 22 July 2021 the Committee of Permanent Representatives (Part 2) established an *Ad Hoc* Working Party on the carbon border adjustment mechanism ("AHWP CBAM"), to conduct the preparatory work related to the negotiations on this legislative proposal and to efficiently address the cross-sectoral subject matters covered by this dossier. AHWP CBAM works on the design of CBAM in accordance with its mandate¹⁴ and draws on the expertise of Member State delegates working in the relevant areas, as appropriate.

During this Presidency term, the meetings of AHWP CBAM were principally devoted to a detailed presentation of the Commission proposal and the accompanying impact assessment, followed by an article-by-article examination of the proposal. The first reading of the proposal was completed, and more detailed exchanges of views took place on a number of technical aspects.

While the climate objectives of the proposal are not contested, the discussions in the AHWP have confirmed that Member States attach significant importance to it in the context of international trade, the competitiveness of EU industry and the effects on the economy, including on the labour market. A number of guiding principles which have already been endorsed by the European Council on how to implement the 'Fit for 55' package will have to be taken into consideration.

¹³ Proposal for a Regulation establishing a carbon border adjustment mechanism (doc. 10871/21 + ADD 1-6).

¹⁴ Doc. 10846/21.

Work on the basis of the Commission proposal will continue, and due to the novelty of the proposed measure, further technical discussions at the AHWP CBAM will be required, as delegations need to ascertain how CBAM will function in practice, including the aspects related to the overall design and administration of the new mechanism.

ii) Energy Taxation Directive (ETD)¹⁵

At the Informal Working Party on Tax Questions - High Level (HLWP) in July, which was dedicated to the topic “Future challenges in the taxation area”, delegations already expressed their preliminary views on the role of taxation in the green transition during the working session “Taxation aspects of the Green Deal”.

The technical discussions on the ETD proposal are ongoing in the Working Party on Tax Questions (Indirect Taxation – Excise duties/Energy taxation). By the end of the Presidency term, five working party meetings will have taken place on this proposal. These meetings have been devoted to a detailed presentation of the Commission proposal and the impact assessment, followed by an article-by-article analysis of the proposal. A number of questions were asked about various aspects of the proposal, such as switching from volume to energy content based taxation, the introduction of a ranking of rates according to environmental performance, the taxation of new products, indexation, the aviation and maritime sectors, as well as links with other files in the ‘Fit for 55’ package. The first article-by-article reading of the proposal is expected to be completed by the end of the Presidency term.

Work on the basis of the Commission proposal will continue and further technical discussions at the Working Party level will be required.

¹⁵ Proposal for a Council Directive restructuring the Union framework for the taxation of energy products and electricity (recast) (doc. 10872/21 + ADD 1-7).

III. CONCLUSION

This overview of progress on proposals in the 'Fit for 55' package will accompany or will be referred to in the progress reports which will be issued separately on the individual proposals to the responsible Council formations.

Given the close interlinkages between proposals in the package, the Presidency considers that such an overview of progress of the whole package is instrumental in ensuring a coherent approach to these complex negotiations. While negotiations on the proposals have advanced at a different pace, the overview report reveals that good progress at technical level has been achieved across the board.
