



# **“Fit for 55” Package I: Pricing Greenhouse Gas Emissions**

COM (2021) 551  
COM (2021) 552  
COM (2021) 554  
COM (2021) 555  
COM (2021) 563  
COM (2021) 564  
COM (2021) 568

# Executive summary

The Austrian Chamber of Labour supports the ambitious European climate policy as it serves to ensure a liveable future for current and future generations. Attention must be paid to the democratic participation of all people and fair division of the costs and benefits when designing and managing the undoubtedly necessary transformation. The Austrian Chamber of Labour therefore views it as a pressing political challenge to take **active steps to shape this transformation in line with the interests of workers.**

Particular attention must be paid to the **distribution-related effects** of the stricter targets for the reduction of greenhouse gas emissions and in the energy sector. This involves distribution between Member States of varying economic strength, distribution between industry and households, and finally distribution between richer and poorer households. The Austrian Chamber of Labour recognises that the present “Fit for 55” package proposes solutions in some of those fields. They need to be safeguarded and developed further in the negotiation process. In addition, the consideration of social effects and distribution questions must have a long-term focus and become a pivotal element of climate and energy policy. This also applies to specific measures for workers in sectors that will be negatively affected by the transformation. Here too, it is important for the principle of fairness to be observed in the transformation process (“just transition”). Professional and financial prospects must be in place for all those affected by the structural change.

It is also clear to the Austrian Chamber of Labour that the stricter reduction targets to be met by 2030 mean tightening both the **reduction obligations of the Member States** and the **emissions reductions in the EU ETS.**

However, the strong industrial basis in the EU needs efficient and effective protection against the relocation of enterprises due to high CO<sub>2</sub> prices. The Commission’s proposal for a **Carbon Border Adjustment Mechanism (CBAM)** is a step in the right direction. It is preferable to the free allocation

of allowances, which represents a non-targeted subsidising of enterprises. If subsidies are granted in the future, they should serve to support projects enabling the development of ground-breaking reduction technologies.

The Austrian Chamber of Labour firmly rejects the Commission’s proposal for **heating fuels and motor fuels for households** – i.e. heating oil and natural gas for heating of homes and petrol and diesel for personal transportation – to be included in an EU-wide cap-and-trade system in the form of a separate emissions trading scheme (ETS-2). That may lead to uncontrollable price fluctuations. Heating and hot water are basic needs whose pricing must not be left solely to a market mechanism. The situation is similar in cases where a car has to be used to get to work or for other mobility needs because the public transport provision is insufficient.

Under the “Fit for 55” package, the Commission also proposes separating the **pricing of CO<sub>2</sub> emissions** and the pricing of the energy content of energy sources. Irrespective of its rejection of the form of CO<sub>2</sub> pricing described above, the Austrian Chamber of Labour thinks that this separation makes sense. How the tax revenue is to be fairly redistributed to households according to the principle of revenue neutrality should in any case be a matter for the Member States.

In the interest of European solidarity, the Austrian Chamber of Labour supports the **establishment of a Social Climate Fund** with a view to levelling the playing field between the Member States and supporting low-income households in particular, even if it is opposed to the form of provisioning of the fund currently proposed, i.e. using revenues from the ETS-2. The Austrian Chamber of Labour therefore is against linking the establishment of the Social Climate Fund to the creation of the ETS-2.

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# The AK's position

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## “Fit for 55” package in general

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AK supports the goal of EU-wide decarbonisation by 2050. The associated exit from fossil fuels will also lead to far-reaching economic and social change comparable to the Industrial Revolution. This process must be designed to be fair and in the interest of workers (“just transition”). Therefore, it is vital that, as far as possible, all measures are designed in such a way that they ensure high employment and a fair distribution of wealth. Otherwise, there is the risk that necessary changes will not be sufficiently supported by the population, resulting in failure to meet the climate targets. AK recognises that the Commission included the aspects of justice, distribution and employment when drawing up the “Fit for 55” package.

In this paper the Austrian Chamber of Labour sets out its position on legislation primarily geared to reducing greenhouse gas emissions:

- COM (2021) 551: [Revision of the EU Emissions Trading System \(ETS\)](#)
- COM (2021) 564: [Regulation on the Carbon Border Adjustment Mechanism \(CBAM\)](#)
- COM (2021) 563: [Revision of the Energy Taxation Directive \(ETD\)](#)
- COM (2021) 568: [Ordinance establishing a Social Climate Fund \(SCF\)](#)
- COM (2021) 552: [New rules for aviation in the EU ETS](#) (no detailed remarks)
- COM (2021) 554: [Regulation on Land Use \(LULUCF\)](#) (no detailed remarks)
- COM (2021) 555: [Revision of the Effort Sharing Regulation](#) (no detailed remarks)

The package of legislative proposals is a key part of implementing the European Green Deal, which is aimed at making Europe climate-neutral by 2050,

i.e. with zero net greenhouse gas emissions, and at reducing environmental pollution and the consumption of raw materials, while simultaneously allowing for greater prosperity and ensuring no-one is left behind.

To attain the goal of climate neutrality with respect to greenhouse gases by 2050, a consistent path of reducing emissions must be taken. This requires an ambitious interim target in 2030. The “Fit for 55” package helps to achieve this goal by proposing specific legislation resulting directly or indirectly in a 55% reduction of greenhouse gas emissions compared to 1990.

For that purpose, the **European Emissions Trading System (EU ETS)**, the cornerstone of EU climate policy with respect to industry and the energy sector, is first to be adjusted by reducing the total amount of emissions faster than previously planned.

Until now, industrial enterprises in the EU ETS received some of the required allowances free of charge if there was a risk of their relocation to countries outside the EU (third countries) due to the CO<sub>2</sub> costs in the EU being too high. This system is to be replaced in the medium term by a form of CO<sub>2</sub> levy on certain goods (**Carbon Border Adjustment Mechanism, CBAM**) that is payable by the importers of certain high-emission raw materials (including steel, cement and aluminium).

Under the Commission's proposal, a system of emissions trading is also to be introduced for two major areas that were not previously included in the EU ETS – emissions from road transport and heating of buildings. Initially, there will be a separate system for these areas (informally referred to as ETS-2).

The Commission is also proposing a revision of the **Energy Taxation Directive**. In the future, a single minimum tax rate is to be set for the various energy sources, calculated by energy content. According to the Commission's proposal, the pricing of energy sources will thereby be divided into two components: the energy component will be governed by the Energy Taxation Directive, and CO<sub>2</sub> pricing will be regulated by the aforementioned inclusion of

heating fuels and motor fuels in the emissions trading system.

The Member States remain responsible for their reduction of those emissions that are not covered by the existing EU-ETS. Those emissions must also be reduced faster than previously planned. Under the revised **Effort Sharing Regulation**, significantly greater decreases are planned for economically strong Member States than for those with weaker economies.

The fact that there is a considerably stronger focus on social balance than previously is particularly clear from the proposal for the **Social Climate Fund**. The monies from this EU fund are to be used for Member State programmes that cushion low-income households from the negative effects of the ambitious climate policy in a targeted way. Furthermore, the proposed revision of the Energy Efficiency Directive is also aimed at combating energy poverty effectively (see the relevant position paper of AK).

A new provision is that the removal of carbon dioxide through **land use measures** (carbon sinks) is counted towards meeting the carbon target. As a result, the significance of this regulation, which assigns the Member States certain targets in management of the carbon sinks, increases significantly.

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## 1. EU Emissions Trading

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AK welcomes the inclusion of maritime transport in the EU Emissions Trading System (journeys between EU ports fully and journeys involving third countries at a rate of 50%), since it is designed to reduce the emissions of waterborne transport. The Austrian Chamber of Labour also supports the long overdue elimination of the free allocation for flights within the EU. Under the Commission's proposal and in accordance with agreements at the level of the International Civil Aviation Organization (ICAO), the emissions of flights between the EU and third countries are to be restricted by means of the CORSIA system. AK is very sceptical about the actual effectiveness of this system because it is primarily based on financing of climate protection projects in developing countries, while the sustainability and environmental integrity of those projects have been repeatedly questioned.

AK rejects the inclusion of heating fuels and motor fuels in an emissions trading system if they are used for household heating or for personal road transportation. AK would like to point out that it is very probable that in these sectors the costs of allowances

will be passed onto consumers almost entirely, with the result that consumers will be directly affected by cost rises. Heating of homes and hot water, however, are basic needs and should therefore remain largely removed from the effects of market forces. That is particularly the case since energy costs account for an above-average percentage of the household spending of poorer households. The situation is similar in cases where a car has to be used to get to work or for other important mobility needs due to a lack of public transport. AK has developed an alternative model in those fields. If national CO<sub>2</sub> pricing is introduced in the form of taxes or similar, for reasons of distribution policy, the entire tax revenue should preferably be redistributed to households in the form of per-capita payments; for particular social problems (such as energy poverty and mobility poverty), specific measures should be introduced additionally to cushion from the effects and support investment (the Austrian Chamber of Labour's "**Eco-Bonus Plus**" model). Instead of the ETS-2, a preferable option would be minimum tax rates for CO<sub>2</sub> laid down in the Energy Taxation Directive alongside the proposed minimum tax rates for energy content.

AK considers the increase in the linear reduction factor, the overall target for the contribution of the EU ETS and the one-time removal of 170 million allowances as sensible and expedient. However, AK welcomes the extension of the Innovation Fund. Carbon Contracts for Difference (CCfD, CO<sub>2</sub> prices guaranteed by the state on a long-term basis in order to finance reduction projects) are seen as a way of supporting technological development. However, those contracts must not result in the full shifting of risk to the public sector; their functioning and the associated costs for the public sector must be monitored regularly.

In general, AK welcomes the obligation for proceeds from the auctioning of allowances to be used for climate-related measures, in contrast to the previous optional provision. However, AK is critical of the fact that the provision on compensation of indirect CO<sub>2</sub> costs (Article 10a (6)1) continues to be formulated as an option. In order to avoid distortion of competition, uniform, binding rules for the compensation of indirect CO<sub>2</sub> costs should be introduced that are aimed at actually occurring costs and set a strict standard.

AK supports the introduction of a Carbon Border Adjustment Mechanism (CBAM); further remarks are made below. In parallel with the CBAM, the free allocation of allowances is to be reduced, falling to zero after a ten-year transition period. In AK's opinion, that transition period is very long; it should be considered whether it can be shortened in order

to accelerate decarbonisation in the EU and give third countries a quicker incentive to follow suit and introduce a pricing system in those sectors.

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## 2. Carbon Border Adjustment Mechanism (CBAM)

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AK supports the introduction of the Carbon Border Adjustment Mechanism for steel, cement, aluminium, artificial fertiliser, and electricity. The system is more targeted and more efficient than the current system of free allocation. This is because the advantage with respect to CO<sub>2</sub> costs compared to production in the EU is levelled out due to the obligation of the importers of the products concerned to purchase allowances to the extent of the greenhouse gas emissions in third countries. However, it must be monitored whether the list of goods that come under the CBAM (Annex I) is adequate, since other goods made from steel, aluminium etc. – especially those with a fairly low level of processing – can have a relatively high CO<sub>2</sub> cost component.

Furthermore, AK is of the opinion that the problem of different CO<sub>2</sub> costs in the Union and in third countries also requires a solution in the case of exports. It should be reviewed for which exported products the costs of CO<sub>2</sub> allowances in the EU represent an actual competitive disadvantage on the world market for the exporting industry.

Finally, AK also agrees with the decision not to make any exemptions for the Least Developed Countries (LDCs). However, those countries need to be helped to develop their industry, for example through measures for targeted technology and capacity development and through fair trade relations. In order to avoid exacerbating existing inequalities, the EU, as called for by the European Parliament, should make part of the CBAM revenues available to countries in the Global South for climate protection measures. The focus should be on improving working conditions, in particular the payment of living wages, with the involvement of trade unions and civil society.

In drawing up the Carbon Border Adjustment Mechanism, the Commission is guided by WTO rules. The Austrian Chamber of Labour, which supports a multilateral trade policy, agrees with the aim of conformity of the mechanism with WTO rules in order to minimise possible conflicts with third countries on matters of trade law and to ensure that the CBAM can also serve as a model for other countries. For this purpose, it is high time for the relationship between WTO rules and the provisions of multilateral environmental agreements to be clarified in the

interest of sustainable development and climate protection. The EU should therefore push for the trade policy instruments of the WTO to be updated and adjusted to the climate and environmental policy challenges.

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## 3. Energy Taxation Directive

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The Commission's goal with this proposal is for energy taxation in the EU to be considerably more consistent. AK supports this goal in general, with the caveat that, as described above, it rejects the pricing of the CO<sub>2</sub> component for heating fuels and motor fuels for households in the scope of the ETS-2.

The minimum tax rates in the future will be based on energy content of fuels. If energy sources are used for the same purpose, the tax rate relative to the energy content is the same for each energy source. The tax rates are placed in a hierarchy according to how harmful the various purposes are to the environment: conventional fossil fuels such as oil and gas are subject to the highest minimum rate (reference value) of 10.75 euro per gigajoule (€/GJ) if they are used as motor fuel and 0.90 €/GJ if they are used as heating fuel. Natural gas, liquefied gas and non-renewable fuels of non-biological origin are to be taxed at two-thirds of the reference value for a transition period of 10 years: 7.17 €/GJ as motor fuel and 0.60 €/GJ as heating fuel. Sustainable, but non-advanced biofuels are taxed at half the reference value. The lowest minimum rate of 0.15 €/GJ is to apply to electricity (irrespective of the use) and to "advanced" biofuels.

The Member States are allowed to establish taxes exceeding those minimum rates. However, they must retain the structure of the tax rates under the directive, i.e. the tax must be equally high for each energy source in the individual usage groups (fuels, heating fuels, electricity). In addition, the Member States must also comply with the hierarchy of the tax levels set out in Annex 1.

The distinction between commercial and private use no longer applies. For fuels in the agriculture and forestry sector (and in future also waterborne transport), discounted minimum tax rates that are roughly 10% of the otherwise usual rates still apply (Table B).

The minimum tax rates are to apply from 2023 and to be adjusted annually by core inflation from 2024. The Commission intends to pass delegated legal acts each year for that purpose. Some energy sources, such as natural gas, are viewed as bridge technologies and are taxed at a discounted rate. These discounts are to be

phased out by 1/10 annually between 2023 and 2033. An exception is made for hydrogen (low carbon fuels). In that case the reduced tax rate is to apply without restriction until 2033.

It should also be noted that reimbursement of the (national) energy tax for certain enterprises is reduced as a result of the increase in the minimum tax rates for heating fuels. Until now, energy-intensive enterprises have been able to obtain reimbursement of energy taxes paid insofar as they exceed 0.5% of the net production value. However, they must pay at least the minimum tax rates on the total quantity of energy sources used. These will now increase in the commercial sector in particular because the existing privileged treatment of commercial use will no longer apply. In AK's view, this increases the incentive for enterprises to make more efficient use of energy.

In addition, many existing exemptions have been removed. It is of particular note that kerosene taxation, which the Austrian Chamber of Labour has long been calling for, will be introduced across the EU. However, several exemptions will remain, such as the exemption for energy sources if they are used to generate electricity or discount possibilities for energy-intensive enterprises, if they are not included in the EU ETS. Energy sources for cogeneration systems, for public transport, for heating in households and in non-profit organisations, and in agriculture and forestry may be exempted from the national tax, but at least the EU minimum tax rate must be paid. The proposal provides for the possibility of a full exemption for up to ten years for households at risk of poverty. This is also a welcomed measure with a strong social focus.

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## 4. Social Climate Fund

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AK appreciates the Commission's awareness that the climate crisis and energy transition are not merely technical issues but also a challenge for social and distribution policy. Therefore, AK welcomes the Social Climate Fund. With this regulation, the Commission credibly conveys its commitment to combating energy and mobility poverty and explicitly requires the Member States to follow suit (that is already the case in multiple places in other regulations and directives with respect to energy poverty).

To apply for those funds, social climate plans with detailed proposals for measures, implementation specifications and monitoring plans need to be drawn up and submitted together with the National Energy and Climate Plans. The Commission examines and approves the plans. However, at least 50% of the measures submitted to the Commission must be

financed by the Member States themselves. AK welcomes those provisions too. As already mentioned above, AK rejects linking the creation of the fund to the introduction of emissions trading for the buildings and transport sectors.

AK is also critical of limiting the duration of the fund until 2032, since support for energy-poor and mobility-poor households will still be needed after that. The fund should therefore be available as a support instrument at least until the planned target attainment of climate neutrality in 2050.

AK appreciates that the Commission acknowledges energy poverty as a major challenge and intends to combat it, including by means of the Social Climate Fund. In AK's view, it is critical for both short-term support in the form of income supplements and long-term – and therefore sustainable – measures in the form of financing of refurbishment and energy efficiency measures to be available, as is to be detailed in the social climate plans (Articles 3 and 4). For the purpose of implementing the above, AK calls for the establishment of an energy and climate aid fund at national level to lead coordination of the measures and networking of the relevant stakeholders. It could also be used to provide funds from the Social Climate Fund to households eligible for support, as proposed by the Commission in Article 8. In AK's view, all financing and support possibilities for low-income households need to be used optimally to enable such households to participate in a climate-neutral future. AK therefore also approves of the Commission's clarification that it is not permitted to use funds from the Social Climate Fund to replace ongoing national spending (Article 12).

With the aforementioned energy and climate aid fund, the coordination body required by the Commission in Annex III can be established as a central contact point with the Commission for communications, submissions, implementation and monitoring of requested subsidies. In other legislation under the "Fit for 55" package, similar coordination bodies are required to combat energy poverty, for example in the Energy Efficiency Directive, where the issue is required to be addressed extensively by establishing an expert network (Article 22). AK believes it is urgently necessary to establish a central coordination and contact point.



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## About us

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The Austrian Federal Chamber of Labour (AK) is by law representing the interests of about 3.8 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore, the Austrian Federal Chamber of Labour is a part of the Austrian social partnership. The Austrian Federal Chamber of Labour is registered at the EU Transparency Register under the number 23869471911-54.

The main objectives of the 1991 established AK EUROPA Office in Brussels are the representation of AK vis-à-vis the European Institutions and interest groups, the monitoring of EU policies and to transfer relevant information from Brussels to Austria, as well as to lobby the in Austria developed expertise and positions of the Austrian Federal Chamber of Labour in Brussels.