EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank the Bundesrat for its Opinion on the Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality {COM(2021)550 final}.

This Communication provides context and interlinkages of a number of legislative proposals ('Fit for 55 package') that aims to deliver at least 55% net greenhouse gas emission reductions by 2030 compared to 1990 and put the EU on a clear path towards becoming the first climate neutral continent by 2050 as set out in the European Climate Law.

The Fit for 55 package of proposals will require a transformational change across our economy and society. It is also matched by the Commission's commitment to a socially fair transition, which leaves no one behind. The package is based on a comprehensive set of impact assessments, which – together with the 2030 Climate Target Plan – demonstrate that with the right policy mix the new 2030 climate target is ambitious yet achievable. The Fit for 55 package of proposals has become even more urgent because of the Russian unprovoked invasion of Ukraine. It plays a crucial role in our response to the threats: full implementation of the Fit for 55 package would already reduce the EU's annual fossil gas consumption by 30%, equivalent to 100 billion cubic metres (bcm), by 2030.

The Commission thanks the Bundesrat for welcoming the Fit for 55 package. The Commission is pleased that the Bundesrat supports the new emissions trading system for buildings and road transport, increased energy efficiency efforts, the goal of avoiding carbon leakage through a carbon border adjustment mechanism in a WTO compatible way, the revision of the Land Use, Land Use Change and Forestry (LULUCF) Regulation, and measures proposed to reduce CO2 emissions in the transport sector.

The Commission carefully analysed the Opinion. The main concerns raised therein focus on the impact of the revision of the Energy Taxation Directive, in particular the impact on small and medium-sized enterprises and the administrative burden of the proposed

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measures as well as the insufficient number of measures to support innovation and modernisation. The Commission takes these concerns very seriously and would like to provide the following clarifications.

The Commission proposal to revise the Energy Taxation Directive aims to remove subsidies for fossil fuels and to promote greenhouse gas emission reductions through energy efficiency and a higher uptake of less polluting alternative fuels (green hydrogen, synthetic fuels, e-fuels, advanced biofuels, electricity, etc.). The revision of the Energy Taxation Directive aims to align taxation of energy products and electricity to reinforce green innovation and investment. The Commission proposal takes into account the social dimension by introducing the possibility to exempt vulnerable households from taxation of heating fuels for a period of ten years. The revision provides a uniform definition of vulnerable households to streamline the application of tax reliefs to such consumers. Moreover, the proposal envisages a transitional period of ten years to adjust to the minimum rate for the other households.

The LULUCF Regulation addresses primarily Member States. However, higher removal targets will likely affect national policies, which will in turn impact both public and private markets for climate mitigation in agriculture. The Commission is working on implementing the concept of carbon farming to promote carbon sequestration as a new green business model that can create new sources of income for land managers. A higher ambition for the LULUCF sector is expected to drive carbon farming approaches in the near future. The Commission will also present by the end of 2022 a legislative framework for carbon removal certification in view to scaling up the deployment of sustainable carbon removals and creating new business models, including for land managers, in line with the European Green Deal and European Climate Law objectives. This proposal will be accompanied by a dedicated impact assessment, which will cover, inter alia, carbon removals from natural ecosystems, including agriculture. The economic and social impacts can be positive for land managers, including farmers, since removing carbon from the atmosphere on the basis of carbon removal certificates can be scaled up as a business model and will enable them to sustain their livelihoods in rural areas.

Concerning the impact on small and medium-sized enterprises, the macroeconomic analysis indicates a favourable outlook for such companies in a European economy that becomes more capital and technology intensive and increasingly based on the development of innovative products and solutions. Conversely, no trend was identified that would harm specifically small and medium-sized enterprises.

The Commission is pleased that the Bundesrat welcomes the increase in the Innovation Fund and the Modernisation Fund. It notes the Bundesrat's concern that such an increase is insufficient to promote climate change innovation and modernisation. The Commission would like to note that significant increases in the Innovation Fund and the Modernisation Fund as proposed in the Fit for 55 package are not the only source for promoting climate change innovation and modernisation. Auctions of emission allowances under the EU ETS generate important revenues that can be reinvested in climate action and energy transformation. In 2021 alone, auctions generated total revenues of over EUR 30 billion for all Member States, which is double the amount *generated in 2020. The Commission has proposed that Member States must use all revenues, to the extent they are not attributed to the Union budget, for climate-related purposes, including to support sustainable renovation for low-income households. Furthermore, other instruments such as the Recovery and Resilience Facility, the Cohesion Policy funds, the Horizon Europe and the European Green Deal Investment Plan can promote climate change innovation and modernisation. In addition, EU State aid rules offer Member States options to provide short-term relief to companies and farmers affected by high energy prices, and help reduce their exposure to energy price volatility in the medium to long term. The EU Emissions Trading System State aid Guidelines*[1] *enable Member States to specifically support sectors that are most at risk of carbon leakage because of indirect emission costs. In the agricultural sector, State aid rules*[2] *allow investment aid in sustainable energy.*

The Commission hopes that the clarifications provided in this reply address the issues raised by the Bundesrat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Maroš Šefčovič *Vice-President*	*Frans Timmermans* *Executive Vice-President*

[1] Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021 , OJ C 317, 25.9.2020, p. 5.

[2] Commission Regulation (EU) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union. OJ L 193 du 1.7.2014, p. 1–75. Guidelines for State aid in the agricultural and forestry sectors and in rural areas 2014 to 2020. OJ C 204 du 1.7.2014, p. 1–97.