Dear Minister of Environment,

We are writing to you ahead of your next meeting on the 20 December 2021, where you will discuss the progress on the Fit for 55 package and exchange views on the EU Emissions Trading System (ETS), Effort Sharing Regulation (ESR), the LULUCF Regulation and the Social Climate Fund (SCF).

At the recent UN Climate Conference in Glasgow countries concluded that global climate action remains insufficient and called on all parties to update their Nationally Determined Contributions (NDCs) again in 2022. Despite additional commitments the world is still alarmingly off track to limit global temperature rise to 1.5°C.[1]

The current trend of insufficient action sets us on a trend that the European Central Bank estimates will lead to a drop in GDP by 10% by the end of the century[2]. In Europe, such impacts are expected to be unequally distributed, with Southern Central and Eastern Europe expected to be hit harder than Northern Europe[3].

The EU, as a major historic emitter and high-income economy needs to present contributions that are consistent with the 1.5°C goal, that would require the EU to achieve at least -65% emission cuts by 2030. **The ongoing deliberations on the Fit for 55 package offer the unique opportunity to go beyond the net -55% target by strengthening both the ambition and integrity of the key EU climate files**.

We urge you to stay firm on your commitment to achieve the 1.5°C goal of the Paris Agreement and use the full potential of the Fit for 55 package to deliver the highest ambition possible. The enhanced action would not only reduce carbon emissions quicker and more efficiently but also tremendously benefit European society.

Therefore, CAN Europe calls for the following:

- The **ambition** of the ETS, the ESR and the LULUCF Regulation needs to be strengthened beyond the Commission proposals in order to **collectively achieve emission reductions of at least -65% by 2030, compared to 1990 levels.**
- **Emissions Trading System**
  The **ETS** 2030 target should be increased to **at least 70% emission cuts by 2030** (compared to 2005 levels). This should be achieved through bringing the cap in line with actual emission levels via a **one-off reduction** at the earliest moment possible. In addition, the resilience of the carbon

[1] UNFCCC (2021). Nationally determined contributions under the Paris Agreement. Revised note by the secretariat. https://unfccc.int/documents/307628 and Climate Action Tracker (2021). Warming Projections Global Update. https://climateactiontracker.org/documents/997/CAT_2021-11-09_Briefing_Global-Update_Glasgow2030CredibilityGap.pdf

[2] European Central Bank (2021). ECB economy-wide climate stress test. https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op281~05a7735b1c.en.pdf

[3] JRC (2020). PESETA IV - Economic analysis of selected climate impacts. https://ec.europa.eu/jrc/en/peseta-iv

market needs to be further improved, inter alia in order to appropriately respond to a significant release of surplus allowances, for example due to the German coal phase out acceleration. In this light, the **market stability reserve (MSR) should be strengthened** by increasing the intake rate to 36% and decreasing the triggering thresholds to zero by 2030. Handing out **free pollution permits** in the midst of a climate and environmental emergency is unacceptable and needs to end immediately.

- **Effort Sharing Regulation**
  A combined effort of **50% emission cuts by 2030** (compared to 2005 levels) is needed in ESR sectors. Our calculations show that the additional emission reductions in the ESR review proposal can be almost doubled with a **more ambitious starting level of emission reductions and ensuring a linear pathway** towards the new targets from the beginning. All sectors must contribute to the climate target at their maximum ambition. Sink enhancement efforts and mitigation action both are urgently required, therefore **flexibility with LULUCF must be revoked**. The possibility for countries to use surplus allowances from the ETS to reduce efforts in the non-ETS sectors must also be deleted. While we acknowledge the difficult task ahead to significantly cut emissions, but delaying action and trade-offs would only make the duty harder and more costly on the long run.
- **LULUCF regulation**
  A LULUCF sector **target must be separate and not fungible with emission reductions** with no flexibility with the ETS and ESR sectors. This is critical because emission reductions and removals in the LULUCF sector are not equal to emissions in other sectors. We call on the EU to aim to increase the EU LULUCF sector's net contribution to **-600 million tonnes (Mt) annually by 2030**, through a rapid expansion of practices that are a win-win for climate and biodiversity.
- **Social Climate Fund**
  The proposed Social Climate Fund has the potential to support citizens in the transition to a low-carbon economy and mitigate the impact of high fuel prices. However, the SCF cannot be a substitute for **systemic reforms towards fighting poverty and inequality**. Significant improvements need to be made in the proposal to provide funding on scale[4]. The support should prioritise structural change towards a renewable based, environmentally sustainable building and transport sectors. The social climate funding needs to come well before carbon pricing, and target the most vulnerable groups.

Brussels, 14. December 2021

Yours sincerely,

Chiara Martinelli

Chiara Martinelli
Director, Climate Action Network Europe

[4] The European Commission estimated that around €350 billion in additional energy system investment will be needed annually until 2030 to meet the EU's updated 2030 climate target of -55% emissions versus 1990 levels. Of this, approximately €130 billion is foreseen in the transport sector and €110 billion in the buildings sector.