

2030 Climate Target Plan - Inception impact assessment – feedback from the Czech Chamber of Commerce

The Czech Chamber of Commerce (CCC) welcomes an assessment on the economic, social and environmental impacts of a proposal to reduce GGE target for 2030. CCC believes it is necessary to **take into account specific national circumstances and evaluate impacts and feasibility of such increase of 2030 targets at the level of each member state**. To reflect different national circumstances it is necessary to support the **principle of technological neutrality** in all EC policies aiming at GGE reduction.

To set a realistic target it is necessary to have all relevant data about industries and economic situation in member states. The target cannot be set on pre-COVID-19 pandemic data. The **impact of COVID-19 pandemic must be taken into account**.

The analysis must be conducted in a comprehensive way, taking into account the main objective of achieving EU carbon neutrality by 2050, ie for the whole trajectory up to 2050. The evaluation of the tightening only by 2030 cannot be accepted regardless of the implications for meeting the 2050 target. It is necessary to create a sufficient basis for a responsible assessment of the benefits of a possible tightening of the 2030 target, taking into account the 2050 carbon neutrality target and the related costs and benefits of the whole society.

The analysis must be conducted objectively, taking into account the main objective of achieving the EU's 2050 carbon neutrality. Setting limiting conditions for the implementation of this objective (such as setting stricter targets in the interim by 2030, etc.) **limits the degrees of freedom in choosing the cost-optimal scenario leading to suboptimal solutions with a negative impact on the overall cost and probably the greenhouse gas emissions themselves**.

The impact analysis must be carried out at national level. Each Member State is in a different situation, be it in terms of the possibility of using renewable energy sources, energy mix, structure of the economy, measures implemented so far, etc. The impact analysis must therefore take into account the national specificities and starting positions of individual Member States. Consequently, meeting the EU's target of carbon neutrality by 2050 will most likely mean different solutions, requirements and targets across EU Member States **so that achieving the EU target as a whole could be cost-effective**.

It is necessary to clearly define what actually is the 2030 GHG reduction target. Whether it is a simple reduction of emissions of the monitored sectors or if it includes the emission reduction within the agriculture and forestry sector (the so-called LULUCF sector). Such a fundamental issue needs to be solved / defined before the creating a proposal to modify the objectives, as it greatly affects the possible resulting solutions and the expected costs of achieving them. **The target should be defined as total greenhouse gas emissions, incl. of the LULUCF sector, representing the overall impact of the economy / society on the climate**. One sector cannot be neglected. This approach also complies with the national greenhouse gas inventory reports as required by the UNFCCC.

The baseline scenario should be clearly defined. The baseline scenario should only include measures planned by the European Commission by the end of 2020, which is therefore business-as-usual (BAU). Subsequently, a scenario with existing requirements based on the approved legislation by 2030 should be modeled. Beyond this scenario, more ambitious requirements can be modeled (eg to tighten the target for 2030 and beyond). This breakdown is crucial for determining the overall costs of the transition towards a low carbon economy and also for comparing the cost and effectiveness of a possible tightening of the 2030 target, where the cost of achieving additional (marginal) emission reductions can be expected to be several times higher than current 2030 targets.

Any increased climate ambition requires a **strengthened and effective framework of carbon leakage provisions**. Moreover, such provisions must be implemented and functional once the EU endorses its goal, otherwise the competitiveness of the European industry is endangered. Thus, the **assessment and proposal of such provisions must be an integral part of each impact assessment/proposal for the new EU ambition**. EC should not leave a comprehensive analysis of carbon leakage measures for a separate initiative at a later stage. CCC suggests following rules:

- Free allowances are necessary to be allocated based on the benchmarks which must be set objectively and in transparent manner. Furthermore, such benchmarks must be achievable by all and not be based on technologies which are not commercialized and not usable only in concrete conditions/localities.
- Full compensation of indirect EU ETS costs
- If the Carbon Adjustment Mechanism is introduced, it must be complementary to carbon leakage measures under the EU ETS. The CBA must not be an alternative, otherwise it would undermine affectivity of carbon leakage measures.
- Higher production costs for CO₂ neutrality in exported goods is necessary to compensate as well as protection against cheaper non-CO₂-neutral imports
- Energy savings in industry has to be focused on direct (variable) cost, no restrain capacity of production
- R&D of new low-carbon industrial processes must be supported as well as implementation in European plants.
- Stable (24 hours) supply of electricity and sufficient delivery of renewable gases for thermic processes.

Specific comments:

1. Page 1, A. Context, Problem definition and Subsidiarity Check, Context

„The EU actively pursues policies to cut its greenhouse gas (GHG) emissions and decoupling them from economic growth. By 2018, the EU had reduced its emissions by 23% compared to the 1990 level, while its economy had grown by 61% in that period¹.“

„1 The GHG emissions covered in these figures are for EU28 and include those generated by intra-EU and extra-EU aviation departures but exclude those from international maritime traffic. They also exclude the (negative) net emissions from the land use, land use change and forestry sector, which has been a net absorber of CO₂ at the EU level every year since

1990. Excluding the UK, the EU has reduced by 2018 its emissions by 21% compared to 1990.“

Comment: It is necessary to clarify which target of greenhouse gas reduction we are talking about. The target should be defined as total greenhouse gas emissions, incl. of the LULUCF sector, representing the overall impact of the economy / society on the climate. Sectors cannot be neglected. Taking into account total emissions, according to the latest verified available UNFCCC data for 2017, the EU-28 reduction compared to 1990 is 24.8%.

2. Page 1, A. Context, Problem definition and Subsidiarity Check, Context

„In view of further advancing these efforts, the EU recently adopted legislation to reduce GHG emissions by at least 40% by 2030 compared to 1990 levels. It also adopted renewables and energy efficiency policies and targets for 2030 as well as other sectoral policies, which would bring the reduction in GHG emissions to around 45% by 2030, if fully implemented.“

Comment: According to the EC analysis (June 2019), the reduction achieved under the current approved policies by 2030 should be 45.6% excluding the LULUCF sector. This quantification does not yet envisage modified policies in the framework of national climate-energy plans.

3. Page 1, A. Context, Problem definition and Subsidiarity Check, Context

„Consequently, The Commission put climate change and environmental degradation as one of its key priorities and adopted the European Green Deal in December 2019. The climate neutrality by 2050 objective, which the Commission proposed to enshrine in an EU law, is one of the central elements of the European Green Deal. In order to achieve this long-term goal and taking into account the challenge of the necessary economic transition, the Commission intends to propose increasing the EU’s GHG emission reductions target for 2030 to at least 50% and towards 55% compared with 1990 levels in a responsible way and in line with the ‘do no harm’ principle.“

Comment: According to an EC analysis on the Clean Planet for All Communication (November 2018), to achieve neutrality by 2050, emissions of 3091 Mt, 3067 Mt, 3060 Mt in each scenario (1.5TECH, 1.5LIFE and 1.5LIFE-LB) should be achieved in 2030, excluding the LULUCF sector. The EC assessment of the policies for 2030 from June 2019 assumes emissions of 3132 Mt in 2030. At the same time, this analysis does not take into account the stricter national climate and energy plans of individual countries. According to these EC, the existing approved legislation is sufficient to achieve EU climate neutrality by 2050.

4. Page 2, A. Context, Problem definition and Subsidiarity Check, Problem the initiative aims to tackle

„In absence of more ambitious actions in a 2030 perspective, the EU would need to eliminate more than half of its 1990 economy-wide emissions in only 2 decades after 2030 to achieve climate neutrality by 2050. This is a much faster reduction in annual emissions than has been achieved so far and thus a greater transition challenge than in the prior 4 decades. Therefore, the initiative aims to assess what would be required to have a more balanced

reduction pathway from 2020 to 2050 and thus redistribute in time the transition effort towards climate neutrality.“

Comment: There is no logical explanation why the EC in November 2018 came with scenarios for achieving climate neutrality by 2050, which contradict this claim and show a cost-effective path to climate neutrality by 2050, which envisages a reduction of about 50% over the period 2030-2050. It should be noted that this long-term objective is unlikely to be met by a linear reduction path, but the technological reality of the options available must be reflected. Meantime, a short-term tightening of the target may make it necessary to implement any currently available measures without the possibility of letting the existing technologies serve their full lifespan and then be immediately replaced by clean solutions. This can have a negative lock-in effect of existing technologies instead of using future technologies that are not yet commercially available. Innovation, which is crucial for transformation, does not follow a linear path. Disruptive breakthrough technologies that are needed for the long term climate neutrality objective require sufficient time for being developed, upscaled and commercialised. Hence, possibly accelerated pathway post 2030 could well be achievable when such technologies reach a sufficient level of maturity and have a large scalability potential.

5. Page 2, A. Context, Problem definition and Subsidiarity Check, Problem the initiative aims to tackle

„Increasing climate ambition and, where necessary, raising energy targets as well as adapting relevant policies already in the 2030 timeframe would result in a more gradual annual reduction path and distribution of efforts between now and climate neutrality in 2050. It would mean, however, a significant step-up of ambition in the short term, with reduced lead-time for devising and implementing additional measures and for the economic actors to adjust.“

Comment: This is clearly misleading. Taking into account the existing emission reduction trajectory based on the current legislation and the EC assessment in the period 2020-2030, the emission reduction is 26% in 10 years. A simple continuation of this trend between 2030 and 2050 means a further 52% reduction in emissions between 2030 and 2050, a total of 98% by 2050, which is fully in line with carbon neutrality in 2050.

6. Page 2, A. Context, Problem definition and Subsidiarity Check, Problem the initiative aims to tackle

„As to the transition effort to climate neutrality by 2050, all sectors of the economy and society will need to contribute, albeit with mitigation potentials differing strongly among sectors. Energy will play a central role in this process as its production and use (including by households, industry, services and transport) account for more than 75% of total emissions. Next to the energy sector, agriculture, waste and industry also generate significant amounts of non-CO₂ emissions. The EU's land use sector (agriculture land, forests and other natural land) is presently a net sink of CO₂, meaning that it removes more CO₂ from the atmosphere than it releases GHGs. Emissions from the maritime sector and aviation are projected to

increase significantly and need to be addressed in the transformation to a climate neutral EU economy.“

Comment: The focus should be on carbon emissions from sectors not included in the EU ETS, which are not currently priced under the EU-wide scheme (as it is in the case of the EU ETS), creating considerable discrepancies between Member States. In addition, this procedure results in emissions leakage outside the EU ETS. Among other things, the EU should focus on the waste sector, where current legislation still allows landfilling of a large amount of municipal waste by 2030 (the landfill reduction target is defined for 2035). According to EUROSTAT data, about 55 million tonnes of municipal waste was landfilled in 2018, which represents annual emissions of greenhouse gases from landfills of about 55 million tonnes of CO₂.

7. Page 4, C. Preliminary Assessment of Expected Impacts, Likely economic impacts

„First, the transition will require a significant shift of investments towards a more sustainable path. Overall investment needs will increase because of higher capital needs, but energy costs would be reduced. A higher level of ambition by 2030 would amplify such effects in the short to medium-term. In particular, it is expected that investment needs through to 2030 would increase albeit technology development might attenuate this effect as has been already the case for renewables in power generation. However, this could also mean that investment needs after 2030 to achieve climate neutrality by 2050 would be frontloaded in case of higher ambition for 2030 thus evening out the overall cash flow over the coming decades. Investment by households and businesses would likely need to rise the most, though public sector investment needs would also likely increase.“

Comment: Therefore, the "politically" motivated approach to the 2030 target increase must be rejected. The objective is to achieve climate neutrality by 2050 in a cost-optimal way (this was evaluated in detail by the EC in November 2018). It is not possible to proceed with the EU setting intermediate targets, this procedure is very likely to lead to suboptimal solutions that are available in the short term to meet these interim targets. However, this will logically lead to higher costs and very likely higher emissions.

8. Page 4, C. Preliminary Assessment of Expected Impacts, Likely economic impacts

„Third, the transition to a climate neutral economy would reduce imports of fossil fuels, which would benefit the security of supply of the EU energy markets and free up resources to be invested elsewhere in the economy. On the other hand, demand for critical raw materials that are crucial for the deployment of green technologies will increase significantly.“

Comment: This is certainly not true in the 2030 horizon, when the achievement of higher targets by 2030 forces the energy sector to move faster from coal towards gas (often with supplies from 'politically unstable' countries). Moreover, many countries have high security of supply due to the use of domestic coal (Poland, Czech Republic). On the contrary, an increase in ambition by 2030 may lead to a higher EU energy import dependency.

9. Page 4 C. Preliminary Assessment of Expected Impacts, Likely economic impacts

„To the extent that the increase in mitigation ambition by 2030 in the EU may not be followed by its main international competitors, there may be an increasing risk of carbon leakage, particularly in energy- and GHG-intensive sectors This aspect will be further assessed in detail in a separate initiative, including in terms of potential impacts and options for averting or remedying carbon leakage risks.“

Comment: The assessment should also be carried out for internal carbon leakage from sectors covered by the EU ETS to sector outside the EU ETS within member states.

10. Page 6 D. Evidence Base, Data collection and Better Regulation Instruments, Evidence base and data collection

„The EU Reference Scenario for Energy, Transport and GHG Emissions Trends¹⁶ is being updated. Due to the extensive process of updating and expert and Member State consultation, the full update will likely only be available in late 2020. Nevertheless, the modelling toolkit used for this initiative will already benefit from a full update of the historic GHG and energy statistics, growth projections, technology cost assumptions and EU policy updates. As such, the modelling toolkit should be up to date to produce a detailed assessment at the EU level.“

Comment: If this scenario is being updated, it is necessary to wait for a complete update and then model the impacts. Using the original 2016 scenario with only a partial update will produce disproportionate results compared to the fully updated scenario. Moreover, the use of the original scenario from 2016 (although with a partial update) does not correspond with the current economic reality.

11. Page 6 D. Evidence Base, Data collection and Better Regulation Instruments, Evidence base and data collection

“the Commission will look into how increased ambition in the EU ETS may impact the risk of carbon leakage in the industrial sectors, looking at historical empirical evidence and what the techno-economic potential is to achieve further GHG reductions in industrial sectors”.

Comment: Considering the high level of climate ambition and underlying carbon price to be expected in the coming decade, it is clear that any historical evidence based on very different conditions- including very low carbon prices- does not represent an appropriate basis for the forward-looking analysis required by this issue. The assessment of the techno-economic potential needs to take into account the external factors (such as the enabling regulatory framework and the relevant energy and raw materials) that would allow to overcome the barriers and materialise such potential. Furthermore, the abatement potential should not be used as an argument for reducing carbon leakage protection, since it would make EU companies more vulnerable in the decisive time when compliance costs are complemented by the abatement costs of the implementation of the breakthrough technologies.

12. Page 6 D. Evidence Base, Data collection and Better Regulation Instruments, Consultation of citizens and stakeholders

„A web-based public consultation will be organised in early 2020, open for 12 weeks. It will contain multiple choice questions covering the wide range of issues associated with the

initiative to increase GHG reduction ambition by 2030, it will also allow for open questions and invite stakeholders to send their own contributions. Social partners and social dialogue committees will be consulted in accordance with existing dedicated channels of consultation,

Comment: Given the seriousness of the topic, there is a need to guarantee maximum participation and the possibility of contributing of all EU citizens, Member State representatives, NGOs, industry and other stakeholders. It is therefore necessary to postpone the consultation only after the resolution of the pandemic crisis related to COVID-19.