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COMMENTS ON THE 2030 IMPACT ASSESSMENT STEPPING UP EUROPE'S 2030 CLIMATE AMBITION

The European Commission has made the Green Deal a priority for its legislative period. The European businesses community is fully engaged to contribute to this objective and looks forward to a constructive dialogue on how best to deliver on the Green Deal. In March 2020 the Commission launched a public consultation to increase the EU's 2030 climate ambition and on the action and policy design necessary for deeper greenhouse gas emission reductions. BusinessEurope contributed to this public consultation (find our contribution [here](#)), suggesting the broadening of the impact assessment to allow for a solid and realistic evaluation of the economic situation that stands the test of time. The [2030 impact assessment](#) published in September 2020 comes to the conclusion that a higher ambition by 50 to 55% of greenhouse gas reductions by 2030 will contribute to a more gradual emission reduction path and a more balanced economic and social transition towards climate neutrality.

While the European business community supports the goal of reaching climate neutrality by around mid-century given that certain necessary conditions and supporting measures for companies and industry are in place, we are convinced that the decision to increase the ambition for 2030 must be based upon a solid and comprehensive assessment of the situation. As such, we welcome the 2030 impact assessment as a foundation for an initial discussion and would like to share our comments by drawing attention to missing factors and possible issues.

Green Deal a real Growth Strategy?

- **GDP impact.** The Commission is presenting the Green Deal as growth strategy for Europe's economy (e.g. [here](#) and [here](#)). The figures of the 2030 impact assessment for the climate part, however, show a different evolution. According to best case models, the EU economy would marginally change (from shrinking by 0.7% to expanding by +0.55%) until 2030 compared to the baseline growth (E3ME, table 28, p. 129–130). This comes on top of the 21.3–24.2% growth expectations for the 2015–2030 period from the Autumn 2019 and Spring 2020 Forecasts in the baseline scenario. A best-case scenario of +0.55% point growth on top of a 21.3–24.2% real GDP growth calls for a better understanding of how best to pursue the climate objectives of the EU in a cost-effective and growth stimulating manner.
- **Export.** The numbers for export growth also vary widely (–0.08% to +2.11%, table 14, p.76), while European business believes that Europe should become a large net exporter of climate-neutral technologies and know-how. To this end, Europe's growth strategy must also seek to reverse the carbon and investment leakage reality, particularly in industrial sectors regarded as enablers of the green transition and climate neutrality. In our view, there needs to be a broader



approach when implementing Europe's recovery plan and to focus much more on how to turn the Green Deal into a real growth driver.

- **Employment impact.** The 2030 impact assessment finds an overall limited impact on employment, ranging from -0.26 to $+0.45\%$ deviation from the baseline (table 22, p. 85). However, in order for some models to achieve a limited positive impact on employment, the impact assessment assumes using carbon revenues as a tool to reduce labour taxation. Yet, the revenues generated under the EU ETS as well as the way Member States will be using these revenues are subject to many uncertainties.

COVID-19 considerations

- **Economic impact not included in core scenarios.** The COVID-19 crisis poses an unprecedented shock to the global and the European economy and is already classified as the biggest recession of the last 100 years. Every core scenario (REG, CPRICE, MIX, MIX-50 and ALLBNK) is conducted with pre-COVID-19 data and does not take COVID-19 economic impacts into account. At the same time these core scenarios are the foundation for stepping up ambition. We urge the EU-Commission to further develop analyses that build on updated aspects of a "COVID-19-economy".
- **Narrow sensitivity analysis.** The economic impact of COVID-19 is considered in a rather narrow sensitivity analysis through the components COVID-BSL and COVID-MIX, which factors in reduced economic activity and fuel prices. Both variants are based on the assumption of a rapid rebound of economic activity and disregard the chance of a relatively slow economic recovery. The short-term forecast includes a sharp drop in 2020 followed by a significant recovery in 2021 with only 2.3% lower GDP in 2030 compared to pre-COVID estimates. This leads to the assumption that GHG reduction (compared to 1990) are -55.1% without COVID-19 and -55.4% with COVID-19 (table 18, p.82), therefore a neglectable difference. The sensitivity analysis is based on the assumption of a quick recovery, but what if the expected economic recovery takes longer than anticipated expected? The [IEA report](#) explores the scenario of a delayed recovery (e.g. continued periodic confinements, restrictive measures by governments), finding that by 2030 the global economy is nearly 10% smaller than in the fast recovery scenario.
- **Microeconomic impact.** While we understand that the COVID-19 crisis has not altered the challenge of transforming our economy, it does not reduce the amount of structural investments needed by the end of the decade. The 2030 impact assessment stresses the challenge of mobilizing significant investments to overcome the crisis but does not incorporate micro-economic impacts such as the reduced investment capacity of companies, that is needed for the transition and reduced due to the financial cutbacks in revenue. Therefore, the development of technology, often breakthrough technologies, needed for the transition might not be developed at this stage and as a result jeopardize the final objective of climate neutrality. As the [IEA report](#) finds, around 35% of the cumulative CO₂ emissions reductions needed to shift to a 2050 net-zero



sustainable path come from technologies currently at the prototype or demonstration phase and further 40% reductions rely on technologies not yet commercially deployed on a mass-market scale. This calls for urgent investments to accelerate innovation to deliver on the long term 2050 goal.

Cost impacts on industry

- **Free allocation.** So far, the design of the EU ETS phase 4 seems to have prevented a new application of the cross-sectoral correction factor (CSCF), which if applied would again reduce the free allowances for all industries and put their competitiveness under significant pressure. The 2030 impact assessment states that the CSCF risk is small even in 55% emission reduction scenarios (p. 111–112). Other recent studies such as the [ERCST “2020 State of the EU ETS” report](#) on the other hand show that a 55% 2030 target could trigger a rather significant CSCF of –35% compared to the current 2030 target. We would like to see further elaboration by the Commission as to why these analyses differ so significantly, not least as sectors covered by the EU ETS are concerned about any potential unforeseen impacts. Additionally, the importance of free allowances needs to be taken into account when proposing the Carbon Border Adjustment Mechanism, which should be designed as a complementary tool to the already existing carbon leakage measures (more details under paragraph new policies).
- **Cost analysis.** The total additional investment needs to reach the current energy and climate targets are around EUR 260 billion per year, a figure that increases to around EUR 350 billion per year with the new 55% climate target. Out of this, only about EUR 20 billion are expected to be incurred by industry (see graph [here](#)). This figure refers only to capital expenditure (CAPEX) and does not provide any data for operational expenditure (OPEX). Furthermore, it excludes the energy system costs mentioned in table 10 and table 11 (p. 67–68) of the 2030 impact assessment. When communicating about the costs of the transition, it is important to do so on the total cost figure, not just the investment needs. Apart from this, the 2030 impact assessment may underestimate the ETS costs for industry in several ways, for example:
 - Scenarios are based on the assumption that EU industry does not face any compliance carbon costs (e.g. table 11, p.68). Even if emissions would reduce at a similar rate as the benchmark, this does not mean the industry does not face any costs at all.
 - Several industries face high costs due to indirect ETS costs (i.e. the power sector passing through its direct ETS costs to the industry consumers via high electricity prices). We are not sure if these indirect costs are included in the analysis.

Other considerations

- **Member state-specific impacts.** Although the 2030 impact assessment introduces with the variant EU-NECP (based on the Baseline scenario) the ambition expressed in the final National Energy and Climate Plans by Member



States, subsequently does not take member state-specific impacts into account. While we understand that the 2030 impact assessment was conducted under time constraint, we believe it essential to consider that member states embarked on the transition process from different starting points.

- **New EU policies.** While the 2030 impact assessment looks at the impact of the design of certain future policies (including EU ETS extension, increased renewable energy and energy efficiency objectives), it does not present a holistic approach. The Commission announced the preparation of key legislative proposals by June 2021. Proposals such as the carbon border adjustment mechanism or circular economy legislation will impact the assumptions and data the 2030 impact assessment is currently based on. The 2030 impact assessment announced that these new policies will be dealt with in follow-up impact assessments related to the relevant future policies in question. But with that said, it puts into question the added value of this initial horizontal 2030 impact assessment and does not contribute to a strengthening of regulatory certainty on long-term capital-intensive investments.
- **Transparency of models.** The key projections in the 2030 impact assessment are generated by macro-economic modelling for which different models and scenarios are used. These models and scenarios, however, have not been developed or discussed in any detail with stakeholders and are thus not open for detailed scrutiny. This leads to the fact, that the findings of the 2030 impact assessment occasionally come to significantly different results compared to recent, publicly available reports, studies, roadmaps or economic outlooks. This discrepancy weakens the value and credibility of the presented results for an informed decision making.
