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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Stepping up Europe's 2030 climate ambition

Investing in a climate-neutral future for the benefit of our people

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Executive Summary Sheet
Impact assessment on the Communication “Stepping up Europe’s 2030 climate ambition Investing in a climate-neutral future for the benefit of our people”
A. Need for action
What is the problem and why is it a problem at EU level?
The EU has adopted an objective to become climate neutral by 2050, i.e. to reduce its greenhouse gas (GHG) emissions to net zero. Its current climate target for 2030 to achieve at least 40% GHG emission reductions, as well as the climate, energy and transport legislation, were adopted in a perspective of reducing greenhouse gas emission by at least 80% by 2050. The current 2030 climate ambition, encompassing both target and legislation, therefore risks incentivising decisions by policymakers, investors and citizens that could lock in EU emissions trends inconsistent with reaching climate neutrality by 2050.
What should be achieved?
The first general objective of this initiative is to increase the EU’s GHG emission reductions target for 2030 to between 50% and 55% by 2030 compared to 1990 and to amend the proposed Climate Law accordingly. This would put the EU on a balanced and credible pathway to achieve its objective of climate neutrality by 2050 and provide stakeholders with increased predictability. The second general objective of this initiative is to prepare the ground for the necessary adaptation of the climate and energy legislation playing a key role in the decarbonisation of the European economy, including determining the future role and application of carbon pricing and its interaction with other policies.
What is the value added of action at the EU level (subsidiarity)?
Coordinated EU action can effectively supplement and reinforce national and local action and benefits from the EU’s single market. Increasing climate ambition requires policy responses in many fields. The impacts of such ambition increase and related policies on growth and jobs creation, fairness and cost-effectiveness are examples of elements that can be better considered at the EU level. Climate change is a transboundary problem and EU action is of importance to drive forward global action.
B. Solutions
What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?
The impact assessment confirms that an ambition increase within the range of 50% to 55% GHG reductions is possible in a responsible and socially fair manner, that it can spur sustainable economic growth and employment, and accelerate the clean energy transition, particularly when combined with adequate enabling policies and use of carbon revenues. Economic risks of increasing ambition to 55% GHG greenhouse gas reductions are limited, while it increases investor certainty and reduces the risk of carbon lock in, and accomplishes significant overall environmental benefits. The impact assessment confirms that a step- up of ambition will require a review of many EU policy instruments to deliver it. The impact assessment sees particularly benefits in deploying a broad mix of policy instruments, including carbon pricing and increased energy and transport sectoral regulatory policy ambition, and clearly suggests that there is no single policy instrument being capable of achieving all the objectives considered

in the assessment alone.

What are different stakeholders' views? Who supports which option?

A large majority of public consultation replies endorsed the most ambitious options for climate, renewable and energy efficiency. Nearly 80% of the respondents to the public consultation expressed the view that the greenhouse gas target should be increased to at least 55% and as a consequence nearly 70% expressed the view that the current renewable energy target should be increased to a share higher than 40% and more than 60% of respondents preferred a target greater than 40% of improvement in (primary and final) energy efficiency. Nevertheless, replies of notably business associations were more equally distributed across ambition levels. By and large, the public consultation particularly stressed the need for additional regulatory policies accompanying any carbon pricing initiatives.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

The main benefit is that the emission reduction pathway to climate neutrality by 2050 is not delayed, increasing investor certainty and reducing carbon lock-in risks. Investments in a low carbon economy can spur economic growth and jobs, accelerate clean energy transition and can play a role in green recover following the COVID-19 crisis. Carbon pricing instruments can raise revenues that can be recycled in green investments and lower distortionary taxes such as labour taxes, spurring economic growth and employment. Energy efficiency and renewable energy would deploy much more strongly and as a result, the energy system would be more secure and less dependent on imports, with savings on fossil fuel import bills as large as EUR 325 billion and EUR 375 billion over the period 2021-2030. Energy efficiency and renewables deployment would help to shield the consumers from impact of rising energy prices. Air pollution impacts would reduce, with reductions higher than 60% compared to 2015 levels by 2030 for the highest greenhouse gas reduction target. The EU's land use sector would see improved sustainable management providing increased incentives for afforestation and restoration of degraded lands to reverse the decrease of the EU natural carbon sink.

What are the costs of the preferred option (if any, otherwise of main ones)?

Increases in energy system costs are very limited, from 10.6% of GDP in 2015 to around 11% in 2030. Annual average investments in the energy system, including transport, need to increase in the period 2021-2030 compared to the period 2011-2020 with EUR 312 billion to achieve 50% GHG emission reductions and with around 350 billion to achieve 55% GHG emission reductions. Both system cost and investment needs depend on the policy options implemented, but the magnitude of the variation is limited. Investments are to a large extent repaid over time through reduced fuel payments but it will be a significant challenge to mobilise the necessary scale of finance by 2030. The COVID crisis has not altered this challenge as it does not reduce the amount of structural investments needed by the end of the decade. This underlines the importance of a recovery package that is focussed on green investments in physical and human infrastructure. The analysis shows that the share of energy-related expenses in households budgets increases only slightly when GHG target is increased, but attention should be paid to asymmetrical impacts. For low-income households energy costs represent a larger share of income and they will be more significantly impacted by the transition. Carbon revenues could be used to fund policies reducing negative distributional effects (e.g. through targeted support for energy efficiency investment or transfers to low-income households). Targeted revenue recycling of carbon pricing can actually reverse anticipated negative impacts.

What are the impacts on SMEs and competitiveness?

Impacts on the EU's overall competitiveness are positive, by improving energy efficiency and circularity and promoting innovation. The EU gains from a first mover advantage with increasing global action on climate change. Free allocation under the EU Emission Trading System could still contribute to preventing carbon leakage but other measures are also under consideration. SMEs are expected to play a key role in the transition, notably as a source of innovations in all economic sectors.

Will there be significant impacts on national budgets and administrations?

Distributional impacts at Member State level will be assessed with specific legislative proposals that will follow the 2030 Climate Target Plan.

Will there be other significant impacts?

EU action alone cannot deliver the required global emission reductions but the EU has accepted the challenge of demonstrating to our partners that increased climate ambition, economic prosperity and sustainable growth can go hand in hand. The next major UN climate conference in Glasgow in 2021 will be important in this context. Parties are expected to update their contributions to the Paris Agreement (the UN climate agreement).

Proportionality?

The proposed action is proportional to achieve net zero greenhouse gas emissions by 2050.

D. Follow up**When will the policy be reviewed?**

EU climate and energy legislation provides for a comprehensive framework to track progress towards meeting EU targets and review policies. The overarching framework is provided by the Climate Law and the detailed monitoring and reporting framework is provided by the Regulation on the Governance of the Energy Union and Climate Action. Progress is reviewed every five years, in line with the global stock take exercise under the Paris Agreement.