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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement

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Executive Summary Sheet

Impact assessment on the Revision of the Effort Sharing Regulation

A. Need for action

What is the problem and why is it a problem at EU level?

The Effort Sharing Regulation (ESR) sets national greenhouse gas reduction targets for the sectors that are currently not covered by the EU Emission Trading System such as buildings, road transport, agriculture and waste. However, with a step up to a new overall EU economy wide target of at least 55% net greenhouse gas reductions by 2030 compared to 1990, the current targets set for the ESR are inadequate to contribute sufficiently to the increased overall EU target. Secondly, the possible extension of the Emission Trading System and the possible change in scope of the Land Use, Land Use Change and Forestry Regulation warrants the consideration of the scope of the ESR itself as part of the overall climate policy architecture. Thirdly, in its design the ESR is based on fairness, solidarity and cost-efficiency, and these features must be preserved in the revision.

What should be achieved?

The general objective of this initiative is to contribute to reaching at least 55% net greenhouse gas (GHG) emission reductions by 2030 compared to 1990, with a view to achieving climate neutrality (i.e. net zero GHG emissions) by 2050 in a gradual and balanced way. There are three specific objectives for the review of the ESR: firstly, to define the scope and collective ambition of the ESR coherently within the Fit for 55 package and notably considering a possible new extended Emission Trading System covering sectors such as buildings and road transport. Secondly, to make sure additional efforts are shared in a consistent, fair and equitable manner between Member States. Thirdly, to promote cost-efficient solutions for the reduction of emissions in effort sharing sectors using target adjustments and flexibilities.

What is the value added of action at the EU level (subsidiarity)?

Climate change is a transboundary problem where coordinated EU action supplements and reinforces national and local action effectively. Coordinated action allows for high EU-wide ambition while recognising subsidiarity and different capabilities to act among Member States, since the ESR primarily addresses Member States, while allowing for increased cost efficiency through appropriate flexibilities within and between Member States and with other sectoral legislation (Emission Trading System, Land Use, Land Use Change and Forestry Regulation).

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

The main options of this impact assessment relate to potential changes to the scope of the ESR:

- Option 1: Keep current ESR sectoral scope in parallel to extending emissions trading, with two variants: 1.1. strong increase in ESR ambition and 1.2. limited increase in ESR ambition.
- Option 2: Maintain in the ESR only the sectors not covered by emissions trading, notably a reduced scope without buildings and transport with two variants: 2.1. targets increased to cost-efficient projections of remaining ESR sectors; 2.2. current ESR targets maintained
- Option 3: Phase out of the ESR and replacement by other policy instruments.

Next to options of scope, the assessment also examines if the existing flexibilities within the ESR are adequate to deliver the increase climate ambition in a cost-effective manner.

Given the strong role of subsidiarity in many of the EU policies applying in the sectors covered, an increased ambition with the ESR in line with the overall climate ambition while keeping the current scope of the ESR is seen as the preferred option, ensuring Member States are accountable and have the right incentives to implement both national and EU policies in an ambitious manner, while giving Member States the flexibility to take into account their national circumstances.

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

In terms of ambition the vast majority of stakeholders who replied to the public consultation agreed that Member States should step up efforts and pursue more ambitious targets. As regards scope, 60% of respondents favoured that sectors covered in future by an extended Emission Trading System should also remain under the ESR, while 26% were against. If an extended Emission Trading System is introduced, many respondents highlighted the need for a test period before deciding whether the scope of the ESR should be changed. On 1 June 2021, EVP Timmermans and Commissioner Schmit held a social partners hearing to discuss the economic and social dimension of the Fit-for-55 package. The social partners provided support to the 55% reduction target and indicated their views as regards the different proposals of the package.

C. Impacts of the preferred option

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

The preferred option provides for a policy framework that ensures a high level of environmental integrity, fairness and solidarity in the distribution of efforts and provides for adequate flexibilities to achieve the objectives in a cost-efficient way.

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

The overall costs of the prefered option are assessed as part of the overall economic analysis of the step-up to at least 55% emission reductions. Economy wide projections that combine both regulatory measures and the introduction of an extended Emission Trading System see energy system costs increase over the next decade by 0.3% to 0.6% of GDP (the latter when including the impact of carbon pricing) as compared to the reference scenario. Such costs include both additional investment costs at both the supply and demand side, as well as fuel savings. Macro economic impacts are limited and can be positive, depending on how for instance revenues from carbon pricing are recycled into the economy.

What are the impacts on SMEs and competitiveness?

The ESR primarily addresses Member States as institutional actors and thus mostly affects their national administrations directly. With respect to businesses in general and SMEs in particular there are no direct reporting obligations for SMEs or other enterprises under the ESR and the policy options would not change this status. However, many SMEs, for instance in transport, energy and agriculture, are among the covered sectors of the ESR. Overall all sectors in the economy are expected to see increased greenhouse gas ambition contributing to a modernisation of the economy, but also seeing some sectors decline, for instance those related to fossil fuel extraction and distribution.

Will there be significant impacts on national budgets and administrations?

The practical implications for the Member States due to the implementation of national policies and measures in ESR sectors depend on the measures chosen in each specific country and presented in their updated National Energy and Climate Plans (NECPs) and assessed by the European Commission in line with the Governance Regulation.
Will there be other significant impacts?
The ESR will result in national authorities taking additional action to reduce greenhouse gas emissions in sectors such as buildings, road transport, small industry and agriculture. The transformation will often be associated with increased investment needs resulting in increased efficiency and/or decreased operating costs. Impacts will thus relate to investment challenges and how to address those, for instance in low income households. Within the ESR, this is addressed by setting targets in a differentiated manner largely based on GDP per capita rather than an approach purely based on cost efficiency to define targets, which would result in relatively larger impacts in low income Member States.
Proportionality?
Achieving increased ambition in greenhouse gas emission reductions will require additional action, both at the EU level and at Member States level. The ESR is a tool to incentivise action by EU Member States in a flexible and appropriate manner, and does so in coherence with other EU legislation. The proposed action is proportionate in order to achieve the climate objectives that the EU has committed itself to.
D. Follow up
When will the policy be reviewed?
The ESR is expected to be in place at least until 2030. Progress is being assessed as part of the annual monitoring, reporting and verification system for greenhouse gas emissions. A regular review will be foreseen in the legislation. It will be aligned with the review of other climate legislation such as for example the EU Emission Trading System Directive, the Land Use, Land Use Change and Forestry Regulation and the Regulation setting CO_2 standards for cars and vans.