



June 2020

EUROPEAN BUSINESS INPUT TO THE 2030 CLIMATE TARGET PLAN'S PUBLIC CONSULTATION

We thank the European Commission for the opportunity to provide inputs on the public consultation of the 2030 climate target plan.

Our commitment to make the European Green Deal a true success stays unchanged regardless of the COVID-19 pandemic. The 2030 climate target plan is a good opportunity to perform a fitness check of the EU's climate ambition and to take stock of the objective to deliver an ambitious, cost-efficient and well-balanced framework. As can be read in our dedicated [energy and climate strategy](#), European businesses stand behind the EU ambition of reaching net-zero greenhouse gas emissions (climate neutrality) to reach the objectives of the Paris Agreement, and describes a number of critical framework conditions and actions to do so by around mid-century. That said, we believe the current situation makes it increasingly clear that an incomplete 2030 impact assessment carries a risk that it will not be based on solid figures and facts, and thus not stand the test of time. Rather, the European Commission should use the current situation to make the impact assessment more robust, especially given that it is uncertain what the longer-term impacts of the crisis are for jobs, economic growth and investments. In particular, the impact assessment should be broadened so as to make it more robust for the future by including (more analysis in the Annex):

- **The possible long-term COVID-19 impacts.** The European business community is fully focusing on managing the situation internally in order to minimize layoffs and disruptions to the supply chains. Unfortunately, the social and economic impacts are already widely apparent, with costs running into the billions without a clear end in sight. According to the European Recovery Plan's [staff working document](#), the current financial gap for reaching Europe's existing climate and environment policy goals stands at EUR 470 billion per year, a figure which can grow exponentially with an increased 2030 target. This would come at a time when the COVID-19 crisis is significantly reducing member state's economic growth and forcing companies to reduce capital expenditure by the billions of euros and unemployment rates are spiking across the EU. Overall, Europe could face an [€850bn shortfall](#) in private sector investment in the next couple of years due to COVID-19, of which [an estimated €22bn loss](#) is in total R&D investment. The Commission should therefore include several robust sensitivity analyses that measure the impacts of a serious socio-economic downturn on the ability for Europe to reach any increased 2030 target, the possible solutions, and the possible costs of not increasing ambitions. Furthermore, it is questionable whether 2020 can still remain as the baseline for the



impact assessment due to the COVID-19 impacts. If 2020 turns out to be a very low year in terms of economic growth and emissions, projections in the impact assessment on the future potential of those values might become irrelevant. The Commission should therefore either consider 2019 as a base year, or to adjust the actual 2020 values for the COVID-19 impact.

- **Member state-specific impacts.** Our energy and climate strategy presents five framework conditions and actions that are crucial for Europe to reach climate neutrality by around mid-century, the first of which highlights the need for accounting for the different starting points by member states. The shift towards climate neutrality will be more challenging for some than others, and their ability to reach the 2030 targets will be affected differently by the COVID-19 crisis, noting that the Commission's proposed European recovery plan would already go a significant way in helping member states manage these negative impacts. It is therefore difficult to base legislation on any impact assessment that only focuses on EU-wide impacts, which can easily ignore the large differences in impacts on society and the economies of the different member states of any increased 2030 target.
- **Fair effort-sharing between ETS and non-ETS sectors through relevant carbon pricing.** The impact assessment should consider marginal abatement costs, updated climate technology costs, the length of investment cycles, exposure to competition and the non-linear greenhouse gas reduction path of sectors in delivering emission reductions along value chains. Due to the differences in abatement costs and exposure to international competition between ETS and non-ETS sectors, adding new sectors to the current EU ETS should be considered with caution. Therefore, the impact assessment could consider assessing a scenario where non-ETS sectors are included in a separate trading system to reach their 2030 climate targets. The impact assessment should also assess the potential of energy efficiency for all sectors where possible from an efficiency-first principle.
- **Carbon and investment leakage based on future carbon price expectations and international efforts.** The revised EU ETS Directive in combination with a possible increase in the 2030 targets will likely increase the EU ETS carbon price significantly in the coming decade. BusinessEurope has long advocated for a more meaningful carbon price to guide cost-effective investment decisions in the industry and power sector. That said, the risk of carbon and investment leakage for the period 2021-2030 can therefore not realistically be assessed based on historical empirical evidence with lower carbon prices and outdated technology profiles, and this should be reflected in the impact assessment. Furthermore, the international response to the COVID-19 crisis has been much less focussed on a green recovery than has the European response. The effects that this will have on carbon and investment leakage risks are not yet known, but should be accounted for through sensitivity analyses in the impact assessment. The effects of international mechanisms such as Article 6 (carbon markets) under the Paris Agreement and the use of offsets should also be assessed as they can lead to more cost-efficient global greenhouse gas reductions.



- **Periodic stakeholder consultations.** The Commission should provide more opportunities for stakeholders to provide inputs on its work on the impact assessment and other aspects of the 2030 Climate Target Plan, not just on web-based questionnaires but also on interim reports, underlying datasets, assumptions and draft findings. Businesses stand ready to provide constructive feedback on such drafts in a timely manner.

The ambitious timeline for delivering the impact assessment by September 2020 was set with a view of delivering an enhanced long-term greenhouse gas emission reduction strategy ahead of COP26 in Glasgow and in line with the EU's commitments towards the UNFCCC under the Paris Agreement. The analysis in the annex shows that the current COVID-19 situation has presented Europe and the world with an unprecedented health and economic challenge, forcing the host country UK to [postpone COP26](#) until November 2021.

The European business community therefore expects the Commission to use this extra time to better understand how to address the current possibilities and challenges and the exact implications of possibly altering its 2030 commitments. We are fully committed to making the Green Deal a true success and will continue to engage constructively in efforts to assess how the EU can make further progress on creating a competitive, low-carbon economy towards 2030 and beyond. Backing it with robust impact assessments will enhance the chances of Europe coming out of this crisis more sustainable and stronger.

Annex: Analysis of COVID-19 crisis on economic growth, investments and demand

The impact assessment of the 2030 Climate Target Plan (CTP) is scheduled to be published in September 2020 and will measure the likely impacts of increasing the climate targets for 2030 so as to prepare the EU for the transition towards climate neutrality by 2050. The [inception IA](#) published on 18 March states that the actual IA will be based on a large set of assumptions, including the pace and scale of investments required, macro-economic indicators (e.g. economic growth, employment, competitiveness), as well as demand-side measures (e.g. consumer choice and household expenditure). Though details about these assumptions are still unclear, earlier work such as the European Commission's 2018 long-term climate strategy's (LCF) [in-depth analysis](#) and 2019 [Green Deal communication](#) provide some insights into the possible assumptions that could be used. For example:

- **Economic growth.** The baseline model of the Commission indicates that Europe's real GDP could be about 2.5 times higher by 2050 than in 1990. This translates into a net real GDP growth rate of about 1.54% per year, which [historically speaking](#) is slightly below the average real GDP growth rate of 1.8% (1990-2018).



- **Investments.** In order for Europe to reach its existing 2030 climate and energy targets, we estimate that the average annual mitigation effort would have to be increased to 115 million tons (MT), which is a triplication of the current annual average of about 36 MT between 1990-2018 ([EEA](#)). According to the European Recovery Plan's [staff working document](#), the **additional** investments needed to achieve the climate and environment policy targets is estimated to be at least EUR 470 billion annually, a number deemed conservative as it does not consider investment needs for climate adaptation or energy-related resource management. Increasing the 2030 target to 55 percent would increase the required annual average mitigation to 200 MT, and therefore the investment gap would grow exponentially as well.
- **Demand.** Due to sustained real economic growth and household income, the 2018 LCF expects energy expenditures as a share of income to remain the same in 2030 as they were in 2015 (7.3%), and decreasing by 2050 (to only 5.6%). It is less clear what the assumptions are for non-energy demand, though there are a few remarks that the analyses assume demand for less carbon-intensive diets and shared transport, and limited demand growth for air transport.

The Commission now has the difficult task of executing its flagship Green Deal during one of the biggest crises of the past 100 years. It will need to check whether the pre-crisis assumptions in combination with the recovery steps taken are still realistic to use for its impact assessments that will support its legislative proposals, starting with the 2030 CTP impact assessment, still foreseen for September. As things stand now, the short- and long-term implications of the COVID-19 crisis on the European Green Deal will take a considerable time to materialize, but certain supply-side and demand-side shocks can already be identified:

Economic growth:

- COVID-19 is providing an unprecedented shock to the global system that could result in several negative GDP growth quarters, with the EU expected to experience a GDP contraction of 7.4-7.9% in 2020 ([Commission 2020 Spring Economic Forecast / 2020 Spring Economic Outlook](#)), with more severe scenarios putting this figure at around -12% in 2020 ([ECB](#)). During lockdown periods, economies can experience economic output declines of 20-40%, translating into a 2-3% decline in global annual GDP for each month of containment, with significant country differences. ([IEA / IMF](#))
- At the same time, the scope and ambition of the policy response has also been unprecedented. Stimulus from central banks and governments in the G7 is expected to rise to 11-34% of GDP. ([IMF](#)) The EU's emergency measures have so far reduced the contraction in EU GDP by about 4.75% in 2020, ([2020 SEE](#)) though the EU's



fiscal response has been weaker than the G7 average. ([2020 Spring Economic Outlook](#)) Many governments are also providing unemployment benefits.

- Based on the current response however, the recovery will likely only be gradual. Even if lockdown periods are limited, 2020 will be the deepest post-war recession year, exceeding the 2008 financial crisis. ([IEA](#)) Overall, the [ECB](#) estimates that losses of gross value added will be significant for industry (-40%), manufacturing (-40%), construction (-40%) and retail trade and transport (-60%), all vital sectors to advance the energy transition. These effects could continue to weigh on Europe's economic activity for several years.
- Furthermore, given that government and corporate debt levels were already high before the crisis (global debt-to-GDP was 242%), there is an inherent long-term risk to increase debt levels further. Governments and corporations will therefore want to focus on deleveraging themselves soon after the crisis is over, which will take years to materialize, putting structural downward pressure on investments and economic growth.

Investments

- The 600 largest European companies reported first-quarter results for 2020 of -37% compared to Q1 2019. ([Refinitiv as of 2 June 2020](#)). For example:
 - A chemical producer cut 2020 expenditure on plants and equipment from EUR 3.4 bln to EUR 2.8 bln due to a demand decrease for basic petrochemicals, plastics and coatings. Their 2030 target is still to achieve CO₂-neutral growth.
 - A steel producer reported a \$1.1 billion net loss for Q1 2020 on top of a \$1.9 bln loss in Q4 2019, resulting in a reduced capital expenditure from \$3.2 bln to \$2.4 bln, though certain projects to reduce CO₂ emissions continue.
 - An aluminium producer is reducing investments by EUR 180-225 mln (20-25% reduction) for 2020 as the company is seeing demand at around 60% of normal across its operations.
 - A car manufacturer operating profit fell 81% following a 23% slump in demand for cars due to COVID-19, though its investments grew slightly. Capex was invested primarily in 2019/2020 models as well as the ecological focus, electrification and digitalization of their products. For the European car industry as a whole, new passenger car registrations dropped by 76% in April 2020, marking the highest decline ever recorded. ([ACEA](#))
 - An airline made a EUR 1.8 billion loss in Q1 2020, which means its loss in 3 months' time was worse than during the financial crisis (EUR 1.6 bln loss in 2009-10, over the entire year), resulting in a capex reduction of EUR 2.4 billion for 2020, and a structural capacity reduction of at least -20% in 2021 compared to pre-crisis 2019 levels.



- An SME manufacturer of technical ceramics delivers components to niche markets and so far experienced a 60% loss in turnover in April alone. Due to further reductions, the production kiln will have to shut down. Although offering products with unique features, it's not the question to invest but to survive for such a SME. In another situation, one SME iron foundry reported an 85% loss in turnover for April, with an estimated total loss for 2020 of 50-70 percent. Without a quick improvement of economic situation, the company's assets are not secure any longer.
- It is also increasingly clear that the crisis is impacting industries differently across member states:
 - In [Austria](#), gross value added is predicted to decline by 31 bn. EUR or 7.6% in 2020 in comparison to 2019, with a decline in [gross fixed capital formation](#) of 6.7%.
 - In the [Czech Republic](#), the gross domestic product is expected to decrease by 7.6% in 2020. All components of domestic demand should decrease in 2020.
 - In [the Netherlands](#), the existence of almost half of all Dutch non-financial companies is threatened if the COVID-19 crisis lasts for more than half a year, and this number increases to 60 percent if the crisis lasts for more than a full year. It also [does not expect](#) to be back to pre-crisis levels by 2022.
 - In [Ireland](#), almost three quarters (72%) of CEOs interviewed recently expect to return to pre-COVID-19 levels of demand within a year after restrictions end.
 - In Finland, the [future outlook](#) is slowly picking up with 11% of Finnish companies fearing going bankrupt (16% in April), though [Finnish employers](#) remain fearful that employment and productivity rates will stay suppressed for the foreseeable future.
 - In [Portugal](#), the Bank of Portugal forecasts that activity is expected to start to recover in the third quarter of 2020. However, activity is expected to reach a level close to that observed in 2019 only by the end of 2022, which is considerably below expectations before the COVID-19 crisis.
 - In Sweden, the [Swedish central bank](#) estimates that the crisis may cause Sweden to not return to its pre-COVID-19 levels until 2024.
- Overall, Europe could face an €850bn shortfall in private sector investment in the next couple of years ([2020 SEF](#)), of which an estimated €22bn loss is in total R&D investment ([Roman Arjona, DG RTD chief economist](#)). This will undoubtedly add to Europe's existing financial gap to reach its existing 2030 energy and climate targets.



Demand

- Low prices and low energy demand will greatly weaken financial positions and balance sheets, which were already strained before the crisis. ([IEA](#)) In the area of critical raw materials for the energy transition, new project approvals are slowing and budgets for exploration of new critical raw materials are expected to fall by almost 30% in 2020, which in turn might create supply disruptions in the future. ([S&P Global](#))
- In each country, lockdowns have been associated with deep spikes in unemployment. EU unemployment is forecast to rise from 6.7% in 2019 to 9.0% in 2020, and then fall to 7.9% in 2021 ([2020 SEF](#)). COVID-19 could put up to 59 million jobs at different forms of risk in Europe (e.g. reduced hours and layoffs), or 26% of the EU28 labour force. ([McKinsey](#)).
- In terms of impacts on household expenditure, large differences exist between member states for the short-term: Only 36% of Danes and 43% of Germans believe Covid-19 will impact their personal/household finances for more than 4 months, versus more pessimism in Belgium (46%), the Netherlands (49%), France (52%), the UK (51%), Sweden (53%), Spain (63%) and Italy (67%), and about 50% of consumers globally. ([McKinsey](#), as of 22 May 2020)
- For the longer term, expenditure on international travel will likely stay heavily negatively impacted in Europe, while domestic travel is expected to be less impacted. ([McKinsey](#))

Expectations for consumer behaviour after Covid-19, relative to pre-crisis

International travel	Decrease	Stay the same	Increase	Net change
Belgium	30%	55%	14%	-16%
Denmark	25%	64%	11%	-14%
France	40%	46%	15%	-25%
Germany	26%	57%	17%	-9%
Italy	44%	40%	16%	-28%
The Netherlands	30%	48%	22%	-8%
Portugal	48%	43%	9%	-39%
Spain	51%	36%	13%	-38%
United Kingdom	37%	50%	13%	-24%



Domestic travel	Decrease	Stay the same	Increase	Net change
Belgium	21%	61%	18%	-3%
Denmark	9%	68%	23%	14%
France	18%	59%	23%	5%
Germany	11%	61%	28%	17%
Italy	27%	52%	20%	-7%
The Netherlands	20%	55%	24%	4%
Portugal	22%	49%	29%	7%
Spain	32%	49%	20%	-12%
United Kingdom	23%	60%	16%	-7%

Source: McKinsey, 2020

- The exact impact of the Covid-19 crisis on consumer choice related to other parts of the energy transition (e.g. demand for “green” products, including willingness to pay an additional price or premium for such products) should be further studied.

Other considerations

Indirect consequences of Covid-19 are also plentiful and could in part be caused by Europe’s own policies. For example, the onset of the virus is leading to a re-evaluation of globalization, with a stronger emphasis on sovereignty and autonomy. Some prominent EU leaders have called for a reduction of Europe’s over reliance on other nations, not only when it comes to medical supplies, but also when it comes to critical raw materials for the energy transition. ([ET / POLITICO](#)) In its [Repair & Prepare Communication](#), the European Commission also stressed the need to boost Europe’s strategic autonomy in key sectors, including raw materials.

The implications here could be two-fold: On the one hand, there is an inherent risk such tendencies lead to reduced global trade and consequently slow down the pace of economic recovery. Because value chains are currently highly interconnected¹, decentralizing them will take time, be expensive, and may not always be a viable option. On the other hand, relocating certain industrial activities back into Europe (also called “reshoring”) will likely lead to a wide range of different impacts, such as European job creation but also higher EU emissions, despite higher environmental standards and performance levels, as one can assume absolute emission increases linked to production and transport. However, over time, this production could displace carbon-intensive imports from other regions of the world.

¹ For example, 81% of global assembly and 64% of global component value chains are connected to China ([Morgan Stanley via KKR](#))