EAERE
European Association of Environmental and Resource Economists

Statement on the EU's legislative proposals on climate change

Climate change causes severe consequences as documented by the 6th Assessment Report of the IPCC (Intergovernmental Panel on Climate Change). This calls for urgent and more ambitious climate policies. In July 2021 the European Commission presented the 'Fit for 55 package' which contains a number of legislative proposals to reduce greenhouse gas emissions by 55% in 2030 compared to 1990, and reach climate neutrality by 2050. Guided by sound economic principles, we are united on the following:

1. The package is consistent with the above targets. It will provide an efficient and stable framework to mobilize efforts in all sectors, by diversified instruments. The setting of a price on carbon under the EU's Emissions Trading System (EU ETS) remains a central element of Europe's climate policy. The deepening and widening of carbon pricing, including the proposal to revise the Energy Taxation Directive, is welcome. EU ETS carbon prices in Europe are today within the range of 50-100€/tonne CO2 indicated by the Stern and Stiglitz Report[1] as the level needed by 2030. To date this has contributed to a cost-effective reduction of emissions covered by the EU ETS of over 40% since 2005.

2. The legislative package addresses the distributional consequences of climate policy. The way the distributional aspects are perceived by the public opinion plays a key role for the social acceptability and ultimate success of the proposed policies. While some measures may have regressive effects, the recent increase in carbon prices that followed past reforms of the EU ETS raises revenues that can be used for redistribution purposes. It is important politically to address the social impacts on low-income households[2]. The Social Climate Fund, that complements the new ETS for building and transport, can provide a framework to address these distributive impacts.

3. Higher carbon prices can lead to so-called 'carbon leakage', which is a delocalization of polluting activities towards countries with less ambitious environmental regulations. This could be a problem as EU ETS prices rise, though possibly just a

[1] https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices
[2] On this issue see SDSN 2021.Transformations for the Joint Implementation of Agenda 2030 for Sustainable Development and the European Green Deal. Sustainable Development Solutions Network (SDSN). See also Feindt, S., Kornek, U., Labeaga, J.M., Sterner, T., & Ward, H. (2021). Understanding Regressivity: Challenges and Opportunities of European Carbon Pricing. Energy Economics, 105550, DOI: https://doi.org/10.1016/j.eneco.2021.105550

temporary one if other major players will also adopt a more stringent climate policy following the European example. Two main routes have been identified to prevent carbon leakage: free allowances to sectors at risk of carbon leakage, or a Carbon Border Adjustment Mechanism (CBAM). Free allocation of allowances has been used so far and should be abandoned. The CBAM can create a level playing field but is challenging both from a technical and trade policy perspective. It is to be welcomed that the Commission's proposal on a CBAM allows for time for consultation with the EU's trading partners.

4. Although the EU has a relatively low share of global emissions, it can play a crucial role in inspiring other countries and demonstrating that the adoption of more ambitious environmental policies does not harm overall economic welfare and the wellbeing of citizens. To that end, green and low-carbon innovations need to be rolled out in massive investments. Macro-economic policy instruments should reflect this need.

5. The window of opportunities to reach the Paris Agreement targets is rapidly closing. All countries, in particular G-20 countries, need to strengthen their climate policies. More efforts should be devoted to step up international cooperation in the field of environmental and climate governance. In addition, more financial support needs to go to developing countries which are particularly vulnerable to climate change.

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