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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry into the 2030 climate and energy framework and amending Regulation No 525/2013 of the European Parliament and the Council on a mechanism for monitoring and reporting greenhouse gas emissions and other information relevant to climate change

{COM(2016) 479 final}
{SWD(2016) 249 final}

Executive Summary Sheet
A. Need for action
Why? What is the problem being addressed?
The European Council has confirmed that the LULUCF sector – including emissions from agricultural land and forestry - is part of the 2030 climate and energy framework and should contribute to the "at least 40% domestic" reduction target which the EU has committed to in the context of the Paris Agreement. This IA discusses how this inclusion could be done and sets out three key problem components: • **Need for EU governance of the LULUCF sector after the end of the Kyoto Protocol regime.** • **Appropriate accounting of emissions from biomass use through LULUCF accounts is needed.** • **The cost-efficient mitigation potential of agriculture is lower than for other sectors, while LULUCF offers untapped mitigation potential. Synergies between mitigation on land and the agriculture non-CO2 sector therefore need to be developed further.**
What is this initiative expected to achieve?
- Support progress towards the EU's objective to reduce domestic GHG emissions by at least 40% by 2030 compared to 1990, and towards the 30% GHG reduction target in non-ETS sectors. - Reflect the EU's commitment to the long term vision for limiting temperature increase as outlined in the Paris Agreement, as carbon removals will play an increasing role on the road towards 2050. Specifically, • further reduce greenhouse gas emissions and enhance removals, both in Effort Sharing sectors and from land; • provide a framework for cost-efficient mitigation action on land, particularly with respect to the limited mitigation available in the agriculture non-CO_2 sector.
What is the value added of action at the EU level?
Climate change is a trans-boundary problem which cannot be solved by national or local action alone. The EU competence to take action on climate change derives from Article 191 of the TFEU. The reduction of greenhouse gas emissions and the development of renewable energy sources are among the top 10 priorities of the European Commission. The EU has adopted a common emission reduction target through its 2030 Climate and Energy Framework. The implementation of the overall policy framework and its sectoral building blocks require Union-wide legislation. As the EU addresses climate change commitments jointly, LULUCF also needs to be addressed in a coordinated manner.

B. Solutions
What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?
Since 2008, the LULUCF sector is included in the EU's international climate policy commitments under the Kyoto Protocol. Since then, a well-functioning monitoring and accounting system with international oversight has been in place. For the post-Kyoto phase from 2021 onwards, two critical new design issues were assessed: 1. Choice and improvement of accounting rules for emissions and removals in different LULUCF categories: • choice of base year or period for agricultural land; • streamlining the reporting/accounting systems and switch to land-based accounting; • criteria and robust governance for setting forest reference levels. 2. The need and extent for flexibility towards the Agriculture sector in the Effort Sharing Regulation (ESR): four different levels of flexibility, from zero to high flexibility, were assessed. Preferred option: a stand-alone LULUCF policy pillar would continue to be utilised based on improved and simplified accounting rules. A limited degree of flexibility between LULUCF and the ESR would be enabled, justified on the need derived from the agriculture sector share for each Member State in the ESR. Such a hybrid option (combining elements of the 3 original policy architecture options) would be optimal for incentivizing mitigation action in both agriculture and LULUCF.
Who supports which option?
On policy architecture options: half of respondents had no clear preference. 1/3 of respondents, mostly

environmental NGOs and forestry organisations, were in favour of keeping LULUCF as a separate pillar within the climate policy framework, making this the preferred option (excluding blank answers). The option of merging agriculture and LULUCF in a separate pillar outside the ESR received the least support (1/5). National governments showed most preference for a separate LULUCF pillar, possibly with flexibility, or to merging LULUCF into the ESR. On accounting: strong interest of Member States to maintaining only land-based accounting and in continuing with forest reference levels. Interest in building on the current rules, with few improvements and streamlining, by all stakeholders.

C. Impacts of the preferred option

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

Environmental

Improvement of the accounting rules further enhances robustness of EU governance for LULUCF. The IA quantifies the credit generation potential on afforested land and agricultural land under current rules (very high) and improved rules (lower). It also shows that credit generation potential would still be more than enough to meet the flexibility needs of the agriculture sector.

Economic

It strikes the right balance between flexibility and protecting the environmental integrity of the ESR. The IA concludes that under the medium flexibility option, the overall effect of the reduction effort on agricultural production, consumption and net trade would be very limited. It also demonstrates that medium flexibility is preferable to full flexibility, as the full flexibility option would completely exempt the agriculture sector from further emission reductions (in contrast to all other sectors in the economy). The IA also evaluates the fairness of distribution for each of the flexibility options (full, medium, low flexibility). It finds that distribution is optimal under the medium flexibility option.

Social

Distributional and social impacts mostly depend on the approach chosen by Member States in policy implementation; on EU-level, impact is very limited if the mitigation measures are implemented with flexibility provisions and with cost-compensating flanking support through the CAP.

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

Depending on the mitigation measures included in the modelling, marginal costs in €/tCO_2eq for non-CO_2 mitigation in agriculture (annual costs in 2030) are projected to be €7.3-31.4 under the preferred option, representing at least 60% reduction in costs compared to baseline. Given the limited reduction needed by agriculture non-CO2 emissions under the preferred option, price increases for agricultural commodities would be very limited, and consequently production and consumption changes would be very modest and generally below 1% (and as low as 0.1% for dairy products and meat). Net trade effects would be below 1% except for meat (which nevertheless decreases by just 5%, compared to over 25% in the baseline). Studies highlight that support from flanking measures provided for instance through Rural Development Programmes under the CAP could further reduce negative impacts.

How will businesses, SMEs and micro-enterprises be affected?

The proposal is addressed to Member States and is to be implemented at national level. This is consistent with the past experience and builds on existing LULUCF legislation which already takes this approach since 2008. The EU has previously successfully protected carbon stores and reduced emissions without directly regulating individual actors.

Will there be significant impacts on national budgets and administrations?

Additional administrative impacts are expected to be minimal, as relevant accounting rules have already been set up in the LULUCF Decision 529/2013/EU. Member States are already annually providing information on accounted emissions and removals for afforestation, forest management etc. They are also developing enhanced systems to account for agricultural land in order to be compliant with existing legislation.

Will there be other significant impacts?

No

D. Follow up

When will the policy be reviewed?

In line with the 5-year review cycles established in the Paris Agreement, a first review would be proposed for 2024.