

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to allow them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.

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| TITLE OF THE INITIATIVE | <i>Amendment of the Land Use, Land Use Change and Forestry Regulation (EU) 2018/841</i> |
| LEAD DG (RESPONSIBLE UNIT) | CLIMA.C3 Land Use and Finance for Innovation |
| LIKELY TYPE OF INITIATIVE | Legislative, through the ordinary legislative procedure |
| INDICATIVE PLANNING | Q2 2021 |
| ADDITIONAL INFORMATION | https://ec.europa.eu/clima/policies/forests/lulucf_en |

The Inception Impact Assessment is provided for information purposes only. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Inception impact assessment, including its timing, are subject to change.

A. Context, Problem definition and Subsidiarity Check

Context

The European Green Deal¹, adopted by the Commission in December 2019, has tackling climate change, including more ambitious action in the coming decade, and reaching the objectives of the Paris agreement and other environmental issues at its core. This transition must be just and inclusive. The climate neutrality objective, which the Commission proposed in 2018² and the European Council³ and Parliament⁴ endorsed, is one of its central elements. The Commission has proposed to enshrine climate neutrality into EU law⁵. In order to set the EU on a sustainable path to achieve climate neutrality by 2050, with the Communication on stepping up Europe's 2030 climate ambition⁶ the Commission has proposed an EU-wide, economy-wide net greenhouse gas emissions reduction target by 2030 compared to 1990 of at least 55% and set the stage for this initiative, together with other legislative initiatives in the field of climate and energy.

To achieve the increased 2030 climate target and the climate-neutrality objective by 2050, it will be necessary to sequester more greenhouse gases from the atmosphere. Managing our land and forests in a sustainable way (e.g. biodiversity-friendly forest restoration and afforestation, sustainable forest management) is a very important way, besides technological solutions, to meet this carbon sequestration need in the medium and long term.

In addition, the land and bio-economy sectors can contribute to the EU increased climate ambition by reducing emissions (e.g. from food production, organic soils, deforestation) and by replacing fossil-based materials and energy with bio-based ones (e.g. use of wood products in construction, biomaterials, bioenergy, biofuels).

The current Land Use, Land Use Change and Forestry (LULUCF) Regulation⁷ integrates emissions and removals from the LULUCF sector into the EU 2030 climate policy framework. Under this framework, Member States must ensure that their carbon sink will not be smaller than the one that will occur if current management practices are continued. If a Member State overachieves this commitment, it can use the corresponding credits to comply with the national emission reduction targets set under the Effort Sharing Regulation; at present, this flexibility amounts to up to 262 million tonnes over the period 2021 to 2030.

1 COM(2019)640 final.

2 COM(2018)773 final

3 European Council conclusions, 12 December 2019.

4 European Parliament resolution of 14 March 2019 on climate change and resolution of 28 November 2019 on the 2019 UN Climate Change Conference in Madrid, Spain (COP 25).

5 COM (2020)80 final

6 COM (2020) 562 final

7 <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1597140614572&uri=CELEX:32018R0841>

This initiative will review the LULUCF Regulation and take into account the synergies between the LULUCF sector and other land-related sectors (agriculture, bio-economy), uses (nature-based solutions, closer-to-nature forestry) and policies, in particular the carbon farming initiative announced in the Farm to Fork Strategy (planned for Q3 2021) and the certification of carbon removals announced in the Circular Economy Action Plan (planned for 2023). Other relevant and related policy instruments include the Common Agricultural Policy, the Forest Strategy, the Adaptation Strategy, the Biodiversity Strategy (including the new Soil Strategy and the ecosystem restoration targets announced therein), the Zero Pollution ambition, and the Methane Strategy.

This initiative will take into account the potential impacts of the COVID-19 crisis and recovery.

Problem the initiative aims to tackle [max 20 lines]

It is estimated that the EU removals will need to nearly double from their current level to up to 500 Mt CO₂eq./yr by 2050 to be in line with aspirations for a climate-neutral EU. And yet, European forests, by far the largest carbon sink in the LULUCF sector, are projected to sequester less and less carbon in the next decade due to ageing forests, increasing biomass harvests, and events such as droughts, forest fires and pest outbreaks, which are caused or exacerbated by climate change. At the same time, the Communication on stepping up the EU's 2030 climate ambition indicates that non-CO₂ emissions from the agricultural sector will be the largest share of the residual emissions in 2050, because these are considered difficult to completely eliminate with existing technology and practices.

As the costs related to carbon sequestration and enhancement of biological diversity are currently not sufficiently rewarded and, conversely, the environmental costs of land-related activities that decrease the sink, increase emissions or damage biodiversity are not priced, farmers and foresters do not take sufficient climate action. The substitution of fossil-based materials with bio-based ones (e.g. use of wood in construction) should also be better incentivised. Increasing the rewards for climate-friendly action and applying better the "polluter-pays" principle would trigger the price signals that are needed for the desired change at the level of producers and consumers (e.g. enhancement of sustainable forest management and land management, increase in the use of sustainably sourced biomass like wood and other lignocellulosic products, or a decrease in the consumption of animal-derived products (i.e. behavioural change).

In terms of the EU policy framework, the EU trading of land-based carbon emissions and removals is currently limited to the Member State level, based on the flexibilities provided for by the LULUCF Regulation and Effort Sharing Regulation. Member States can implement incentive schemes for individual land managers, but few have taken steps to do so. Land managers may also be able to trade carbon credits on voluntary carbon markets, but there is no strategic linkage at the EU level between these rising markets and Member States' binding emission reduction targets and LULUCF objectives.

Basis for EU intervention (legal basis and subsidiarity check)

The legal basis of this initiative is in Article 192(1) of the Treaty on the Functioning of the European Union.

Climate change is a trans-boundary problem, where coordinated EU action can supplement and reinforce national and local action effectively. Opportunities to remove carbon or avoid emissions in the land sector are unequally distributed across the EU. Coordination at the European level enhances climate action and EU action is justified on grounds of subsidiarity, in line with Article 191 of the Treaty on the Functioning of the European Union, which also provides for the EU to protect its natural capital, including forests. The EU has worked since 1992 to develop joint solutions and drive forward a global agreement to fight climate change.

Action at EU level is therefore indispensable, and coordinated EU policies have a much bigger chance of leading to a true transformation, particularly in light of the global dimension of the challenge. This approach must take into account different mitigation potential between Member States, as well as the EU single market as a strong driver for cost-efficient change and upward convergence.

B. Objectives and Policy options

The objective of this initiative is to revise the LULUCF Regulation and align the regulatory framework to an EU-wide target to reduce emissions by 55% in 2030 (compared to 1990 levels) and with the goal of becoming a climate-neutral economy in 2050, while ensuring a just transition. To this effect, the initiative aims to create stronger policy incentives that realise the EU's potential to reduce land emissions, enhance substitution of fossil-based materials and enhance land-based sinks in the land use sector. It will also reflect on possible market-based approaches to accelerate the transition towards a resilient and climate-neutral bio-economy.

The baseline for this initiative is the current LULUCF Regulation, as described above; the initiative will investigate options to amend the LULUCF Regulation to ensure a consistent implementation of the climate target plan, including:

- Option 1: to strengthen the current LULUCF Regulation and to increase its ambition in line with the 2030 Climate Target Plan.
- Option 2: to strengthen the flexibility with the Effort Sharing Regulation.
- Option 3: to combine the agriculture and LULUCF sectors into a single climate policy pillar with a separate target.

All options are closely linked to the parallel review of the EU Emissions Trading System, the Effort Sharing Regulation (ESR), and the Renewable Energy Directive.

This initiative will also look at ways to strengthen the monitoring, reporting and verification (MRV) requirements for the LULUCF sector (e.g. use of satellite imagery) and to make it more coherent with other policy objectives (e.g. CAP implementation, protection of biodiversity); such improvement would make all of the options outlined above more effective.

C. Preliminary Assessment of Expected Impacts

Likely economic impacts

This initiative will lead Member States to design and implement appropriate policies and measures (in particular in the context of their forest policies and the Common Agricultural Policy) that accelerate the transition to nature based-solutions and more resilient and sustainable forest management and agriculture. This will affect the economic decisions of land actors (land managers, farmers and forest owners, especially small- and medium-sized ones), and the bio-economy product and feedstock value chains, which will trickle down to the final prices of food and bio-economy products.

The sector will have to undergo a transformation in order to contribute to 2030 climate ambition and 2050 climate neutrality objective. The varying economic impacts across Member States, due to heterogeneous natural conditions and land use and bio-economy profiles, will deserve particular attention. The policy options will affect Member States in different ways depending on several factors (e.g. vulnerability to natural disturbances such as pest, diseases and climate change, relative balance between bio-economy agriculture and food production).

The possible strengthened linkage with sectors covered by the Effort Sharing Regulation will also lead to economic impacts in those sectors, which need to be analysed in the respective impact assessments, also taking into account different impacts across Member States.

Likely social impacts

A stronger role for land in the achievement of the EU climate ambition is likely to bring about new business opportunities but also new challenges in rural areas, and underline the importance of sustainable livelihoods for farmers, foresters and land managers, who still lag behind in terms of income and are most vulnerable to impacts of climate change. The new economic opportunities from a sustainability transition are important for territorial cohesion in rural areas, where the sentiment of being 'left behind' is particularly strong.

Likely environmental impacts

The key environmental objective of this initiative is to address the issue of climate change through action in the land use sector. A consistent review of climate commitments and economic incentives for increasing the carbon sinks ensures the appropriate contribution of the sector in line with the overall 2030 and 2050 climate ambition. Co-benefits, synergies and potential trade-offs with climate change adaptation, sustainable and resilient food systems, ecosystem restoration, biodiversity, pollution, water and soil quality, and the circular economy will receive particular attention, as well as other important elements such as carbon leakage and the uncertainty surrounding LULUCF projections.

Likely impacts on fundamental rights

This initiative advances environmental protection, in line with Article 37 of the Charter of Fundamental Rights of the European Union⁸, pursuing a high level of environmental protection and the improvement of the quality of the environment.

Likely impacts on simplification and/or administrative burden

This initiative will look at how to support Member States in reporting carbon sinks in a more accurate way via inter alia common reporting methods and templates, provision of land-relevant Copernicus services, synergies with CAP datasets, development of digital tools, etc. More effective EU-wide approaches for monitoring, reporting and verification systems will simplify the reporting process for Member States in the future and be a necessary

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012P/TXT>

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| <p>condition for cross-border trading of carbon removals.</p> <p>The initiative will also look at ways to simplify the LULUCF accounting rules.</p> |
| <p>D. Evidence Base, Data collection and Better Regulation Instruments</p> |
| <p>Impact assessment</p> <p>The impact assessment for this initiative will consider the impacts of amending the LULUCF Regulation in line with the overall target of achieving emissions reductions of at least 55% by 2030 compared to 1990, in order to enhance the role of the land use sector towards climate neutrality by 2050. It will assess economic, social and environmental impacts, also in view of the COVID-19 crisis and recovery. It will be prepared in coordination with other relevant impact assessments part of the same package.</p> |
| <p>Evidence base and data collection</p> <p>This initiative builds upon evidence gathered in the previous proposal for a LULUCF Regulation in 2016, the in-depth analysis in support of the European Commission's Long-Term Strategy, the analysis for the Communication on stepping up the EU's 2030 climate ambition, a recently procured study on Carbon Farming in the EU, the lessons learned from the process of establishing Forest Reference Levels, the analysis of the reports on national LULUCF actions submitted under Art. 10 of the LULUCF Decision, the most recent scientific findings, and any relevant evidence compiled in other concurrent Green Deal initiatives.</p> <p>Assisted by support contracts, the Commission will conduct scenario modelling and compare several types of policy options to the baseline (the current LULUCF Regulation). The assumptions of the models used will be described and assessed.</p> |
| <p>Consultation of citizens and stakeholders</p> <p>A first set of stakeholder views has been collected between 31 March and 23 June 2020 as part of the open public consultation on Stepping up the EU's 2030 climate ambition. With a subsequent consultation, the Commission will seek stakeholder views, opinions and preferences on the range of issues and design choices for a strengthened LULUCF Regulation. Main stakeholders include farming and forest associations, other trade and professional organisations (including sectors interesting in the purchase of land-based carbon removal certificates), social partners, NGOs, consultancies, research and academic institutions and national, regional and local authorities and groups (in particular working on the implementation of the Common Agricultural Policy and national forestry policies). The consultation will consist of:</p> <ul style="list-style-type: none"> - Collecting online feedback on this inception impact assessment over a 4-week period - A 12-week open online public consultation consisting of a questionnaire of multiple choice and open questions, as well as the opportunity to submit open feedback - Welcoming the submission of stakeholder documents such as position papers, policy briefs or roadmaps - Organising four expert workshops where relevant stakeholders and social partners will be able to provide input on specific aspects of the envisaged policy options as well as on their impacts. |
| <p>Will an Implementation plan be established?</p> <p>As the LULUCF regulation shall only be reviewed in a targeted way, no implementation plan is necessary.</p> |