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Climate Division – Carbon Budgets
Department of the Environment, Climate and Communications,
29-31 Adelaide Road,
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By email: (carbonbudgetconsultation@decc.gov.ie)

8 February 2022

Re: Public Consultation on Carbon Budgets

Dear Sir/Madam,

Ibec, the group that represents Irish business, welcomes the opportunity to present its views on economy-wide carbon budgets for the period 2021-2035 as proposed by the Climate Change Advisory Council (CCAC).

Ibec is the largest business representative organisation in Ireland. We speak for businesses across a range of industrial, commercial, and non-profit sectors. The organisation and its sector associations strive for business conditions that enable sustainable economic growth.

Climate change is the single greatest challenge facing mankind today. Ireland must urgently transition away from a reliance on fossil fuels and build a more secure and sustainable economy. In this regard, Ibec supports the national ambition to deliver a net zero economy by 2050 and the interim target of 51% emission education by 2030. It is Ibec's view that the transition is also fundamental to ensuring Ireland's long term industrial competitiveness. In a world where investment, talent, and consumers increasingly follow environmental integrity, Ireland has no option but to fundamentally transform its economic model.

Carbon Budgets

Ibec strongly supports the new climate action framework as introduced by the 2021 Climate Act. In Ibec's 2019 Low Carbon Roadmap[1], Ibec recommended the introduction of carbon budgets and sectoral sub targets on the grounds that this

[1] https://www.ibec.ie/connect-and-learn/media/2019/05/27/ireland-needs-to-build-a-new-low-carbon-economy

would impose greater policy discipline across government and send a strong signal for investment in decarbonisation and energy efficiency.

The 51% target

Ibec supports the interim ambition to deliver a 51% reduction in greenhouse gas emission on 2018 levels by 2030. This is a strong statement of intent and if met would put Ireland firmly on the path to delivering carbon neutrality by 2050. But the scale of this challenge is significant, especially in the context of other social and economic challenges like the Covid pandemic, inflation, the housing crisis, Brexit, energy supply constraints, and record high energy costs. Ibec has analysed the sectoral target ranges set out in the 2021 Climate Action Plan and the pathway to 51% will be extremely narrow (See Figure 1 below). Even when achieving the higher ambition for each sector, there is an emissions gap of 1.8MtC02e (see figure 1). Meeting this target in a way that does not suppress growth will require enormous investment, society-wide behavioural change, mass fuel switching, and some very timely innovations.

Treatment of LULUCF

Ibec notes the CCAC's decision to adopt a gross-net accounting model for determining how emissions and carbon removal from the land use sector are counted. Replacing the well-established net-net model (which measures improvement relative to a baseline rate of emissions) with a gross-net approach (which encompasses the full suite of emissions associated with the sector) fundamentally alters the emissions base year and trajectory. Ibec notes the following extract from the technical report

"Under the net-net accounting system LULUCF is projected to be a carbon sink of -17.5 MtCO2eq and - 11.85 MtCO2eq respectively for Carbon Budget 1 and Carbon Budget 2. Under a business as usual (BAU) scenario and the gross-net accounting system, the LULUCF sector is projected to be a carbon source of +29.5 Mt CO2eq and +32.3 Mt CO2eq respectively for Carbon Budget 1 and Carbon Budget 2."[2]

The technical report indicates that this decision was motivated in part by a need to simplify the accounting systems. However, this decision means Ireland will now have two different accounting methodologies for LULUCF for the first budget period. Moreover, plans to adopt gross-net at an EU level are still at proposal stage and may change before 2026. Prior to this added challenge, Ireland already faced one of the most ambitious 2030 targets globally. We believe this decision warranted

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https://www.climatecouncil.ie/media/climatechangeadvisorycouncil/Technical%20report%20on%20carbon%20budgets%2025.10.2021.pdf greater transparency, a consultation with key stakeholders, and an economic impact assessment.

The proposed budgets

Notwithstanding concerns about the treatment of LULUCF, Ibec welcomes the CCAC's proposed pathway as mapped out in the first three carbon budgets. Ibec agrees with the decision to deliver higher levels of emission reduction in the second budget CB2. The underlying modelling and analysis undertaken by the technical group to support this decision clearly shows how the benefits of early action must be carefully balanced with cost effectiveness and feasibility. The proposed pathway will allow more time for the necessary investment in renewable/low carbon technologies, development of critical infrastructure, business model transformation, and behavioural changes in society.

Even with the planned backloading, the first carbon budget (CB1) will be immensely challenging. With emissions in 2018 at 68.3Mt CO2eq, a budget of 295Mt CO2eq for CB1 equates to average annual emissions reductions of 4.8%. Putting this challenge in perspective, emissions only fell by 3.6% in 2020 – during a year of enforced economic shutdown and widespread social disruption. Moreover, the scope for additional reductions in this period through new policy intervention and technology deployment is limited, as Ireland's emissions out to 2025 have largely been determined. It is therefore highly possible that emissions will exceed the constraint in CB1, and the Minster will need to revise downwards the emissions budget for CB2 as permitted in the Climate Act.

To achieve the necessary rapid reductions for the CB1 period, targeted investment and policy intervention will be needed to support the roll out of shovel-ready planning-approved projects with mitigation potential and take full advantage of cost-effective mitigation opportunities or low hanging fruit. To avoid missed opportunities for short-term mitigation potential and prevent emissions lock-in, greater communication between key sectors and government will be needed.

Meanwhile, the window to ensure Ireland can meet the ambition for CB2 is closing fast as policy decisions now will greatly affect our emission trajectory after 2025. For example, the CB2 ambition will not be met if Ireland does not urgently address the major shortcomings in the planning system that are preventing and delaying the build-out of critical infrastructure, including public transport networks and renewable projects. Similarly, work needs to begin now to support the build-out of a world class offshore power system, the decarbonisation of the gas next work, and the roll out of next generation biofuels, Bio-LPG, carbon capture, and hydrogen.

Sectoral Ceilings

Ibec supports the introduction of sectoral ceilings and the ministerial oversight arrangements as set out in the 2021 Climate Act. Ibec understands that sectoral ceilings will be set for core sectors as set out in the Climate Action Plan: electricity; transport; buildings' enterprise' agriculture' and LULUCF. It is important that Government take the following into consideration when setting these ceilings.

1. **Cost effectiveness**

Ireland must adopt a cost-effective approach to emissions reduction. In the 2021 Climate Action Plan, Government estimated that at least €125 billion would be needed to meet the core targets - a combination of new and redirected investment. With no national strategy on how this finance is to be mobilised, it is likely that existing arrangements will endure. This means individuals and businesses will be expected to pay a significant proportion of the cost through increased energy charges, taxation, and private investment. Therefore, it is vital that no unnecessary costs are added to the challenge ahead, and the sectoral ceilings are set with a least-cost approach and value-for-money in mind, consistent with the sustainable management of the public finances.

2. **Competitiveness**

For Ibec, the transition to net zero is fundamental to Ireland's medium to long-term competitiveness. The business case to move away from fossil fuels and improve energy efficiency is stronger than ever. Carbon prices are rising, energy prices are at their highest point in years, and supply is struggling to meet demand. Moreover, consumers and investors are increasingly placing a premium on green enterprise. However, different sectors of our economy will transition at different rates. This is also true within sectors. Mitigation potential varies considerably depending on geography, access to technology, available finance, and energy requirements. The mitigation potential of sectors and sub sectors needs to form a part of Government analysis when setting the ceilings. Moreover, as a small open economy, Government must also consider how a stringent decarbonisation imposition on some sectors could erode their international competitiveness and/or domestic competitiveness vis-a-vis imports. The threat of carbon leakage is being taken seriously at EU level in the Fitfor55 legislative package and the development of the carbon border adjustment mechanism. It is a concern that carbon leakage has not featured in the carbon budget discussions to date or the CCAC report. Ibec notes that the Climate Act requires that climate planning have regard to "the risk of substantial and unreasonable carbon leakage"".

3. Energy security

The transition to a net zero economy should in time boost Ireland's energy resilience as we take advantage of indigenous renewable resources and bring down total demand through energy efficiency improvements. However, a blind pursuit of this objective could undermine the security of the energy system in the short term-medium term. Ibec welcomes the National Development Plan's commitment to secure 2 GW of new conventional (mainly gas-fired) electricity generation capacity to support the decarbonisation of the grid and provide security of supply for when wind and solar is not sufficient to meet demand. With the long-term decarbonisation of the gas network through hydrogen, biomethane and carbon capture, this conventional generation can be accommodated in our zero-carbon future. It is unfortunate that the energy security review first announced in 2019 has yet to published. This is a vital piece of work, and its findings will better inform transition pathways for key sectors.

4. Evidence-based policymaking.

Climate policy, including the reduction timelines and the sectoral distribution of carbon budgets, must be evidence-based and data-driven. Failure to do this will lead to mitigation opportunities either being overlooked or overestimated, and sectors being given obligations they cannot meet. Ibec supports the use of the Marginal Abatement Cost Curve (MACC) to anchor Irish climate policy. But it is critical that the underlying assumptions are based on up-to-date, Ireland-specific data. It is also vital that the MACC analysis be supplemented to address issues like enabling costs, consumer behaviour, modal shift, Ireland's economic outlook, and pathways of least resistance. These factors are often overlooked in a MACC analysis, and once considered can significantly alter outcomes, policy options and decarbonisation trajectories. Ibec's analysis of the sectoral ranges as set out in the 2021 Climate Action Plan and the gaps to target indicate great uncertainty and possibly a lack of information on the mitigation potential and pathways of each sector. Any information gaps like this should be addressed through close consultation with the relevant sectors.

Sector	2018 emissions (actual)	2030 emissions (High Ambition)	2030 emissions (Low Ambition)	2030 emissions (Medium Ambition)
	MtCO2e	MtCO2e	MtCO2e	MtCO2e
Electricity	10.5	2.0	4.0	3.0
Transport	12.0	6.0	7.0	6.5
Buildings	9.0	4.0	5.0	4.5
Industry/waste mgt	8.5	5.0	6.0	5.5
Agriculture	23.0	16.0	18.0	17.0
LULUCF	4.8	2.0	3.0	2.5
TOTAL	67.8	35.0	43.0	39.0
Gap to target		-1.8	-9.8	-5.8

Figure 1

Final remarks

Over the past months, Ibec has engaged in detail with members on key areas including corporate climate ambition, carbon footprint, energy use, mitigation potential, investment plans, experience with existing supports, and barriers to emissions reduction. This engagement gives Ibec unique insights into business needs for the transition to carbon neutrality. We remain at the Department's disposal for further engagement on these issues as needed.

Yours sincerely,

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[redacted] Ibec