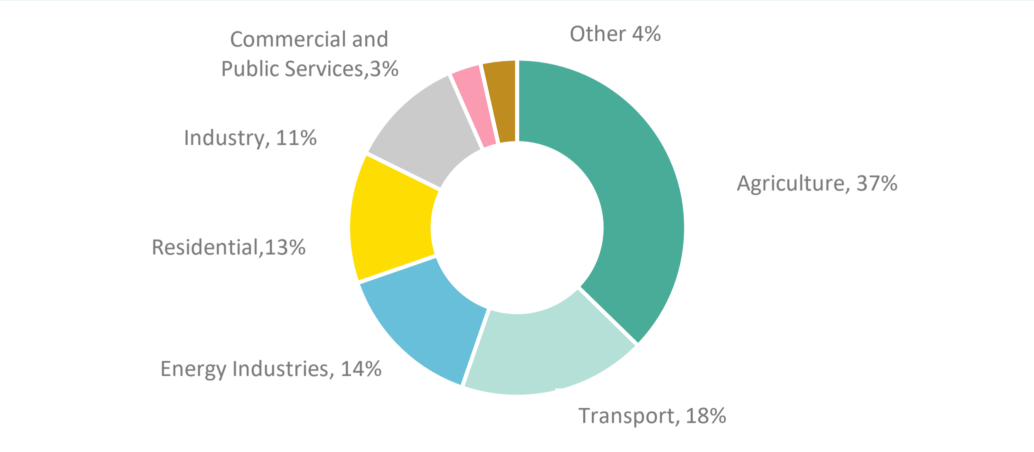
## Box E: The Government's new climate change targets need clear costings

Changing political dynamics and the Covid-19 crisis has brought the impact of climate change under increased focus both in Ireland and internationally. As part of the Government's efforts to reduce carbon emissions, it introduced the *Climate Action Plan* in 2019. This plan detailed Ireland's efforts towards supporting the broader EU goal of net-zero emissions by 2050. In March, the Government moved toward giving the targets legislative underpinnings through the *Climate Action Bill* 2021. This in line with the *Programme for Government*, which effectively aims to legally enshrine the target of carbon neutrality in Ireland by 2050.

### Figure E1: Reducing emissions will require strong collective action

% of Total Emissions in Ireland in 2020




Source: Environmental Protection Agency

As part of this goal, ambitious targets have been set for annual reductions in carbon emissions over the next three decades in the country. While the costs of inaction on this front are high, the adjustment process will require a fundamental reorientation of how the economy operates, incurring heavy claims on the governments resources and requiring careful planning. This box explores some of the potential fiscal implications of achieving these targets and in the context of medium-term planning, discusses where greater budgetary clarity is required to estimate the overall impact on the public finances.

### Meeting reduction targets requires immediate and substantial adjustments

The costs associated with meeting reduction targets could be substantial. The Climate Action Plan (2019) set out how emissions could be cut by a fifth to meet 2030 targets. It showed National Development Plan measures contributing to a reduction in emissions of 16.4 of the total 102 $MtCO_2eq$ reduction planned. But more than half (58 $MtCO_2eq$) of the overall reduction was unspecified. That is more than 3½ times the reduction achieved by the National Development Plan measures, which cost just over €20 billion over ten years (€2 billion per annum and about 1 per cent of GNI*).[46]

Another striking feature of the overall emissions reduction targets is how much the adjustments required to achieve the 2030 targets are now likely to be frontloaded, with a 51 per cent emissions reduction to be achieved by this time.[47] This frontloading means the government will target a 7 per cent annual reduction in emissions over the full period to 2030, up from the 3.5 per cent average in the Climate Action Plan (2019).[48]

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[46] These cost estimates are set out in the National Development Plan (p.22), while the Climate Action Plan 2019 (p.26) sets out the policy assumptions on the NDP's contribution to overall emissions reductions.

[47] Relative to a 2018 emissions benchmark.

[48] The 2019 plan had targeted a 7 per cent annual reduction after 2030.

To date, the government has provided little detail on either the costs of reaching these revised targets or the ways in which it will do so, although a new *National Development Plan* scheduled to be released this year should provide greater detail. As can be seen in Figure E1, overall reductions in emissions will require collective action across a broad range of stakeholders, and with the Government committed to a "Just Transition", this is likely to incur significant costs.

### Competing priorities are exerting pressures on the public finances

While the ambitious targets are necessary to mitigate climate change, it comes at a time when there are several substantial demands on the public finances. In the short term, the implementation of Sláintecare and resources required to ensure the post-Covid-19 economic recovery will command high costs, while population ageing will reduce long term growth and increase healthcare and pension costs substantially in the coming decades. Furthermore, the *Programme for Government* rules out increases to large sources of the Exchequer tax take, increasing pressures on the revenue side.

### More transparency is required to understand the path to implementation

These pressures, along with generalised risks to the outlook, and the potential for bottlenecks under the already increased 'core' capital expenditures, underscore the importance of careful budgetary planning to meet these competing demands. With the forecasts in *SPU 2021* containing only technical assumptions, and little indication of the full set of costs associated with the implementation of the *Climate Action Bill*, the implications of the new targets for fiscal policy are unclear.

While carbon tax increases will generate revenues in the short run, at least 20 per cent of these intakes will likely be redistributed in targeted social protection, while the overall tax take will likely diminish as households and businesses adapt, moving their behaviour away from using carbon intensive activity in the first place. Furthermore, with the *Programme for Government* ruling out increases to major tax sources, and estimates of Stand-Still costs running over current allocations, it is difficult to see how these ambitious targets will be achieved under current spending assumptions set out in *SPU 2021*. One possibility is that any spending impacts may come through on the capital side, which would help to explain the upward revisions in spending relative to the capital plan.

While climate change mitigation is of paramount concern, the government must outline not only the costs associated with its revised emissions targets, but also both the ways in which funding will be generated to meet these demands and also the implementation strategy over the medium term.