



Building a better working world

Reducing carbon emissions is an imperative for Europe

Pressure is rising from stakeholders to act now

Consumers

Increasing demand for 'greener' products (and operations), smart energy and value corporate social responsibility actions

Employees

Increasing desire to work for purpose-driven companies, associated with sustainability and doing good for society

Investors

Increasing pressure on companies to disclose climate-related actions and performance

Authorities

Increasing (and new) national targets and compliance obligations

European Green Deal

The European Green Deal sets out to be the leading force for the global fight against climate change, in line with the global agenda of the Paris Agreement.

2050

Goal: Climate neutrality

- ▶ Protect human life, animals and plants by cutting pollution
- ▶ Help companies become world leaders in clean products and technologies
- ▶ Help ensure a just and inclusive transition

2030

Next

- ▶ At least 50% to 55% cuts in greenhouse gas emissions (from 1990 levels)
- ▶ At least 32% share for renewable energy
- ▶ At least 32.5% improvement in energy efficiency

Today

Now

- ▶ The production and use of energy account for more than 75% of the European Union (EU)'s greenhouse gas emissions
- ▶ 40% of our energy consumption is by buildings
- ▶ Transport represents 25% of our emissions

Carbon policy instruments

Emissions Trading System (ETS):

Works on a cap-and-trade principle, where quantity is set and prices fluctuate.

Carbon tax: Prices are set and quantity fluctuates.

EU Carbon Border Adjustment Mechanism (EU CBAM):

Mechanism under discussion is designed to reduce carbon leakage and protect competitiveness of the EU businesses, as it could impact the cost of importers.

Offset mechanism: GHG emissions are designated on a project or program-based activities. Offset programs issue carbon credits according to an accounting protocol and have their own registry.

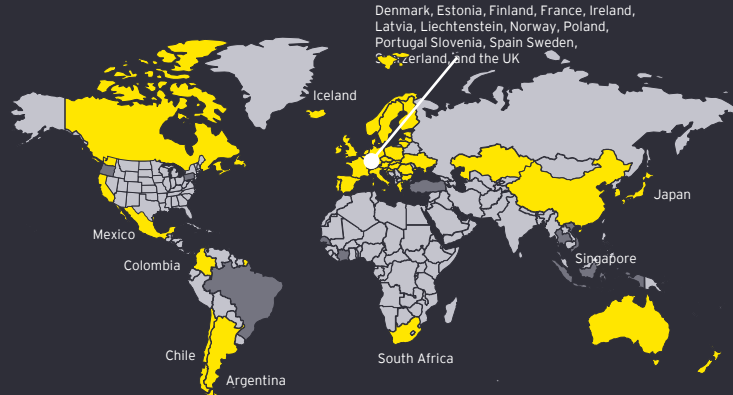
How will carbon policies impact your operations?

EY teams can help you determine whether and to what extent policy developments impact your operations, through policy analysis, forecasts and assessments, such as carbon modeling. We continuously map relevant stakeholders, assist with public consultations and through other ways of engaging with government bodies.

Understanding the impact of carbon taxes on your business

The carbon pricing landscape is constantly changing

There are 46 national and 32 subnational jurisdictions currently putting a price on carbon – 22% of global GHG emissions and raised US\$45bn in revenues in 2019.



*Accurate as of 1 January 2021

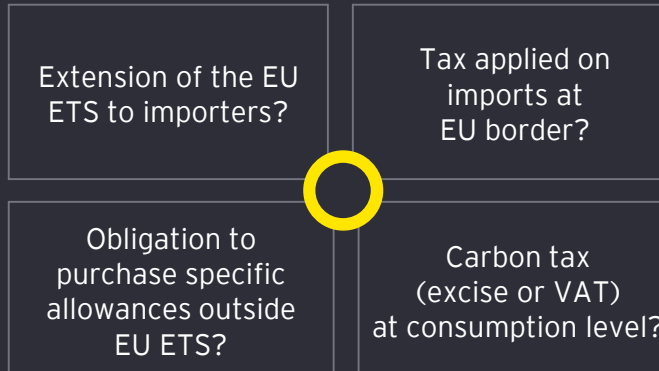
Key questions

- ▶ Which jurisdictions have an existing carbon tax?
- ▶ What are the anticipated carbon tax (or CBAM) proposals?
- ▶ What is the impact of carbon taxes or levies on my revenues and competitiveness?
- ▶ How could different business scenarios impact taxes owed?

The EU Carbon Border Adjustment Mechanism (EU CBAM) will add further complexity

If successfully implemented on 1 January 2023, the EU CBAM would be the first instance of carbon border levies. There are four possible design options for the CBAM.

Regardless, the CBAM will leave no sector unaffected with implications depending on industry, carbon footprint and exporter position.



EY Carbon Modeling Tool

1. Estimate impact on economic activity

We work with you to develop a list of industries that best represent the economic activities of your company, suppliers and customers – and provide the impact of an illustrative carbon tax on these types of activity. Tailored analysis is available.

2. Develop carbon tax scenarios

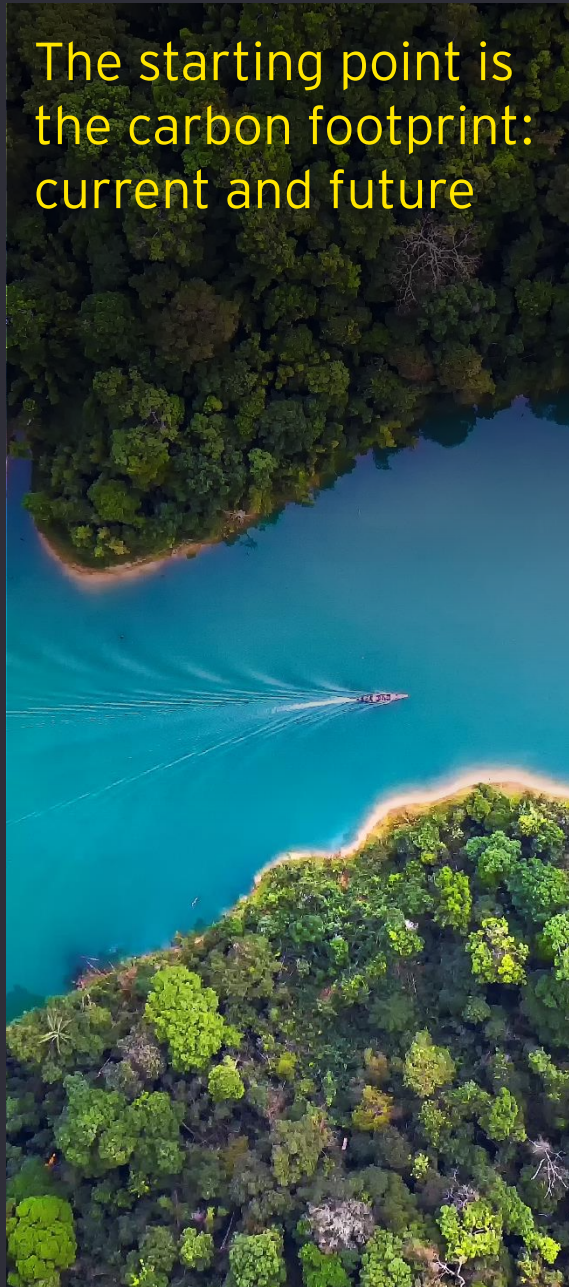
We use the feedback from Phase 1 to provide scenarios with central, low and high impacts based on carbon tax proposals. Scenarios can highlight different effects of alternative carbon tax rates and bases.

3. Customize modeling

We adjust the model parameters to more closely align your company's characteristics, suppliers and customers. We can also develop scenarios for how much of the cost increase from a carbon tax would be passed forward via higher prices.

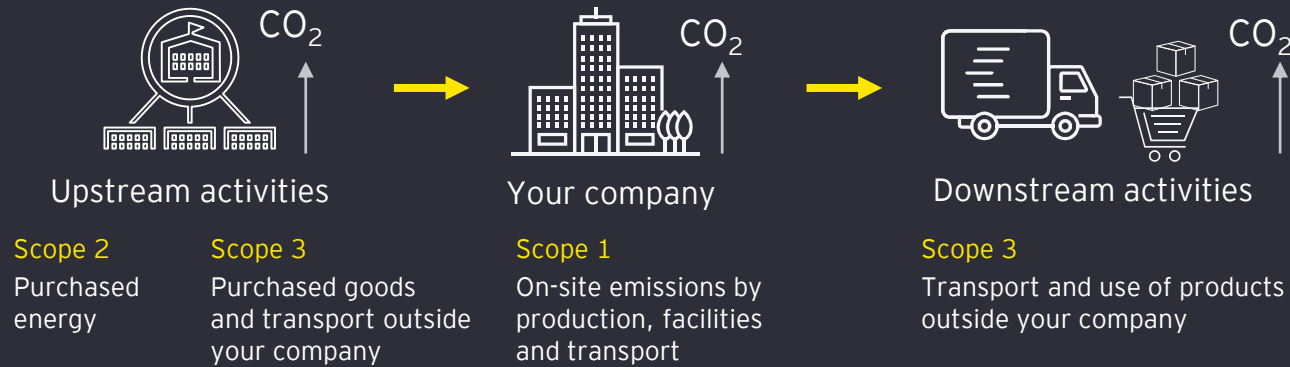
4. Analyze detailed carbon tax scenarios

We can analyze various carbon tax designs, including alternative border tax regimes (EU CBAM), differing tax rates by source of emissions and exclusion of certain industries or goods.



The starting point is the carbon footprint: current and future

Calculating the carbon footprint requires assessment along the entire value chain



Calculating the carbon footprint requires assessment along the entire value chain. Carbon footprint modeling, benchmarking and corresponding verification tools are the prerequisites to successfully apply for public funding to decarbonize.

Tools to reduce your carbon footprint

- ▶ Supplier and customer activities?
- ▶ Change or diversification of products and services?
- ▶ Divestments?

Clean tech development and innovation

- ▶ Change of (circular) raw materials?
- ▶ New (circular) business models?
- ▶ Supply chains and trade route changes?
- ▶ Renewable energy sources?
- ▶ Operational efficiency?
- ▶ Asset replacement?
- ▶ Carbon offsets?

Clean tech development and innovation require capital

Operational improvements and innovation require a significant amount of capital. Incentives and funding instruments can be combined into a blended funding approach, leveraging cash grants, loans, tax allowances, co-financing, guarantees.

Just Transition Mechanism Over €150bn (2021-2027)	InvestEU Fund Over €48bn of private and public climate investments
Horizon Europe €100bn for research and innovation	Innovation Fund €10bn up to 2030 - focus on low-carbon technologies
National programs in the EU and the rest of the world	R&D credits in EU countries and the rest of the world

- ### Key questions
- ▶ How can you acquire the capabilities for an effective climate response?
 - ▶ How do you transform your business model, leveraging the transition to a low-carbon economy?
 - ▶ How do you finance the transition?
 - ▶ What makes a successful funding application?
 - ▶ How will you collaborate with the right stakeholders?
 - ▶ How do you ensure compliance with regulatory, IP and State Aid rules?

EY teams can help you navigate and respond to the complex carbon pricing and tax landscape

How EY teams can help

EY teams across Europe, Middle East, India and Africa (EMEIA) can help you to navigate the complex carbon pricing and tax landscape:

- ▶ Understand current and proposed carbon taxes, policies and incentives
- ▶ Model and assess the impact of carbon taxes on revenues and competitiveness
- ▶ Calculate and benchmark your carbon footprint
- ▶ Advise on strategic, tactical and operational improvements for positive environmental impact
- ▶ Advise on blended funding approaches and support potential funding applications

Why work with EY teams?

EY teams have the knowledge, experience and networks to support you in your journey toward a more sustainable business.

Our multidisciplinary EY teams offer a one-stop to help you understand the policy changes, assess what it means for your business and identify opportunities to help you achieve your ambitions.

EY Cross-functional green tax framework



Your EY team



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EY | Building a better working world

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Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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