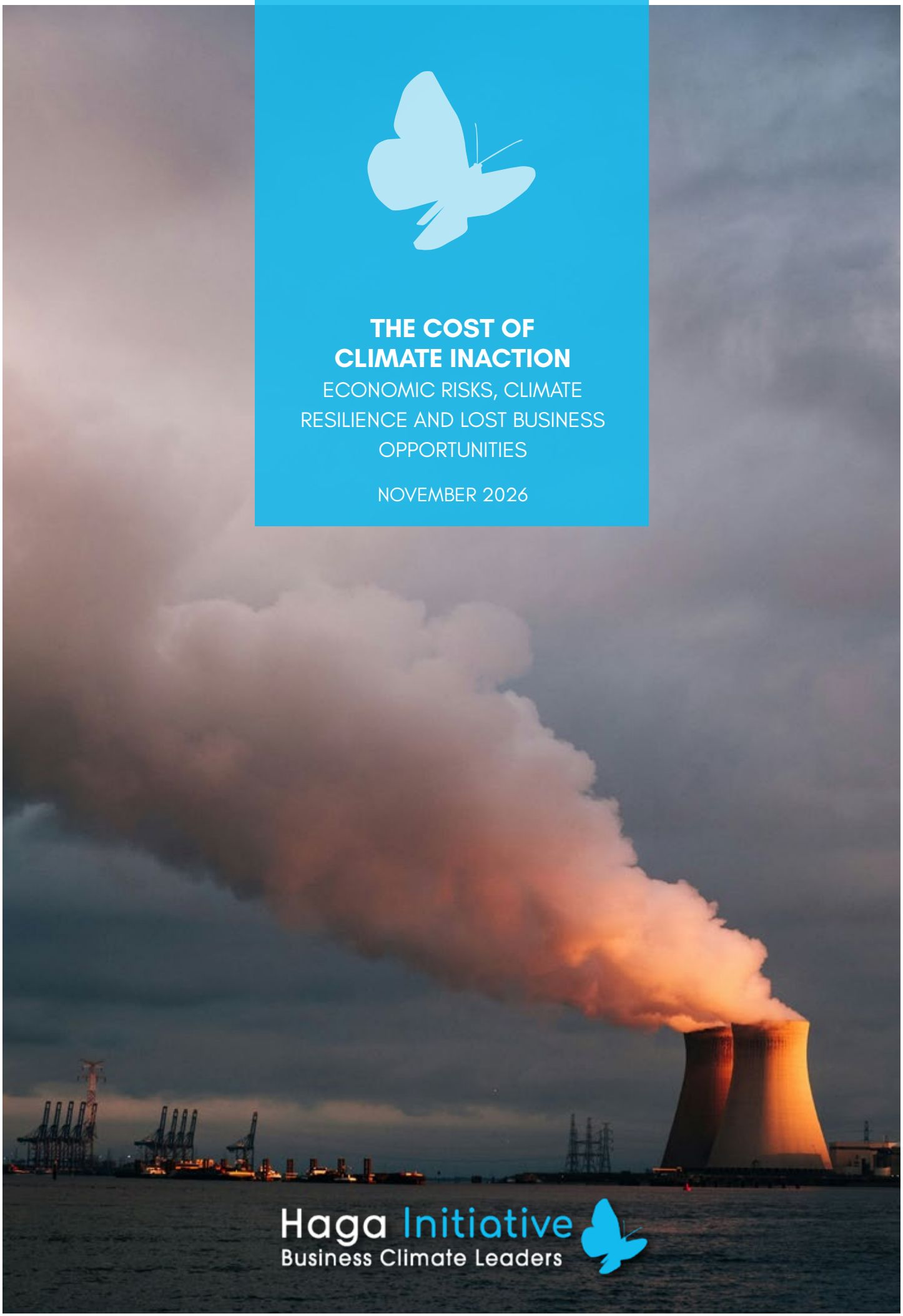
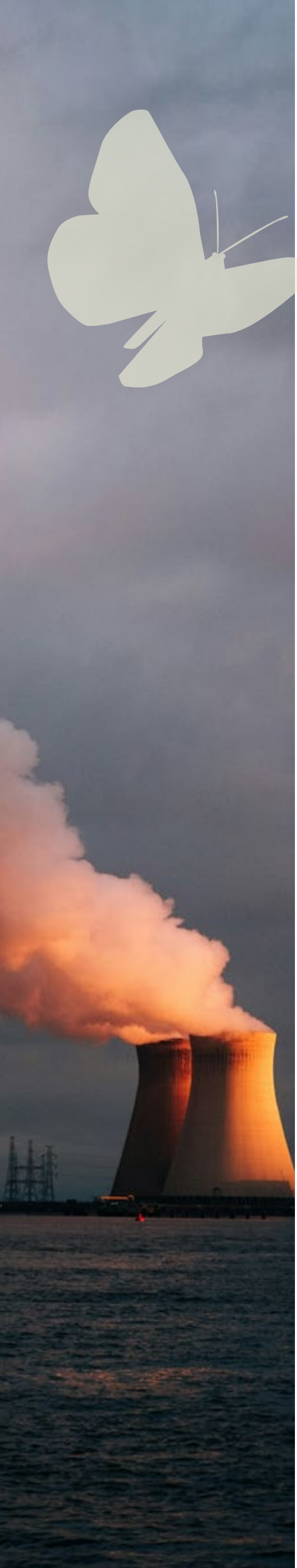
THE COST OF CLIMATE INACTION

ECONOMIC RISKS, CLIMATE RESILIENCE AND LOST BUSINESS OPPORTUNITIES

NOVEMBER 2026



Haga Initiative
Business Climate Leaders



Content

Introduction **3**

Background **5**

Society talks too little about the cost of failing to transition **8**

Climate change as an economic risk **11**

Recommendations to decision makers **14**

1. Early action and continued high climate ambitions through carbon pricing to accelerate the green transition 14
2. Unlocking circular growth and scaling the bioeconomy 15
3. Aligning financial resources and budgets with climate and environmental goals 16
4. Build climate resilience to manage climate risks 16
5. Strengthen international cooperation 17

About the Haga Initiative
The Haga Initiative is a business network with a vision of a profitable business sector without negative climate impact. The Haga Initiative promotes the important link between the business sector's green transition and ambitious climate policy instruments by engaging with policy makers in EU and Sweden.
www.hagainitiativet.se/en

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Introduction

The Haga Initiative, the Swedish climate business network, has since its start in 2010 highlighted the many business benefits of the climate transition for the private sector and we will continue to do so. In this report, however, the Haga Initiative shifts its focus to the risks and costs of failing to accelerate the climate transition, particularly pertaining to business competitiveness, the resilience of value chains, and society's preparedness at a time of heightened geopolitical uncertainty.

It is widely recognized that the benefits of ambitious and early climate action far outweigh the economic costs of delay. When Nicolas Stern published The Economics of Climate Change in 2006, he fundamentally reshaped the debate.

It is widely recognized that the benefits of ambitious and early climate action far outweigh the economic costs of delay. When Nicolas Stern published The Economics of Climate Change in 2006[1], he fundamentally reshaped the debate. Climate change had largely been framed as an environmental challenge; the Stern Review demonstrated that it was equally an economic one, with profound implications for prosperity, stability, and development. However, now, two decades later, the question of the cost of inaction has largely receded from public and policy discussions. This report aims to shed light on the importance of addressing it. The risk is otherwise that disregard to and insufficient awareness of the impact of inaction leads to short-sighted decision making which will increase future societal costs. Businesses and governments are already experiencing the impact of climate change as extreme weather events have an impact on food and water security, financial stability and energy security.[2] The costs of inaction must therefore be made visible, so that more people understand that climate change is a matter of preparedness, risk management, and economic stability, not just environmental policy.

(...) "if the right measures are implemented immediately (...) the costs will remain manageable and are dwarfed by the innumerable long-term costs of inaction."
– IMF, World Economic Outlook 2022[3]

As the impacts of climate change intensify with heatwaves, heavy rains and droughts, and adaptation needs grow stronger, understanding the economic consequences of insufficient action becomes more relevant and more urgent than ever.

(...) "if the right measures are implemented immediately (...) the costs will remain manageable and are dwarfed by the innumerable long-term costs of inaction."
- IMF, World Economic Outlook 2022[3]

[1] Stern, Nicholas (2006), The economics of climate change: the Stern review
[2] European Environmental Agency (2024), European climate risk assessment, EEA report 01/2024
[3] International Monetary Fund (2022). World Economic Outlook: Countering the Cost-of-Living Crisis. Page 71, Washington, DC. October



Climate action is portrayed as expensive, but what about inaction?

What is missing from the discussion is the cost of inaction, that is, not transitioning away from a fossil-based economy and remaining in a business-as-usual scenario of the fossil-driven global economy. Given the abundant evidence showing the trajectory in which humanity is heading and the risks associated with severe global warming, such as increased extreme weather events, the impact on global value chains, health risks, and changing migration patterns to name a few, the consequences of not accelerating the transition, reducing emissions, and limiting global warming need to be highlighted and understood better.

There are clear calls from the business sector warning of the risks of losing competitiveness if policy fails to facilitate a faster green transition and remove the barriers that exist today.

With soaring energy prices due to the war in Ukraine and the Middle East and fierce competition from cheaper imports, the main priority for European political leaders has been to improve European competitiveness and reduce regulatory burdens and excessive administration. Climate and environmental ambitions have been questioned and implementation of rules delayed. The Emission Trading System for CO2 emissions from transport and buildings (ETS 2) has been delayed with one year and some political groups still want to see it further reformed and delayed.[4] Simultaneously, the Commission has presented a proposal to revise the existing EU ETS between 2031-2040, including to reducing the linear reduction factor (LRF), prolonging the use of free allocations and reforming the Market Stability Reserve[5]. Several countries have also introduced fuel tax cuts which risks diluting the price signal to consumers, increasing demand at a time of scarcity.[6]

The risks of missed business opportunities and the impact on competitiveness

There are clear calls from the business sector warning of the risks of losing competitiveness if policy fails to facilitate a faster green transition and remove the barriers that exist today. The report 'Too Hot to Think Straight, Too Cold to Panic: Landing the Economic Case for Climate Action with Decision Makers'[7] shows that proactive climate investments yield significant long-term economic benefits to society, on top of their climate and environmental benefits. It highlights a lack of understanding of the economic advantages of investing in the climate transition, pointing out that the upfront costs of the transition, estimated to be incurred until year 2050, obscure the significant economic benefits that will be felt after year 2050.

Against this backdrop, this report analyses the economic risks of failing to take climate action and why the cost of inaction needs to become a more prominent part of the climate debate.

[4] Reuters (2026), Ten countries urge EU to reconsider new carbon price on fuel. 15th of July 2026.
[5] European Commission (2026), Commission boosts Europe's competitiveness, decarbonisation and independence with Electrification Action Plan and ETS review, Press release 17 July 2026.
[6] Bruegel (2026), The fiscal fault lines of Europe's energy shock, 5th of May 2026.
[7] Boston Consulting Group (2025). Too Hot to Think Straight, Too Cold to Panic: Landing the Economic Case for Climate Action with Decision Makers.



Background

The world is currently experiencing an era characterised by growing geopolitical tensions, with escalating conflicts, economic downturn and soaring fossil fuel prices. There are signs that the global political consensus, that has prevailed since the Paris Agreement in 2015, is beginning to erode partly against the backdrop of the US, one of the world's largest emitters, having withdrawn from the agreement. Within the EU institutions, intense discussions are ongoing about the revised energy and climate policies to align the rules with the 2040 climate target to reduce net GHG emissions with 90 percent, the so called "post-2030 framework". This window presents an opportunity to ensure that certain voices advocating for lowering climate ambitions in the EU, are not getting their way but rather the efforts are accelerated through ambitious climate policies.

Emissions continue to increase and the effects are felt

The world has never been as well informed about climate-related risks and the direction in which climate change is heading as now, and yet, emissions are increasing. The UN's Emissions Gap Report 2025 concludes that a decade after the Paris Agreement, global ambition is far too low and implementation too slow.[8] Despite accelerated development and roll-out of renewable technologies, and with climate targets and policy instruments in place, annual global emissions continue to increase year after year. The global average temperature has increased

Europe is the fastest warming continent in the world and will therefore need to be in the forefront of implementing climate resilience and adaptation measures.

by about 1.4˚C since the pre-industrial era and Europe has already experienced an increase of 2.4˚C[9]. Europe is the fastest warming continent in the world and will therefore need to be in the forefront of implementing climate resilience and adaptation measures. With current policies, global temperature increase is on path to reach 2.8 degrees by the end of the century. In the best-case scenario, global warming reaches 1.7-1.8 degrees by mid-century, then slopes back down toward 1.5 degrees. In order for that to happen, it requires an 18 percent cut in emissions by 2030, three times more than what countries have promised, according to a UNEP report.

A recent study from Potsdam Institute for Climate Impact Research (PIK) from 2026[11] found that the Atlantic Meridional Overturning Circulation (AMOC), the large-scale ocean circulation system that transports heat north in the Atlantic and plays a key role in regulating the climate,

[8] United Nations Environment Programme (2025). Emissions Gap Report 2025: Off target – Continued collective inaction puts global temperature goal at risk, https://doi.org/10.59117/20.500.11822/48854.
[9] Copernicus (2026). Climate Indicators Temperatur. https://climate.copernicus.eu/climate-indicators/temperature
[10] Emissions Gap Report 2026 | UNEP – UN Environment Programme
[11] Nian, D., et al (2026). Collapse of the Atlantic meridional overturning circulation would lead to substantial oceanic carbon release and additional global warming



is heading towards a 50 percent weakening by the year 2100, instead of the 30 percent in earlier projections. A weakening would affect weather patterns, sea levels, and precipitation. Findings suggest there is a risk that the AMOC system might collapse in the 2100s. A weakening of the AMOC could have significant global consequences, leading to Europe becoming colder, changing rainfall patterns in Europe, South America, and Africa, rising sea levels around the Atlantic, the monsoon being affected in India, and the tropical rain belt shifting southwards, which could lead to increased drought in the Sahel region.

A new global reality: Managing parallel risks

Climate change is competing with other pressing global challenges, and because its impacts intensify over time, it is perceived to be less urgent. The World Economic Forum's (WEF) Global Risks Report 2026, which surveys over 1,300 experts worldwide to determine the greatest risks we face in the short and long term, concludes that the three greatest risks within the next ten years will be linked to climate and the environment.[12] In a world characterised by shorter term risks linked to geopolitical confrontation, disinformation, and polarisation, it is important to look beyond the immediate near-term horizon and manage these challenges whilst simultaneously taking robust measures to tackle long-term climate change. Risks can no longer be managed separately, but rather in parallel as they risk reinforcing one another.

The costs of failing to take climate action

As mentioned, the climate policy debate largely revolves around what it will cost to tackle climate change, and in particular to implement the significant mitigation measures required to reduce greenhouse gas emissions. The reality is that Europe is stuck in a fossil fuel dependency. The main driver behind higher energy prices has been imported fossil fuels. Europe will not be able to be competitive as long as it is dependent on volatile global energy and raw material prices and must therefore build up more of an independence through investments in domestic renewable energy sources and resource efficiency.

Inaction will cost the global economy billions of euros

The report 'Too Hot to Think Straight, Too Cold to Panic: Landing the Economic Case for Climate Action with Decision Makers' estimates the cost of inaction for the global economy and society by presenting two scenarios: one in which the world warms by 3°C, based on current climate policy (business-as-usual), and one where warming is limited to below 2°C, in line with global climate targets, until the year 2100. It shows that with a 3°C warming, cumulative global GDP could fall by 15-34 percent by 2100, compared to if warming is kept below 2°C. Climate change can generate severe consequences for the global economy and societies, significantly damaging economic productivity and assets. Much like Stern concluded, it is costly to delay climate action rather than taking action today.

Climate change can generate severe consequences for the global economy and societies, significantly damaging economic productivity and assets.

The report suggests that investment into mitigation and adaptation measures must increase significantly from current levels between 9-13 times by 2050 in order to limit global warming to 2°C. Any economic 'savings' gained if the warming is limited to below 2°C could, for example, be spent on eradicating extreme poverty, tripling global healthcare spending, funding global defence expenditures, or covering infrastructure investment needs.

Political leadership must highlight increasing future costs

Political leaders must provide clarity and a forward-looking perspective on what the future cost of today's inaction will amount to, in order to better understand the cost-difference between the incurred costs of continued use and subsidisation of fossil fuels versus stronger climate policies and action.

[12] World Economic Forum (2026), The global risks report 2026, 21st edition.

The Irish Fiscal Council has produced a report, the first of its kind in the EU, that examines what costs Ireland faces if it does not meet the EU climate targets, and how these compare to the costs of implementing climate-friendly measures to meet these targets. The report 'A colossal missed opportunity' shows that Ireland risks having to pay out between EUR 8 and EUR 26 billion to EU if it fails to meet its 2030 commitments, focusing on the ESR, LULUCF, RED and EED, all in which Ireland is lagging behind. These costs can be reduced to between EUR 3 and EUR 12 billion if the government implements planned, but not yet implemented, climate measures, which may reduce the risk of fines and the necessity to buy emission allowances.

In addition to the significant financial savings, the report emphasises that a faster and more ambitious climate transition also brings societal benefits. Meeting its climate targets would make Ireland a healthier and more sustainable society, create jobs, as well as increase energy security as it reduces its dependency on imported fossil fuels. The report provides examples of various investments that can reduce emissions and lower future costs, including investments in the electricity grid, electrification of the transport sector, and support for forestry. The findings of this report clearly reveal that the cost of implementing planned climate measures are less than and even decrease over time, compared to the incurred costs of failing to meet climate targets.

This behavioural economic phenomenon, combined with short political cycles, creates an incentive gap. Mark Carney, Prime minister of Canada and former Governor of the Bank of England, described the conflict between the long-term effects of climate change and the short-term incentives of politics and economics as the "tragedy of the horizon"[13]. The concept describes how differences in time horizons risk delaying important decisions.

The report 'A colossal missed opportunity' shows that Ireland risks having to pay out between EUR 8 and EUR 26 billion to EU if it fails to meet its 2030 commitments, focusing on the ESR, LULUCF, RED and EED, all in which Ireland is lagging behind.

Political decision makers need to address many societal challenges simultaneously and operate within relatively short time horizons. At the same time, the most serious consequences of climate change lie further ahead in the future, often beyond the duration of current political terms. Actors from different parts of society therefore need to contribute knowledge about how climate change affects businesses and the wider economy when the transition proceeds too slowly.

In a world with parallel crisis and increased climate-related risks, it is pivotal that political leaders take responsibility and look beyond their political terms to preserve the "safe and just corridor of life".[14]

[13] Speech by Mark Carney (2015), Breaking the tragedy of the horizon – climate change and financial stability, at the Lloyds of London, 29 September 2015.
[14] Rockström et al (2021). Identifying a Safe and Just Corridor for People and the Planet. Earth's Future. 9. 10.1029/2020EF001866.



Society talks too little about the cost of failing to transition

As described in the introduction, the climate policy debate largely focuses on what it costs to achieve the major emissions reductions required to limit global warming. In recent years, the concept of public acceptance has received greater attention in the climate policy debate. This means that policy measures that result in or is even perceived to result in higher costs for businesses or citizens are often considered difficult to implement if they lack legitimacy amongst the public.

Major indirect costs for businesses from a changing climate

A report from The Confederation of Swedish Enterprise's February 2026 *From Risk and Resource Dependency to Resilience* shows that three out of four European companies are directly or indirectly dependent on nature, and that more than half of global GDP is linked to natural resources.[15] Businesses have long relied on predictable environmental and climatic conditions, something that can no longer be taken for granted. More frequent storms, droughts, floods and landslides risk making access to raw materials less reliable, disrupting production and supply chains, and hindering the transport of goods.

Damage to railway tracks and the prioritisation of essential traffic reduced freight capacity in the north–south direction. Many trains were cancelled or rerouted, leading to inventory build-ups in the north and supply shortages for customers in the south.

A Swedish example of how businesses are affected by extreme weather is the torrential rainfall in Västernorrland County in 2025. The Swedish Transport Administration's impact assessment describes several tangible effects on businesses. Damage to railway tracks and the prioritisation of essential traffic reduced freight capacity in the north–south direction. Many trains were cancelled or rerouted, leading to inventory build-ups in the north and supply shortages for customers in the south. Food, industrial goods and energy-related freight transported by rail faced delayed deliveries or had to be shifted to more expensive road or sea transport. Rerouting, overtime, recovery operations and infrastructure repairs also increased transport and administrative costs.

"For industrial customers, the disruptions resulted in delayed inputs, reduced production, irregular deliveries, breached supply agreements and temporary production stoppages or shift adjustments. This generated lost revenue, higher inventory and working-capital costs, administrative and transaction costs, overtime costs, and risks to quality and customer relationships.[16]"

The example demonstrates how climate-related disruptions can rapidly have major economic consequences for businesses.

Another vulnerable sector is agriculture, where weather and climate represent the greatest business risk. The Swedish land-holding cooperative Lantmännen, owned by approximately 17,000 Swedish farmers, has highlighted that more than SEK 50 billion in investment is needed for climate adaptation and water infrastructure in agriculture, particularly irrigation and drainage. These funds are currently not available within the agricultural sector due to weak profitability.

Sweden also needs to view water from a broader perspective. It is a matter of competitiveness, energy supply and economic security. The Swedish Water and Wastewater Association (Svenskt Vatten), the national industry organisation for municipal water and wastewater services in Sweden, proposes clarifying political responsibility for water issues and establishing

[15] Svenskt Näringsliv (2026), Från risk och resursberoende till resiliens, February 2026.
[16] Trafikverket (2026). Utvärdering av Trafikverkets hantering av skyfallen i Västernorrland september 2025

a national water resilience strategy aligned with the EU's approach. In Sweden, existing shortcomings and maintenance and extension needs in water system infrastructure are heavily under financed. According to Svenskt Vatten, investments required until 2040 is around SEK 560 billion (~EUR 51 billion)[17]. Water shortages are already evident in delayed industrial establishments and production stoppages. Water is therefore a strategic political issue.

Another European example is the severe flooding in the Spanish province of Valencia in October 2024 resulted in more than 220 casualties and direct physical damages of EUR 12-18 billion (0.8 percent to 1.1 percent of Spanish GDP). In Slovenia in 2023, flooding caused three casualties and damages to a value of EUR 7-10 billion. The flooding disrupted production of automotive part suppliers, leading to production reduction elsewhere.

Failing to meet climate targets comes at a cost

To better understand the alternative to introducing policy measures today that reduce fossil fuel use, in other words, continuing to subsidise fossil fuels, political leaders need to communicate more clearly what failing to act could cost.

All EU Member States have, as part of the so-called "Fit for 55" policies, committed to achieving multiple climate targets until 2030, such as e.g. the national targets in the Effort Sharing Regulation (ESR), and to implement rules to e.g. improve energy efficiency, increase renewable energy and to introduce changes to the emissions trading system. If any EU country fails to meet their targets the country risks having to pay substantial penalties to the EU.

The potential size of these costs is not yet known. Ireland is the first EU country to have analysed how the costs of implementing the measures required to meet climate targets compare with the costs of failing to do so.

Costs can range from lost business opportunities and foregone tax revenues to the direct costs of destroyed infrastructure and other assets.

The costs of climate change are difficult to calculate

Researchers behind the concept of planetary boundaries point out that uncertainty increases as irreversible planetary boundaries in the Earth system are crossed. When humanity exceeds critical thresholds, the risk of irreversible changes and so-called tipping points increases, making future developments increasingly difficult to predict. Because planetary systems are also

[17] Svenskt Vatten (2026). Strategi för valåret 2026. https://www.svensktvatten.se/om-oss/verksamhet-och-strategi/strategi-for-valaret-2026/



closely interconnected, changes can trigger chain reactions that increase uncertainty and the risk of abrupt and irreversible change.

Climate change is a slow, complex and large-scale problem that risks becoming normalised over time while we focus on more immediate decisions.

As the future becomes more difficult to predict, estimating the economic costs of failing to transition also becomes more difficult. This probably contributes to the issue receiving less attention in the debate. Costs can range from lost business opportunities and foregone tax revenues to the direct costs of destroyed infrastructure and other assets. The total economic costs of climate change are not fully known, but insurance payouts for damage caused by natural hazards can provide an indication of the direct costs. According to a paper by Zurich Insurance Group from 2025, over the past 30 years, insured losses from natural disasters have grown faster than the global economy. Relative to global GDP, these costs have more than doubled since 1994[18].

Businesses, like other parts of society, have a responsibility to contribute knowledge about how their operations, employees, value chains and society at large could be affected if the transition proceeds too slowly in order to increase awareness around costs of climate change.

Gradual changes are difficult to perceive

It is said that if a frog is placed in cold water that is slowly heated, it will remain there until it is too late to jump out. We need to avoid the "boiling frog" scenario—that is, gradually allowing negative changes to occur without reacting. The metaphor is relevant in the context of climate change because climate change is a slow, complex and large-scale problem that risks becoming normalised over time while we focus on more immediate decisions.

[18] Zurich Insurance Group (2025). Climate Risks: Strategies for Building Resilience in a More Volatile World



Climate change as an economic risk

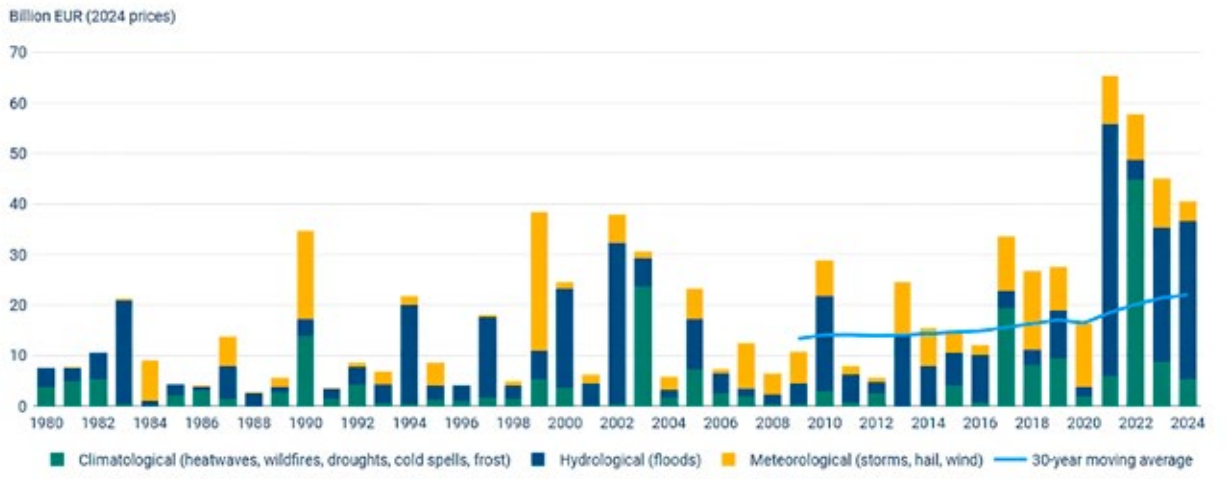
Climate change is a systemic socioeconomic risk. It causes damage and systemic costs that spread throughout the economy and can lead to higher financing costs, weakened competitiveness, destroyed assets and increased security risks. The macroeconomic impact of climate change is felt through multiple channels: loss of productivity and output, strains on the public budget, higher inflation, challenges to the debt sustainability, disruptions to supply chains and energy infrastructure.

The costs of extreme weather in Europe are rising

At the same time, a growing number of reports and studies are attempting to estimate the costs of climate change and losses of natural capital and critical infrastructure. According to the European Environment Agency's (EEA) 2025 report Economic losses from weather- and climate-related extremes in Europe, extreme weather and climate change caused greater economic damage in Europe during 2020-2024 than during the entire preceding decade.[19] The report also shows that around 240,000 people died prematurely as a result of extreme weather in the EU-27 between 1980 and 2024, and that direct economic losses over the same period amounted to approximately EUR 822 billion, of which a quarter incurred 2021-2024 (see graph below).

The macroeconomic impact of climate change is felt through multiple channels: loss of productivity and output, strains on the public budget, higher inflation, challenges to the debt sustainability, disruptions to supply chains and energy infrastructure.

Figure 1. Annual economic losses caused by weather-and climate-related extreme events in the EU Member States



Source: EUA, 2025

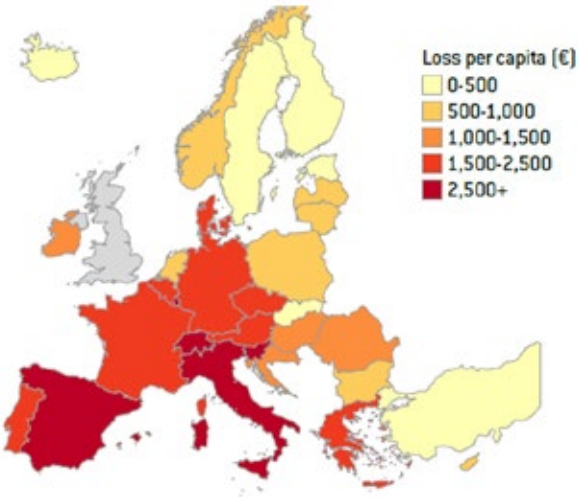
[19] EEB (2025), Economic losses from weather- and climate-related extremes in Europe, 14 October 2025.

According to EEA estimates less than 20 percent of the total losses were privately insured. The level of insurance coverage varies widely between different EU countries (from 3-35 percent) and the kind of weather event type.

The indirect costs of climate change disasters, e.g. reduced output and productivity, can exceed the immediate cost of damage by up to five times, through its impact on supply chains.[20]

The heatwaves in Europe in the summer of 2026 illustrate how extreme heat is already affecting human health, energy systems, agriculture and labour productivity across large parts of Europe.

Figure 2: Historic economic losses per capita, 1980-2024



Source: Bruegel based on EEA (2025a). Note: aggregated losses for 1980-2024 for all weather- and climate-related event types.

A new estimate from Triodos Bank, Hot Summer Economics (2026), points to a GDP loss of around EUR 180 billion, equivalent to approximately one percent of the EU economy.[21] The largest cost does not stem from damaged buildings or fires, but from the fact that people, agriculture, energy systems and transport simply become less productive when temperatures reach extreme levels.

Increased risks to financial markets, the housing market and the wider economy

Climate change has a fundamental impact on society, making it difficult to calculate the total macroeconomic consequences. Most models attempting to estimate economic impacts likely underestimate the costs, as factors such as biodiversity loss, ecosystem collapse, and the effects of environmental tipping points are rarely included in the analysis. However, from a narrower economic perspective, it is clear that climate change affects key economic parameters, such as labor productivity, the cost of capital, and the risk of stranded assets.

Another study estimates that with a 3⁰ C trajectory that the GDP loss would be around 11-27 percent until 2100.

Estimates show that a 1˚C increase of the global average temperature (an increase which has already been surpassed), reduced GDP with over 20 percent in the long run.[22] Another study estimates that with a 3˚ C trajectory that the GDP loss would be around 11-27 percent until 2100[23]. Climate change creates growing risks for banks, insurance companies and property owners. Insurance premiums may rise, and some properties could become difficult or impossible to insure if the risk of natural-hazard damage is considered too high.

An increased number of natural disasters has also led to higher payouts by insurance companies to cover various types of damage. Costs now exceed approximately USD 100 billion annually, and in the United States, insurance companies have already begun withdrawing from areas where climate risk is deemed too high.[24]

The hot and dry summer of 2022 is estimated to have led to an increase of food prices by 0,67 percent and headline inflation with +0.34. By 2035, temperature increases could lead to a food inflation of +1-1,5% and headline inflation of +0.5-0.8 percent.[25]

[20] Lenzen and Li (2026), Climate change triggers supply-chain losses that substantially exceed direct damages, Research Gate.
[21] Triodos Bank Insight (2026), Hot Summer Economics, 8 July 2026.
[22] Schilling and Stagl (2025), The cost of climate inaction, University of Vienna, February 2026.
[23] Dito
[24] Financial Times (2024), The uninsurable world - how the insurance industry fell behind on climate change, 2nd of June 2024.
[25] Bruegel (2026), Planning for the rising fiscal costs of climate disasters, Policy brief 13/2026

The Swedish central bank, The Riksbank, concludes that an orderly and early transition entails significantly lower costs for the financial system than a delayed transition, in which increasing climate-related damage risks threatening financial stability[26].

Climate adaptation reduces future costs

While it is clear that the priority line of action is to mitigate emissions in order to lower risk for extreme weather events, additional measures to increase climate resilience and adaptation will be needed. Climate adaptation requires substantial investment, but the cost of inaction is likely to be considerably higher. The need and hence the cost of adaptation measures will of course be dependent on the expected climate trajectory, and the measures will also have other positive effects such as cleaner air, socioeconomic impact, which usually are not part of the methodology when assessing the benefits of action.

According to a study by the EEA, the cost of making agriculture, transport and energy climate resilient would range between EUR 53 billion and 137 billion annually by 2050.[27] However, the current adaptation funding for EU transport and energy sectors is between EUR 3.35–3.85 billion and 2.36–2.47 billion hence there is a substantial funding gap. The situation for agriculture is slightly more positive with an estimated EUR 9.3–9.8 billion annually invested in adaptation measures broadly.

The Swedish central bank, The Riksbank, concludes that an orderly and early transition entails significantly lower costs for the financial system than a delayed transition.

Research by McKinsey estimates that with a 2 °C increase the annual cost for climate adaption will be USD 1.2 trillion by 2050 to protect everyone at the same high level as in the developing world[28]. While this sounds expensive the research found that the benefits of adaptation would exceed the cost by roughly seven times.

[26] Swedish Riksbank (2025). The Riksbank's Climate Report
[27] EEA (2026), Making agriculture, energy and transport climate resilient: how much money is required and what will it deliver?, Briefing published 12th January 2026.
[28] McKinsey global institute (2025), Climate adaptation more than covers its cost, Project Syndicate, 31st of December, 2025.



Recommendations to decision makers

The best way to limit the impacts of climate change and extreme weather events is to continue the transition towards net zero and resource efficiency. This would strengthen Europe's energy security and independence as it reduces import dependency of fossil fuels. By mitigating the emissions early on, the need, and hence the cost, for climate adaptation will be relatively lower. The energy transition will in addition give opportunities for innovations, increased resilience and business competitiveness. The coming year will be crucial for the EU as all climate legislations will be reviewed and updated to be aligned with the goal of reducing GHG emissions with net 90 percent by 2040.

1. Early action and continued high climate ambitions through carbon pricing to accelerate the green transition

The Emissions Trading System (ETS) has been the main driver for EU's emissions reductions and need to continue to use carbon pricing to accelerate the green transition and increase resilience by reducing the dependence of fossil fuel imports. The ETS needs to ensure a predictable and stable price on carbon to enable decarbonization investments in Europe and to reward front runners.

KEY PROPOSALS:

- A continued high rate on the linear reduction factor (LRF) is in the interest of industry actors that have made early investments in the green transition (front runners) and risk being disadvantaged compared to European competitors that have not done so, if the ambition of the LRF is reduced. These strides are important to protect going forward.
- Support green industrial investments with ETS/CBAM revenues. National ETS and future ETS 2 auction revenues should largely be dedicated to supporting the green transition of relevant sectors invest in new disruptive technologies and to improve the infrastructure needed to reduce the use of fossil fuels. Today there is a lack of transparency of where the national auctioning revenues are being spent even if there are requirements for them to be supporting the climate transition. ETS needs to be converted to an investment tool and increasingly support industries with high investment needs to finance their technological shift.
- Continue the planned phase-out of free allowances for relevant products only when the Carbon Border Adjustment Mechanism (CBAM) is implemented. This should happen once the CBAM solution is constructed in such a way that there is low risk for carbon leakage. The conditions to invest in decarbonisation in the EU should be strengthen during the period which the industry is still given free allowances. This will ensure robust protection against carbon leakage while eliminating subsidies.
- While there is a need for both carbon removals in the EU and international carbon credits, over-reliance on these mechanisms risk delaying real progress towards net-zero and undermines the credibility of the system. By integrating them into the emissions trading system they also risk undermining domestic decarbonisation investments and hence prolonging EU's dependence on imported volatile fossil fuels. Therefore, they should not be allowed to be a substitute for direct emissions reductions in the ETS.
- ETS 2 is putting a price on fuels used for road transport, heating of building and small installations. It is important that the implementation of ETS 2 is predictable and comparatively fair within the EU, which offers companies reasonable conditions to plan and invest in their green transition. Member States should submit their plans for how to protect the most vulnerable households, SMEs and other affected groups from unjust price increases.

2. Unlocking circular growth and scaling the bioeconomy

While material use is a large source of carbon emissions, Europe is a continent with scarce resources for primary raw materials. Hence, improved resource efficiency and reducing import dependencies will be key to strengthen EU's competitiveness and strategic autonomy in a world of population growth and increased global consumption.

KEY PROPOSALS:

- Establish a legally binding target to achieve a 23 percent circular material usage by 2030, up from the current 11.8 percent and facilitate the seamless cross-border movement of circular products and secondary raw materials.
- Stimulate markets for reused and recycled materials through economic incentives and continue setting mandatory minimum recycled content requirements in critical product categories, such as plastics, construction materials, electronics and textiles.
- Public procurement policies should explicitly reward reuse and products with high recycled content or demonstrable circularity, leveraging the purchasing power of public institutions to create significant lead markets.
- Support circular innovation and infrastructure by developing dedicated funding mechanisms, specifically aimed at scaling circular innovations and infrastructure.
- Create policy frameworks and incentives that enable the scaling of a sustainable bioeconomy, including sustainable and fossil-free agriculture, forestry, and bio-based industries. This should support the substitution of fossil-based materials and fuels with sustainable bio-based alternatives while strengthening European competitiveness and food security.
- Strengthening the enforcement of EUs environmental and product safety rules for imported products and materials.
- Support the deployment of CCU, including bio-CCU, and the production of renewable electrofuels to create new industrial value chains based on biogenic carbon and fossil-free electricity. This can be of particular value for the transition of sectors where direct electrification is more challenging. These new value chains can strengthen European competitiveness, energy security and resilience while reducing dependence on imported fossil fuels.



3. Aligning financial resources and budgets with climate and environmental goals

The EU Multiannual Financial Framework (MFF) sets an EU budget for 2028-2034 of ca €2 trillion. While the Commission proposal has set a target that at least 35 percent of the financial resources will be supporting climate and environmental projects and the so-called Do No Significant Harm (DNSH) principle will apply horizontally across the budget, more will need to be done to make sure that public resources are not used in way detrimental to EUs overarching climate and environmental ambition.

KEY PROPOSALS:

- The EU budget needs to ensure that climate risks, resilience and adaptation are built in from the beginning, so that biodiversity and nature funding continue in broader financing frameworks.
- Keep the "Do no significant harm"-principle as a horizontal risk analysis measure through which to review the EU budgets effect on EUs climate and environmental goals[29]. Only very limited and clearly defined exemptions should be done from this principle.
- Increase the transparency of EU and national direct and indirect fossil fuel subsidies and develop a plan for their gradual phase-out, combined with incentives and support that enable affected sectors to transition to competitive fossil-free alternatives.

4. Build climate resilience to manage climate risks

Climate resilience is about maintaining societal functions, but also of competitiveness for economies and companies. Europe is increasingly facing losses, destruction and cost for climate-related events, such as fires, flooding and droughts, having an impact on everything from food production, energy systems and ultimately people's lives. The EU and Member States need to build on the strategies and action plans that have already been implemented to continue to improve the Union's climate resilience and ability to manage climate risks.

KEY PROPOSALS:

- The division of responsibilities between the EU, national authorities, regional actors and municipalities needs to be clarified to ensure effective implementation of climate adaptation measures and avoid overlaps or gaps in responsibilities.
- Ensure enough funding at an EU and national level for extreme events and close the insurance protection gap.
- Include 'build back better' conditions for all reconstruction projects. Conditions need to be structured around an agreed risk and vulnerability assessment as well as level of risk acceptance.
- Include 'resilience-by-design' criteria for all public spending and procurement to ensure that publicly funded projects are designed to withstand climate risks.
- Strengthen national adaptation policies, improve monitoring, reporting and evaluation

[29] https://commission.europa.eu/document/download/993e026c-4118-46ed-b7ff-5224c19aa254_en?filename=2021_02_18_epc_do_not_significant_harm_-technical_guidance_by_the_commission.pdf

5. Strengthen international cooperation

EU and the Member States have been leading the international climate discussions, and the region is also the biggest contributor to international climate finance. Europe needs to maintain the position as the climate leader in the world.

KEY PROPOSALS:

- Continue to work for ambitious global agreements, partner with developed countries, support capacity building and share learnings from EU's own decarbonisation policies, specifically when it comes to carbon pricing.
- Ensure that international climate finance mechanisms are designed to reach the most climate-vulnerable countries and communities and reinforce EU assistance to help address the growing consequences of conflict and disasters. This also addresses need for risk management from a supply chain perspective.
- Continue to engage in 'coalitions of the willing' in parallel to the UN processes to collaborate with other countries around practical ways to limit emissions.



THE COST OF CLIMATE INACTION

ECONOMIC RISKS, CLIMATE RESILIENCE
AND LOST BUSINESS OPPORTUNITIES

NOVEMBER 2026



Haga Initiative
Business Climate Leaders