



The Danish Government's position paper on an ambitious and cost-effective EU climate architecture – a response to the public consultation on the European Commission's 2030 Climate Target Plan

The Danish Government's key priorities for the 2030 Climate Target Plan

- Increasing the EU's 2030 climate target to at least 55 percent compared to 1990 levels
- A strengthened EU Emissions Trading System (ETS) – the central driver for future emission reductions
- Extension of the ETS to road transport and heating in buildings – a more uniform price signal across sectors and the EU backed by an ambitious and cost-effective enabling framework of supporting policies
- A land sector pillar – incentives for effective, climate-friendly, and competitive agricultural production across the EU
- Higher EU ambitions as stepping stone for strengthened climate diplomacy

A 2030 EU GHG reduction target of at least 55 percent and a new climate policy architecture

The Danish Government strongly supports increasing the EU's domestic greenhouse gas emissions reduction target to at least 55 percent compared to 1990 levels. It is crucial that we send a strong political signal to the world and our citizens that the EU can lead by example to encourage other large emitters to follow suit.

An opportunity to review and rethink the EU's climate policy

Increasing the EU's climate ambitions is about more than setting an ambitious 2030 climate target. A major part of the puzzle is also how we will deliver on the increased ambition. The Commission's 2030 Climate Target Plan is an opportunity to review and rethink the design and overall architecture of the EU's energy and climate policy. It must be ensured that the means to achieve a higher 2030 climate target are aligned with a long-term objective of climate neutrality by 2050 at the latest for all Member States and the EU as a whole and support the broader objective of the European Green Deal to transform the EU to an even more sustainable and prosperous society.

A higher climate target requires more ambitious and cost-effective regulation

Higher climate ambition in 2030 should be realised through equally ambitious and cost-effective EU regulation that provides incentives to reduce emissions of greenhouse gases across all Member States and sectors of the European economy. An effective climate effort brings multiple benefits in terms of well-being of citizens



such as cleaner air, reduced pollution, and future-proof employment opportunities in green sectors and industries. It is a key task of EU's future climate policy to ensure that all Member States move forward and are able to reap the benefits of the green transition.

The case for a new EU climate policy architecture

The current EU climate policy architecture creates large differences in the marginal reduction costs between the ETS and the 27 different national regimes in the Effort Sharing Regulation (ESR). Implementing an increased 2030 climate target by maintaining the current scope of the ETS and ESR would likely exacerbate these differences and result in unnecessarily high costs of climate mitigation in the EU. This is neither beneficial for the climate nor the economy of the EU as a whole.

An increased 2030 climate target should be implemented through a climate policy architecture that can:

- Deliver a more uniform price signal across Member States and sectors in the EU to ensure that the most cost-effective reductions are realised.
- Ensure a level playing field and reduce the risk of carbon leakage within the EU.
- Generate revenue streams to finance the green transition.

The Danish Government encourages the Commission to use the opportunity of the 2030 Climate Target plan to present options for an improved EU climate policy architecture with a coherent set of policies that can deliver an increased 2030 target in a more cost-effective way through the following elements:

1. A strengthened EU Emissions Trading System – the central driver for future emission reductions

The ETS has demonstrated its worth as the EU's flagship climate policy instrument. Following the 2018 revision of the ETS directive, it has succeeded in establishing an effective EU-wide carbon price signal that has provided incentives to reduce emissions cost-effectively across Member states. In 2019, emissions covered by the ETS fell by 8.7 percent compared to 2018 levels.

An effective carbon price through the ETS is the most cost-effective instrument to deliver an enhanced EU climate target and to incentivise market-driven deployment of low-carbon technologies and phase-out of fossil fuels across Europe. The rapid cost reductions of renewable energy technologies such as wind and solar power mean that that sectors covered by the ETS can deliver a substantially increased contribution to the EU's 2030 target.

The Commission is encouraged to present proposals for strengthening the contribution of the ETS to the green transition by reducing the amount of allowances through measures such as:



- A substantial increase in the linear reduction factor
- Rebasing the emissions cap at a level that reflects actual emissions
- Improving the ability of the market stability reserve to limit the surplus of allowances

A substantial reduction of the level of allowances available to the market should be the main instrument to strengthen the ETS. The Commission should also explore options for ensuring that the ETS can maintain a price signal at a minimum level to provide certainty for green investments. At the same time, it should be ensured that such measures do not compromise the functioning of the existing market mechanism in the ETS. Furthermore, the Commission is encouraged to analyse the level of free allocation of allowances to secure climate action across all sectors, while taking fully into account the international competitiveness of industrial sectors in risk of carbon leakage.

Integrating negative emissions technologies in the ETS

To reach the EU's objective of climate neutrality by 2050, substantial removals of CO₂ from the atmosphere will be needed. While natural sinks can deliver significant removals, it is likely that technological solutions delivering so-called negative emissions could play a part in the efforts to reach climate neutrality. The Commission should integrate CO₂ removals from negative emission technologies in an increased 2030 climate target and analyse policy options for further incentivising the development and deployment of these technologies. This could include integrating negative emissions technologies in the ETS – for example by allocating allowances to installations that generate negative emissions certified through robust and transparent carbon accounting.

2. Extension of the ETS to road transport and heating in buildings – a more uniform price signal across sectors and the EU backed by an ambitious and cost-effective enabling framework of supporting policies

The Danish Government supports the Commission's intention to analyse and consider applying the ETS to emissions from road transport and heating in buildings. Increased electrification of transport and heating will lead to gradual migration of emissions regulated in the Effort Sharing Regulation into the ETS. Extending the ETS would be consistent with this long-term development and create a uniform price signal across sectors making both building renovations and low carbon mobility financially more attractive while improving the overall cost-effectiveness of the EU's climate efforts. In addition, extending the ETS would significantly increase the revenue from auctioning allowances and thereby create a significant and predictable revenue stream that could contribute to financing the green transition across the EU.

However, applying the ETS to emissions from these sectors cannot stand alone. A carbon price needs to be complemented by an ambitious and cost-effective enabling framework with coherent policies and regulation at EU level to drive emission



reductions. This includes for instance strengthening CO₂ emission performance standards for combustion engine vehicles to drive the technological development of zero-emission vehicles.

3. Land sector pillar – incentives for effective, climate-friendly, and competitive agricultural production across the EU

Agriculture will account for an increasing share of EU emissions as the rest of the economy decarbonises. An extension of the ETS to road transport and heating in buildings would leave agriculture as the primary sector regulated through national targets under the ESR and thus have major impact for the ESR. At the same time, efforts to reduce emissions or increase removals of CO₂ from agricultural land are currently regulated through the LULUCF regulation, which provides limited incentives for climate action at both farm and Member State level. It is important that a new architecture address this problem.

Efforts to reduce emissions from agriculture vary considerably between Member States due to differentiated national reduction targets. Consequently, national efforts to regulate emissions from agriculture that impose costs on producers come with a significant risk of carbon leakage internally in the EU and higher costs than necessary. Therefore, the Danish Government encourages the Commission to propose a common land sector pillar for agriculture and its LULUCF activities (agricultural land) with an EU-wide reduction target.

An EU-wide reduction target combined with ambitious and effective sectoral regulation would create a level playing field for the agricultural sector, increase cost-effectiveness and would improve incentives for farmers to reduce emissions and increase removals of greenhouse gasses. Examples of EU regulation in a common land sector pillar are listed in the box below. It could drive innovation and cost reductions in mitigation technologies and enable agricultural activities to contribute cost-effectively to fulfilling the EU's climate efforts.

Agriculture is responsible for a significant share of LULUCF emissions and removals. However, at present these emissions and removals are not directly included in the EU's 2030 climate target. Establishing a land sector pillar addressing emissions and removals from agriculture from both the LULUCF regulation and the ESR in the same regulatory regime would allow for a more integrated and cost-effective mitigation effort. It is important to establish an effective system of accounting that supports new and additional efforts to increase carbon removals, supported by measurement, reporting and verification to track carbon flows and, potentially, financial flows for CO₂ removal. The Commission is encouraged to develop policies to incentivise business models for large-scale CO₂ removal through natural solutions.



Examples of potential EU-wide regulation in a common land sector pillar

A common land sector pillar should be accompanied by a coherent enabling framework of European policies that can drive cost-effective climate action. Listed below are illustrative examples:

Business models for carbon dioxide removal: The Commission could develop an EU methodology to certify carbon dioxide removals at the level of farmers as mentioned in the Circular Economy Action Plan and Farm to Fork Strategy. This could pave the way for implementing a payment scheme for incentivising the preservation of carbon stocks in agricultural soils, e.g. through the common agricultural policy (CAP) or by means of a new market mechanism. The environmental integrity of such a business model should be ensured by robust and transparent carbon accounting to monitor and verify the authenticity of carbon removals.

Fertiliser accounts: Greenhouse gas emissions from nitrogen turnover on agricultural land account for a large proportion of total emissions from the agricultural sector in EU. The Commission could develop common requirements for the documentation of nitrogen fertilisers' flows to and from all holdings, thus creating an overview of its use and a level playing field among Member States in optimising the use of nitrogen fertilisers.

Best Available Technology (BAT) requirements: A number of extant and developing technologies such as feed and fertiliser additives can contribute to reducing emissions from agricultural production. Yet, the highly competitive nature of the European market for agricultural products discourages Member States from passing on additional costs to farmers by implementing national BAT requirements. A shared common EU reduction target establishes a level playing field and further facilitates common EU BAT requirements to agriculture. In addition, this may encourage competition and spark innovation in climate-friendly agriculture technologies.

Higher EU ambitions as stepping stone for strengthened climate diplomacy

The Danish Government strongly supports efforts to strengthen the EU's global climate diplomacy. Raising EU ambitions on climate with ambitious and cost-effective policy measures will underscore the EU's intention to assume a global leadership role in the fight against climate change. It would enable the EU to actively encourage and inspire other countries outside the Union to raise their ambitions and contribution towards the achievement of the Paris Agreement's objectives. To do so, the EU should go beyond traditional climate diplomacy and pursue a "whole-of-society and whole-of-economy" approach in third countries as a way to engage the private sector, including financial institutions and investors, academia and civil society. In order to operationalise this vision, the Commission is encouraged to present an action plan for the European Green Deal's global dimension with clear objectives and concrete initiatives for the climate diplomatic efforts. The Danish Government will actively engage in this process, including by identifying concrete ways to implement this approach.