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Green transition in a time of economic recovery

Briefing note on urgent climate policy and green recovery of the Danish economy

1. Summary of the Danish Council on Climate Change's assesment

The Corona crisis has brought most economies around the world to a standstill. This also applies to Denmark, where the National Bank expects a drop in GDP of 3-10 per cent by 2020.¹ This will lead to increasing unemployment, bankruptcies and the like. In order to restart the economy, it is necessary to stimulate the Danish economy when the society opens after the health crisis.

The 70 per cent target in only 10 years urgently requires a new climate policy

However, we must not forget that even before the corona crisis, the world faced a very big challenge: climate change. In 2019, the political parties in Denmark agreed to reduce the greenhouse gas emissions by 70 per cent in 2030 compared to 1990 and achieve climate neutrality by 2050. The Danish Council on Climate Change has estimated that this target can be said to be reasonably in line with a fair Danish share of the effort required to keep the global temperature rise below 1.5 degrees Celsius.

The climate crisis is not called off and it is therefore urgent that a number of climate policy actions that can move the green transition forward are adopted. In order to achieve the target in 2030, a wide range of actions must be adopted as soon as possible, if the actions are to have a sufficient effect by 2030. The development and demonstration of new technologies takes time and can hardly be put into effect in a few years. Likewise, there is a need to clarify the future policy framework conditions, so that already today companies can see the benefits of investing in the green transition. Finally, the agreement on the new climate act emphasizes the need to reduce Danish greenhouse gas emissions in the short term and before 2025, which requires action now.

Climate action and economic recovery policies should be coordinated

The forthcoming recovery should have a clear green focus so that there is no over-investment in fossil fuel technology and climate unfriendly behaviour in order to revive the economy, which will later have to be replaced by green investments. It is cost-effective to try to solve economic recovery and green transition at the same time, in order to prevent the postponement of the green transition and push the bill and greenhouse gas emissions in front of you.

Economic stimuli should, as far as possible, be directed towards green consumption and green investments, such as heat pumps, energy efficiency improvements and wind turbines. To the extent that the government is seeking a

recovery of the part of the economy that has high emissions of greenhouse gases and thus speeding up man-made climate change, it is important that cost efficiency is also taken into account so that money spent on recovery is not wasted in a number of years. The Danish Council on Climate Change therefore urges the government to incorporate a climate perspective into the assessment of recovery-oriented actions, regardless of whether the actions intend to contribute to the green transition or only create economic growth.

In this briefing note, the Danish Council on Climate Change presents a green recovery package with actions that can both stimulate Danish economy and are necessary for the transition towards the 70 per cent target in 2030. The actions are based on the analyses found in the Council's latest report, *Known Paths and New Tracks to 70 per cent Reduction*, from March, 2020. In addition, the note assesses a selection of other green recovery actions proposed by business organizations and think tanks in the last weeks. These proposed actions can supplement the Council's package.

The Corona crisis gives rise to new working habits

During the shutdown of Denmark, many Danes have had to change their daily habits. On average, passenger car traffic has decreased by approx. 40 per cent.² Daily departures from Copenhagen Airport have dropped from 400-500 flights a day before the closure of Denmark to less than 10 flights a day for a period in April.³ At the same time, there is an increasing use of digital meeting solutions such as Skype, Zoom, Microsoft Teams and the like.⁴ Consequently, greenhouse gas emissions from transport have dropped significantly during the Corona crisis.

Climate changes are not solved by a continuation of forced social distancing. However, the new situation can open many businesses' and citizens' eyes to the possibilities of using video conferencing, and it presents an effective alternative to physical meetings in some situations. Maintaining only a part of the new habits of virtual meetings, working from home and reduced transport can lead to lasting and significant reduction in emissions. This may have an impact on the need to develop and influence tomorrow's climate policy and, not least, the internal routines in both private companies and public institutions. The Danish Council on Climate Change encourages managers and employers to continue to focus on these digital opportunities.

Denmark should urge the EU's climate policy not to halt during the crisis

Just like the Danish climate policy should not come to a standstill during the Corona crisis, the same is true for climate policy in the EU. The European Commission is proposing that considerable amounts be spent on restoring the European economy, and it is very important that this money, together with the countries' individual aid packages and state aid, is invested in green technologies and systems of the future. At the same time, the new Commission should continue its legislative work in the field of climate, so that the EU does not fall behind. If the climate policy is postponed, it will be more difficult to achieve an ambitious 2030 target, which the Commission is planning to set, and it will be more expensive to reach the Danish 2030 target if climate policy in the EU is not keeping pace.

The overall assessment of the Danish Council on Climate Change

The Danish Council on Climate Change assesses that the following considerations should be taken into account in an urgent climate policy focusing on both the 70 per cent target and green recovery:

- In the short term, in spite of the economic and health crises, there is a need to make a decision as soon as possible on a number of obvious climate policies, in order to avoid making the path towards the 70 per cent reduction in 2030 unnecessarily expensive and delayed. We must not forget the long-term task of solving the climate crisis, and a possibly broad political desire to act quickly in the current economic crisis must therefore be linked to climate action that can be taken in the very short run.
- A recovery package that prioritises green actions that also stimulate supply and demand for green goods should be made. Such actions include focus on energy renovation, expansion of charging infrastructure for electric vehicles, reducing the tax on electric heating and the announcement of a future higher tax on greenhouse gases, so that companies prioritise green investments now. The Danish Council on Climate Change has reviewed its March report and conducted an assessment that leads to a selected set of concrete actions, all of which will have a positive impact on early economic recovery. However, it is very important

to emphasise that this set of initiatives is far from bringing Denmark to 70 per cent reduction in 2030, and that many more initiatives should be put into action as soon as possible.

- Other organizations have also contributed with green recovery proposals. It is worth looking into ideas on, for example, lowering the general electricity tax and stimulating climate-friendly experience economy as a supplement to the Council's set of actions. Many actors generally want more support for green investments, which may seem wise during the economic crisis. However, it is important that subsidies do not become the base for the green transition in a longer perspective, as it will increase the need for financing and thus increase the pressure for higher taxes and fees.
- European climate policy is of great importance to Danish climate policy. As Denmark pushes for a green European recovery and for a raised level of ambition in the EU climate targets, the chance of making the green transition cheaper in Denmark increases.

2. Urgent need to decide on actions as part of a cost-effective climate policy

Despite the scale of the current crisis and the need for resolute action, the climate crisis is in no way called off. Changing social structures and behaviours that cause global warming requires at least as much attention as the current health crisis. The political focus should therefore be both on forward-looking climate policy actions and on a green recovery that can create a healthy Danish economy. This creates the basis for a green transition towards a climate-neutral society and the achievement of the 70 per cent target in 2030. The Danish Energy Agency's *Baseline Projection 2019* expected that Denmark's greenhouse gas reductions will reach 38 per cent in 2020 with current policies, and considering that there is only ten years to 2030, a considerable task lies ahead of us. If this task is postponed for several years – for example due to the corona crisis – it can be both difficult and unnecessarily expensive to meet the target. There are three reasons, in particular, that justify the fact that climate action is important in the very short run, when the need to stimulate the economy in the current situation is disregarded:

- Timely care in relation to climate targets in 2030
- Clarity on climate policy
- Early reductions

In the Council's report from March, an urgency package of initiatives was announced, which was largely motivated by these three criteria. Below, the criteria are briefly reviewed, and specific examples of initiatives from the Council's implementation track and development track are highlighted. These initiatives should be implemented early on to create the necessary momentum and drive on the path towards achieving the 70 per cent target in 2030.

Achieving the 2030 climate target requires a long term perspective

Thetough steps towards 2030 must be started already in 2020. A forward-looking and cost-effective achievement of the 70 per cent target requires the implementation of a wide range of actions that require developments within both technical and administrative/regulative aspects. At the same time, many of the measures will have to be implemented quickly if they are to have a sufficient effect in the course of the next ten years. This applies to initiatives within the implementation track and the development track. Therefore, it is essential that the current time of crisis does not delay the work of bringing Denmark on track towards the 70 per cent target.

An example is a tax reform focusing on greenhouse gases, which the Danish Council on Climate Change recommends as the foundation of the climate policy package that will ensure compliance with the 70 per cent target. Such a fundamental tax reform requires a lot of development work in the civil service, and there are many details to be determined. This work should be started as soon as possible, and then reductions in existing taxes as well as commencement and phasing-in of new taxes can be organized according to the state of the Danish economy.

Another example is the work on farm-level greenhouse gas emissions inventories that are absolutely necessary for the regulation of agriculture that achieves climate-friendly operations. These accounts are not yet fully developed and it is crucial that this work is prioritised, in order for a new regulation to have an effect well in advance of 2030.

A third example is the many actions that lie within the Council's development track. This track includes actions that still require research, demonstration and market preparation, as well as strategic governmental focus to provide real greenhouse gas reductions. If these reductions are to take place by 2030, there is no time to postpone efforts for several years. For example, the Danish Council on Climate Change points to Carbon Capture and Storage (CCS) as an important technology if the 2030 target is to be achieved. However, if CCS technology is to play an important role, it is crucial that a CCS strategy is developed now which addresses many of the regulatory and planning challenges that large-scale CCS projects run into.

Clarity on future climate policy will support good decisions during the crisis

Companies are constantly facing important commercial decisions. It will be reinforced in the coming time if aid packages and recovery policies allow companies to invest further. Such investments can help boost the economy, but it is important to invest in projects that creates benefits in a climate perspective and that is consistent with Denmark's long-term climate targets. Therefore, it is crucial that companies know what price on greenhouse gas emissions they need to base their decisions on, and because of this, the overall lines of the future tax system should be announced as soon as possible. Greater certainty about the future tax system will in itself stimulate economic activity, as some investment decisions are otherwise held back given the uncertainty. This applies, for example, in the district heating sector.

Clarity on future climate policy also contributes to certainty for demand in green markets. For example, expediting already decided offshore wind farms and the adoption of new farms can provide certainty at the relevant companies that there will be contracts in the long term, and this can counteract job cuts in the short run. Similarly, the public sector can, through its procurement and supply policy, create a demand for climate-friendly products and services at a time when private demand is low. This can be building materials such as green cement and wood. As an example, the construction of the Fehmarnbelt tunnel is immediately expected to emit approximately 2 million tonnes of CO₂, of which about 0.8 million tonnes is from the production of concrete.⁵ Public climate requirements for construction projects can therefore play an important role.

The same applies to transport. Both the Danish Council on Climate Change and the Government's Paper of Understanding have proposed a stop for the sale of petrol and diesel cars from 2030. Such a stop could drive development already today if it is credible. Therefore, it is crucial with a clear political statement that this is the way Denmark intends to go and what actions will be needed in 2030. It will strengthen both drivers, car importers and charging companies in the belief that electric cars are the vehicles of the future.

Early reductions will reduce the total emissions towards 2030

The Political Paper of Understanding between the government and its supporting parties cites as the first that Denmark must take the lead in the climate crisis.⁶ By continuing to prioritise the climate during the current economic crisis, Denmark has an opportunity to lead the way in relation to the green transition, as the health crisis decreases and a reopening of society becomes possible.

At the same time, Denmark's contribution to global warming depends on our total emissions over time. The sooner we start reducing greenhouse gas emissions, the better for the climate. This is emphasized in the new Climate Act, which stresses climate action in the short term, which an indicative target for 2025 is to help secure. The Danish Council on Climate Change has recommended that this target be set at 50-54 per cent reduction compared to 1990. The Danish Parliament has not yet decided on a 2025 target, but it is important that this is done to secure the progress of short term climate policy.

As for climate policy that can realise greenhouse gas reductions in the near future, a coal phase-out can be mentioned as an example. The owners of the Danish coal-fired power plants all plan to phase out coal by 2030, but there is both technical and economic space to phase out coal long before, and it is therefore obvious with political instruments that ensure rapid reductions by 2025.

3. The Council's green recovery package

The Council's report *Known Paths and New Tracks to 70 per cent reduction* contain a number of recommendations on how Denmark can get on the right track towards achieving the 70 per cent target in 2030. Many of these recommendations will also be able to stimulate the Danish economy if they are timed right in relation to the crisis. The Danish Council on Climate Change has revisited the report in the light of the corona crisis and highlights in this section the actions that can be implemented here and now and thus both contribute to the economic recovery and the green transition.

Recovery efforts should focus on rapid effects

When the Danish economy formally reopens, high unemployment, uncertainty about the future, lack of consumer confidence and declining sales in the export markets will result in low demand, which most likely will create a classic economic recession. It is uncertain how long this recession will last and how deep it will be. This phase can probably last between one and three years, depending on how the health crisis develops and how other countries handle the situation.

If the crisis lasts less than three years, the actions must also have effect within three years – and preferably much sooner, so that they can help lead Denmark out of the crisis. This means that larger infrastructure projects, such as offshore wind projects that are in the early development phase, are less relevant as immediate stimulating actions, unless we end up in a long-term economic depression. On the other hand, the same actions may be very appropriate for other reasons, including creating greater security for investments that we must carry out in any case.

Recovery efforts should, of course, also be designed in a way that creates a large economic stimulus in terms of both employment and value added. In this context, it is important to avoid bottlenecks. If demand increases in a given area, supply must also be able to keep up and labor must be available. Otherwise, it just creates rising prices without increased activity. If, for example, grants are granted for heat pumps, it is important that there are actually heat pumps available and that there are professionals to put them up. Many of the immediate opportunities for green recovery involve the construction sector – this also applies to the Council's set of actions – and therefore it is important to be aware of bottlenecks in the construction sector. At the same time, it should also be a priority for the funds provided to recovery to remain in the country in order to contribute to the Danish economy. Therefore all else being equal, it is better to stimulate consumption of Danish goods and services than imports.

The Danish Council on Climate Change proposes a package with 14 green initiatives

The table below shows the Council's proposal for a recovery package based on the March report. All of the initiatives have a positive effect on the climate and, at the same time, a positive and stimulating effect on Danish economy in the short term. It is very important to emphasise that the set of 14 actions is far from sufficient to achieve the 70 per cent target in 2030. For this, refer to the Council's report from March.

Table 1 Recovery package with 14 climate actions from the Council's latest report

Reduction of the tax on electric heating
Actions to promote energy renovations of buildings
Expansion of charging infrastructure
Susidies to replace oil and natural gas boilers
Announcement of a green tax reform
Increase of the carbon price in socio-economic calculations

Expedition of offshore wind farms
Coal phase out no later than 2025
Onshore wind and solar power tenders
Biogas tenders
Removing rules that bind customers to natural gas
Elimination of tax on certified surplus heat
Increased recycling of waste
Promoting green public procurement

Detailed descriptions of the table's actions can be found in *Known Paths and New Tracks to 70 per cent reduction*. Below is a brief review focusing on the potential for economic stimulation.

Reduction of the tax on electric heating

Electricity consumption is subject to a considerable energy tax in Denmark, but electricity for heating purposes only pays a reduced rate. Still, the tax is in many cases a barrier to electrification of heating. The tax on electricity used for heating should not exceed the subsidy on electricity produced from renewable energy. If the tax exceeds the subsidy for the construction of new renewable energy, an excessive incentive is given to save electricity rather than establish more renewable energy. In recent years, the price of, for example, offshore wind has fallen to a level that only requires a subsidy in supplement to the electricity price of maximum DKK 0.07-0.09 per kWh including costs for the grid connection. As a part of the latest energy agreement, the current tax on electric heating has been reduced to DKK 0.206 per kWh in 2020 and DKK 0.155 per kWh from 2021 onwards. Therefore there are a socio-economic gain by further reducing the tax on electricity, which at the same time increases activity in the industries that install heat pumps.

Actions to promote energy renovations of buildings

Energy savings help to reduce carbon emissions in Denmark, as long as fossil energy is still used, and they help to make the overall green transition cheaper for society. At the same time, there are good employment effects by initiating energy renovation and optimization of buildings, not least in public buildings and in the public housing sector, where many buildings have a low energy efficiency rating. Many projects can be initiated relatively quickly, however it is important to be aware of bottlenecks in the construction industry.

In the latest report, the Danish Council on Climate Change has pointed to a number of specific initiatives, such as requirements for renovation of municipal and regional buildings, as well as exempting investments in energy efficiency improvements and better indoor climate from the Danish cap on municipal and regional capital expenditure. The cap is temporarily suspended in 2020 and this suspension should be extended as far as energy savings investments are concerned. The Council has also pointed to better financing options, for example through ESCO models, where a company provides the financing and guarantees energy savings, and preferably with the involvement of funds from institutional investors and the Danish Green Investment Fund. Finally, especially during these times of crisis, it can be a good idea to establish subsidies for optimization and clever management of the technical installations of buildings – this will benefit both the individual citizen and the green transition.

Expansion of charging infrastructure

Inadequate charging infrastructure is an important barrier for electric cars. Therefore, the Danish Council on Climate Change recommends that a set of initiatives be drawn up to create a more transparent and competitive market for charging of electric cars. The set of initiatives should also ensure adequate charging infrastructure in both cities and on the motorway network. This can be done by inviting tenders for fast and rapid chargers at specific locations or by establishing a subsidy programme, which the charging companies can apply for. In this way, the Danish transport infrastructure is being prepared for a future with electric cars, while at the same time increasing activity in the short and medium term in the relevant industries.

Funds to replace oil and natural gas boilers

The Danish Council on Climate Change has proposed a ban on the installation of oil and natural gas boilers after a certain date, combined with a requirement that all oil and natural gas boilers must be replaced before a later date. In the current crisis, this proposal could be combined with a temporary programme to support replacement in areas that are not expected to convert to district heating in the foreseeable future. In this way, phasing out fossil fuels in the individual heating sector is accelerated and at the same time the activity for the relevant tradesmen and industries is supported. The replacement of heating installations are projects that can be completed relatively quickly and therefore have an economic stimulating effect within a relatively short period of time.

Announcement of a green tax reform

A green tax reform will clarify the future framework conditions, which in itself can trigger investments that are currently held back due to uncertainty. Therefore, it is important that future greenhouse gas taxes are decided as soon as possible, so that businesses and consumers can invest with greater certainty in the short term. True prices that reflect the climate impact are essential to ensure an efficient green transition. Therefore, an extensive tax reform with a considerable tax on greenhouse gases is a cornerstone in the recommendations of the Danish Council on Climate Change. Work on adjusting the tax system to better reflect the climate impact is urgent and should not be delayed by the corona crisis. If citizens and companies are to adjust to the higher taxes by 2030, they must be announced early.

The Danish Council on Climate Change recommends that the higher tax on greenhouse gases be phased in continuously until 2030. In light of the current economic situation, a slightly slower phase-in can be argued for. However, regardless of the phase-in start and profile, it is crucial that the reform is announced quickly, so that the long-term climate policy is secured.

Increase of the carbon price in socio-economic calculations

The price on carbon in the official socio-economic calculations should be updated to reflect the 70 per cent target. The Danish Council on Climate Change recommends that it be set at DKK 1,500 per tonnes, since this price is more accurate with respect to socioeconomics than the price used today. This will, for example, result in the possible approval of several green district heating projects, as they will meet the requirements of a positive overall economy assessment. It can stimulate the economy and contribute to the transition towards climate neutrality. Also public decisions should be supported by a price on greenhouse gas emissions consistent with the 70 per cent target. If the economy is restored with public investments, such a price could help to drive public investments and consumption in a more climate-friendly direction.

Advancement of offshore wind farms

Offshore wind is an essential part of the green transition in Denmark. In addition to Thor Offshore Wind Farm, the 2018 Energy Agreement includes a tender in 2023 and an additional park if it can be established without public support. The last two parks should be expedited as much, as the administrative conditions allow. The Danish Council on Climate Change sees no reason to postpone these call for tenders, and in a prolonged economic crisis it is precisely such large construction investments that can help revive the economy. Of course, there are still several years before the work on the new parks could begin, so it is important to emphasize that the stimulating effect will only help the current economic crisis if the crisis is prolonged.

Coal shutdown no later than 2025

Pursuant to the new climate law, an indicative climate target must be set for 2025 to ensure climate action in the short term. Here it is quite obvious that coal be phased out at the last Danish power plants by 2025. If this happens, it will require new investments within a short period of time, which can help stimulate the economy. In the light of this, the Danish Council on Climate Change recommends that a stop be adopted as soon as possible for burning coal for electricity and district heating production. This stop should be implemented through a definite ban or through other regulatory measures that either make it impossible to continue coal power or make coal clearly less attractive than the alternatives. A tax reform that converts energy taxes to carbon taxes will significantly contribute to the coal phase-out.

Onshore wind and solar power tenders

The Council's recommendations to maintain tenders for solar wind energy continue to apply at a time of falling electricity prices. Wind and solar power will have to be expanded massively towards 2030, and call for tenders can provide certainty about the climate policy and increased activity. Even though it takes two to three years for an onshore wind farm to start running, call for tenders will have an effect earlier, as wind turbine manufacturers and their sub-suppliers take the upcoming pipeline of projects into consideration when deciding whether to maintain or expand production. It is possible to implement large solar projects somewhat faster. Market security will increase the likelihood of investments in the industry.

However, expansion of renewable energy on land often runs into administrative barriers. The Council's recommendation of faster case processing is therefore central to ensuring that projects get started quickly and contribute to stimulation of the economy. At the same time, it will be obvious to abolish the current cap on the number of landmills.

Biogas tenders

Biogas is an important component in reducing emissions from Danish gas consumption. It is expected that the 2018 Energy Agreement will increase biogas production in Denmark, but in order to achieve the climate targets in the short and long term, it is necessary to increase biogas production further. The Danish Council on Climate Change recommends that in the first place one or more calls for tenders are initiated, so that the total production of biogas increases to 35 PJ in 2025. This is about 7 PJ more than what the Baseline Projection expects, and it corresponds to just over half of the total gas consumption in 2025 is green gas. By making tenders with a relatively short realization period, it is possible that the tenders can have a stimulating effect in the current economic crisis.

Removing rules that bind customers to natural gas

In some cases, the regulatory framework prevents small decentral heating plants from opting out of natural gas. The project proclamation dictates that the heating plants supplying more households must be connected to natural gas if they are located in an area that are layed out to natural gas. This was introduced to secure the economy of the natural gas network, but today it is an inappropriate barrier for the block heating plants to switch to more climate-friendly forms of heating – for example electric heat pumps. The Danish Council on Climate Change recommends that these rules be removed – both for the sake of long-term transition, but also as a means of supporting heat pump investments in the short run.

Cancellation of the tax on certified excess heat

Increased used of data centres and the excess heat in the district heating supply system must be part of the future of green heating. Unfortunately, in some cases, taxes impedes the implementation of socio-economically sensible projects, and therefore the Danish Council on Climate Change recommends that the tax on excess heat be cancelled for projects where it can be certified that the risk of so-called false excess heat is small. This can create the basis for implementing excess heat projects in several parts of the country, although some larger projects may take time to implement and therefore have less stimulating effect during the first stages of the economic crisis.

Increased recycling of waste

Reducing emissions from waste incineration requires focus on separation and recycling of plastic waste, so as to reduce the total amount of waste incinerated. This requires clear requirements from the public sector. Green benefits in society can be increased by requiring companies to either separate and manage their waste or to choose municipal waste schemes, and to be allowed to do so by law. However, it is important that new requirements in the very short run do not unnecessarily burden companies under financial pressure.

Promoting green public procurement

State, regions and municipalities should work to ensure that climate criteria are included in procurement and tenders. This will lead to companies competing to deliver the most climate-friendly products. Work remains to define the exact climate criteria for a wide range of products. On the other hand, there is knowledge to be gained from the official eco-labels Svanen and the EU-Flower, the EU's green procurement criteria, energy labeling of products, dietary advice and more. In the absence of knowledge of the exact carbon footprint of the products, the climate criteria may include, for example, energy consumption in the use phase, choice of materials, quantity and

type of packaging, transport, animal vs. plantbased as well as recycling options. The developed climate criteria can also be used by private companies, and knowledge from this can be communicated to consumers. Promoting green public procurement will increase the demand for these products, thus creating a larger and more attractive market for those part of the business community that can deliver on these green solutions.

4. Proposals for green recovery from other players

A wide range of business organizations, think tanks and trade unions have recently come up with proposals for a green recovery. From the Council's point of view, it is positive that the idea of linking recovery and climate policy has taken root in so many places. Many of the organizations' proposals align with those of the Danish Council on Climate Change, for example in relation to expansion of renewable energy, focus on charging infrastructure for electric cars, increased effort in energy renovation and lower tax on electric heating.

However, some of the proposals presented that have an intended green effect, may in the long run have an unintended or questionable effect on the climate or on the cost-effective, long-term climate policy. Such actions should be carefully considered before being included in a green recovery package. As an example, the Confederation of Danish Industry's (DI) proposal for a tax exemption of all excess heat is mentioned. Tax exemption of non-certified excess heat reduces the incentives for fuel change and energy efficiency measures in the industry. Other proposals for recovery clearly contradict the Danish climate targets. This applies, for example, to the government's considerations of initiatives to support cattle production in Denmark.⁷

Below, the Danish Council on Climate change presents a small selection of proposals that deserve further consideration and analysis, as they can prove to contribute to both economic recovery and the long-term green transition.

Renovations in the social housing sector

In a proposal from May 1, the government has set the stage for prioritising DKK 30 billion from the Danish National Building Fund for renovations in the social housing sector.⁸ Of this, DKK 18.4 billion is allocated to carry out projects currently on the waiting list as quickly as possible, which according to the government's own calculations can provide 3,000 new jobs and an annual CO₂ reduction of 0.05 million tonnes. These reductions are welcomed, but constitute only a very modest part of the total transition until 2030.

The Danish Council on Climate Change cheers the inclusion of funds from the National Building Fund, but stresses the importance of prioritising projects with a green profile and broaden climate criteria so that they include not only energy consumption, but also choice of materials and construction methods.

In addition, the Government's proposal contains innovation funds totaling DKK 150 million in 2021-2026 for a more green and sustainable social housing sector, among other things for experiments with heat pumps in larger buildings. It should be ensured that this effort is coordinated with the district heating supply to avoid sub-optimization.

Reduction of the general electricity tax

The Danish Economic Councils suggests that the general electricity tax be reduced.⁹ This must be done as a part of a tax reform, where carbon and other greenhouse gases are subject to higher taxes over time, as the Danish Council on Climate Change also proposes. Today, households pay DKK 0.89 pr kWh, but since renewable energy production requires much less funding, there is justification to reduce the electricity tax if the taxes are to be justified out of considerations for the climate and environment. The electricity tax can be reduced immediately, while the tax on greenhouse gases can be phased in over time as the economic cycles improve. This means that the tax reform is underfunded in the short term and thus can give citizens more money, which can stimulate the Danish economy.

The risk of reducing the general electricity tax is that it presumably will lead to higher electricity consumption in the short run. Today, marginal electricity consumption is still to a certain extent fossil fuel-based, so emissions will

increase in Denmark and in our neighboring countries. However, over time, this effect will be offset by rising taxes on carbon if the Council's recommendation regarding a tax reform is followed. For this reason, it is important for the Danish Council on Climate Change to emphasise that any reduction in the general electricity tax must go hand in hand with a tax reform containing higher greenhouse gases that are incrementally phased in towards 2030.

Aid for the business community

Large business organizations such as DI, Danish Agriculture & Food Council and Danish Energy propose various state aid programmes for industry, agriculture and other businesses, which can contribute to green investments.¹⁰ Such target aid programmes, rather than more general aid packages, directly target the green transition and are therefore suitable for green recovery, provided the supported projects can start relatively quickly.

Specifically, DI proposes a fund of DKK 500 million annually until 2030, which will support the manufacturing industry's investments in electrification via industrial heat pumps for low- and mid-temperature industrial processes. The aim is applaudable but the Danish Council on Climate Change is sceptical of such a long-term support scheme that goes on much further than the economic crisis is expected to last. The basic principle should be that a tax on carbon encourages the industry to, among other things, electrify, and then the subsidy schemes can be used to a limited extent if the tax falls short. Therefore, the subsidy schemes that may be decided in the light of the economic crisis should only be time limited to a few years.

In *Known Paths and New Track to 70 per cent reduction*, the Danish Council on Climate Change proposes that the industry is offered an agreement scheme in which they can receive a discount in an upcoming greenhouse gas tax against making investments in climate-friendly production. This is intended as a long-term scheme to deal with the fact that industrial companies often operate with short payback times that makes green investments appear disadvantageous even with high carbon taxes. It should be emphasized that the Council's proposal for an agreement scheme will not be able to stimulate the economy in the short term, as it requires a considerable tax.

Stimulating the experience economy

The green think tank Concito proposes to target state aid at the Danish experience economy for example, restaurants, hotels, museums and other cultural offers.¹¹ It is exactly these businesses that have been particularly affected by the society going into lockdown and therefore suffered relatively large losses. At the same time, these are also businesses that will potentially experience declining demand when they are allowed to reopen. Concito therefore proposes, for example, that the experience economy be temporarily exempt from VAT in 2020 and 2021. Danish Agriculture & Food Council also proposes that the VAT for restaurants and hotels be reduced to 15 per cent from the current rate of 25 per cent¹², and The Danish Chamber of Commerce proposes, for example, that concert tickets should be deductible as a part of the housing-job-scheme.¹³

Experiences within the country's borders typically have a smaller carbon footprint than consumption of, for example, goods, and therefore the proposal would contribute to emissions abatement. The aim is to direct demand in a green direction. At the same time, the hope is, that the proposal may create new habits among the Danes, for example, in relation to vacationing in Denmark more often rather than flying abroad. However, according to the Danish Council on Climate Change, it is uncertain whether these habits can take root in the population and change the Danes' consumption patterns in a more climate-friendly direction more permanently. Nevertheless, it may make sense to direct stimuli to consumption in a climate-friendly direction, when the government aim to use money to restart the economy. However, it is crucial that any VAT reductions for certain businesses are only temporary. In the long run, taxes on greenhouse gases should drive demand towards green consumption.

Expedition of investments in the gas network

DI proposes that the natural gas network be extended to particularly energy-intensive industries in Denmark, for example to the sugar factories at Lolland-Falster as well as Aalborg Portland in Northern Jutland. This will, for example, allow Aalborg Portland to replace coal with gas, which will give Denmark a significant reduction in carbon emissions in a very short time. At the same time, such investments can pave the way for green gas, so that emissions from the factories' energy consumption are completely eliminated. Before investing, the projects should be subject to a socio-economic assessment with a higher carbon price and clarification of relevant alternatives, e.g. electricity-based solutions.

However, it should be emphasized that the stimulating effect for this type of investment may be limited in the short run, as with, for example, wind turbine projects. This is not sufficient reason not to initiate these kind of investments that may benefit the green transition in the long run, but it is an important reservation to keep in mind if the goal is to kickstart Danish economy in the coming year.

Promoting the service and repair economy

Concito suggests using the crisis to promote circular economy.¹⁴ This can be done by, for example, temporary VAT exemption for repair work or craftsman deduction or VAT deduction on repairs and maintenance of everything from woodwork to electronics, clothing, furniture, bicycles, cars and the like.

Increased focus on circular economics can limit the use of resources and thus reduce greenhouse gas emissions globally. Concito's proposal has the potential to limit the throw-away culture and stimulate selected professions in the short run. However, it is important to consider the balance in the area of repair, as support for repairs can bias the economy in favor of old, energy-consuming products compared to new and climate-friendly alternatives. Again, it should be emphasized that supportive measures should be temporary.

5. Recovery should also be green at EU level

The economic crisis following the corona pandemic is not only a Danish matter. All European countries face many of the same challenges, which is why the EU is a key player in the recovery effort. Similarly, European climate policy is, of course, important because the EU accounts for a significant proportion of global emissions and because the EU speaks with great importance in international fora. But the EU's climate policy is also absolutely crucial to Denmark's ability to conduct cost-effective climate policy, and therefore it is crucial that the government also prioritises the European scene in order to achieve the Danish 70 per cent target. In addition, many Danish companies export to other EU countries, and for this reason it is also of great importance that the EU conducts a recovery of the economy with a green focus.

Denmark should fight for green recovery at EU level

The European Commission has planned to make a very large recovery package, and the Danish government has called on the Commission to make this package climate-friendly.¹⁵ The Danish Council on Climate Change supports this strategy, but emphasizes the importance of the government maintaining the pressure in the negotiations in order to make the package as green as possible. A lot of money will be invested in the Commission's plan, probably around €1,000 billion¹⁶, although it is still uncertain to what extent these funds are "new money". Nevertheless, it is important that the money is invested in green technologies of the future and not spent on sustaining technologies and systems that need to be replaced in a few years in any case. This applies, for example, in the transport sector, where it is important to invest in the future transport system with a focus on, among other things, electric cars. In general, the Council's recommendations for a Danish green recovery can be extrapolated and used as guidelines for an European recovery.

The government has several opportunities to contribute to a clear climate focus in the recovery plan. This may, for example, be pushing for the Commission's proposed sustainable investment taxonomy to be used to ensure that recovery is sufficiently green. Alternatively, you can use the exclusion list from the Commission's proposal for the Just Transition Fund, which excludes investment in fossil energy. This ensures that the short-term considerations for creating growth and jobs do not make future climate policy unnecessarily difficult and expensive. For the same reason, the economy should not be stimulated by postponing the climate legislation needed for the EU to achieve its Green Deal.

The EU's new 2030 target will be crucial for Danish climate policy

Finally, the Danish Council on Climate Change points out that, in the near future, one of the most important targets for both Danish and European climate policy must be decided, namely the question of what the EU's 2030 target should be. Today the target is 40 per cent reduction compared to the 1990 level, but pressure is building from several different actor towards raising the level of ambition to 50-55 per cent reduction in 2030, e.g. from

German Chancellor Angela Merkel.¹⁷ Without an ambitious EU target, it will be expensive and difficult for Denmark to achieve its own 70 per cent target. A higher target in the EU may look expensive if the Commission does not use the right renewable energy prices, which have dropped significantly and the government should therefore urge that the Commission's calculations is based on true data. It is also something that the Danish Council on Climate Change has looked into last year. At the same time, it is very important that Denmark urges the EU to adopt an ambitious target and not let those that will use the crisis to undermine the climate ambitions take over.

Notes

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