

Denmark and the EU's 2030 climate goals

Analysis of the Commission's proposal for reduction targets outside the Emission Trading Scheme

1 Introduction and main conclusions

The EU has a climate target for 2030 to reduce greenhouse gas (GHG) emissions from parts of the economy not included in the Emissions Trading Scheme (ETS) by 30 percent in comparison to 2005. The non-ETS part of the economy consists mainly of agriculture, transport and individual heating for residential and commercial buildings. On 20 July this year, the EU Commission presented its proposals for how the reduction target for the non-ETS sector of the economy should be distributed among member states. This analysis examines the magnitude of the challenge facing Denmark to live up to our share of the EU's overall target.

The Commission has mandated that Denmark receive a national reduction target for the non-ETS sector of 39 percent. It is, as expected, at the high end, since Denmark is one of the richest countries in the EU. On the other hand, Denmark has been offered a comparatively good opportunity to take advantage of so-called "flexibility mechanisms" in the fulfilment of the reduction target, namely 4 percentage points derived from CO₂ uptake from land use, land use change and forestry (LULUCF) and 2 percentage points which can be achieved through the cancellation of allowances from the EU ETS. Member States have until 2019 to make a decision on whether to seize the opportunity to utilise these allowances from the ETS to meet the reduction target in the non-ETS sector. In addition, Denmark - like the other EU countries - has the option of meeting part of its national reduction obligations by acquiring spare emission rights in other EU countries' non-ETS sectors.

The point of departure for the Danish Council on Climate Change's analysis of the Commission's proposal is the climate Act's objective that Denmark must be a low-carbon society by 2050. The Danish Council on Climate Change's recommendations on Denmark's compliance with EU's climate target for 2030 is based on two main principles, which are also outlined in the Danish Council on Climate Change's latest report *Charges which transform: a proposal for climate-friendly tax restructuring*.

1. The EU's 2030 target is a step towards the fulfilment of the EU's long-term objective of an 80-95 percent reduction in 2050. It is therefore important that the rules chosen to achieve these targets result in real reductions at the EU level.
2. For Denmark, the fulfilment of the 2030 target also ensures an appropriate pace of reduction up to 2050 in order to establish credibility for the long-term goal of a low carbon society. It is thus not only a question of meeting the 2030 target at the lowest possible cost, but is first and foremost about choosing the most cost-effective path towards 2050.

In our latest main report, the Danish Council on Climate Change further recommended that Denmark should work for good flexibility mechanisms in fulfilling the EU's 2030 targets to ensure cost-efficiency in realising the given reduction target. If flexibility mechanisms are used to lower the pace of Denmark's reduction of greenhouse gas emissions by 2030, they should be used only to the extent that credibly contributes to making Denmark's total conversion up to 2050 cheaper. For the sake of the EU's credibility, and consequently Denmark's climate policy, it is also important that Denmark's ultimate use of these opportunities for flexibility actually lower the overall GHG emissions in the EU.

The analysis in this note shows, however, that elements of the flexibility mechanisms will not result in real reductions up to 2030. The analysis in fact shows that, even if Denmark refrain from using such flexibility options, and achieve the 2030 objective alone by domestic reduction efforts we will still need to increase the pace of reduction in the non-ETS sector of the economy after 2030 to meet the climate targets for 2050. For these reasons, the Danish Council on Climate Change recommends that the use of flexibility options is restricted.

The Danish Council on Climate Change estimates that the fulfilment of Denmark's reduction commitment in the non-ETS sector for 2030 through the partial use of flexibility options (as recommended below) will require a reduction effort in the period 2021-30 at a slightly slower pace than in the current commitment period covering 2013-2020. This would constitute a significant, but also manageable, task. Although we have already managed to reduce our emissions at a similar pace, transport and agriculture will be a particularly significant challenge as by 2020 these sectors combined are expected to account for 80 percent of emissions in the non-ETS-covered part of the economy. At the same time it is expected that a reduction rate based on partial use of flexibility options in the period 2021-2030 will require a considerably increased pace of reduction in the period after 2030 if we are to achieve our objective in 2050.

The Danish Council on Climate Change's recommendations regarding Denmark's fulfilment of the EU's 2030-target are:

- *Denmark should take into account the contribution from LULUCF of 4 percentage points for achieving the target by 2030.* The contribution from LULUCF comes from emissions and removals of carbon from land use, land use change and forestry and represents real emissions and removals of greenhouse gases that have not yet counted towards the fulfilment of the target but can, to some extent, be included in the framework from 2021. The latest official projections suggest that without further action, the contribution of LULUCF will be much higher than 4 percentage points, which is the ceiling for how much Denmark could take into account.
- *To the greatest extent possible, Denmark should fulfil its obligations via domestic reductions.* The Danish Council on Climate Change's analysis shows that, even if the entire reduction commitment beyond the LULUCF contribution is achieved through domestic reductions, it will require an intensification of reduction efforts after 2030 to reach the long-term climate goals. The less the domestic reductions in the lead-up to 2030, the greater the challenge after 2030. Achieving the reduction commitment in 2030 through mainly domestic reductions will therefore be an important step towards Denmark's long-term climate target of a low-carbon society by 2050.
- *Denmark should not employ the flexibility mechanism for the use of emission allowances from the ETS unless there is a marked reduction in the number of allowances,* which can strengthen the credibility surrounding the ability of the ETS to deliver real reductions. The surplus of emission allowances has grown so large that the cancellation of the number of allowances proposed by the Commission, will only be translated into real reductions to a very limited extent this side of 2030. By the end of 2019, Denmark must already decide whether we want to use this flexibility and therefore a swift implementation of a credible reform of the ETS is important if Denmark is to choose to use the cancellation of allowances in the fulfilment of these obligations.

The Commission's proposal for the EU 2030 targets provides opportunities to implement real, cost-effective reductions, which will still be appropriate when viewed in the long-term perspective of the 2050 target. This analysis does not commit itself to which initiatives Denmark must employ in order to meet the reduction target for 2030. It should be based on a thorough review of the potential means, their potential costs and the derived effects on, for example, the aquatic environment and air pollution. To assess how the task can best be solved, an analysis of the reduction potentials and costs of various measures in the period 2021-2030 should be initiated from the political side to put Denmark on the right path towards the 2050 target.

