MINISTRY OF FINANCE

Carbon pricing in non-ETS sectors
Danish perspectives

24 March 2021

Politics of ETS extension: A walk down memory lane …

- ‘Denmark should be taking a long, hard look at what it’s doing. Its unholy alliance with the German car industry lends credibility to an idea that risks undermining one of the EU’s most effective climate policies. Fuel efficiency standards are reducing emissions, saving drivers money and creating jobs so clearly this is the policy that we need to pursue.’
  William Todts, Transport & Environment, 2014

Article from the run up to the 2014 European Council discussions on the 2030 Climate and Energy Framework.

TRANSPORT & ENVIRONMENT

PRESS RELEASES PUBLICATIONS

Denmark pushing to include transport in ETS

The Danish government has asked EU leaders to consider including transport in the emissions trading system (ETS) when they discuss climate and energy targets at a European Council later this month. Campaigners say such a move would actually be counterproductive to reducing emissions in the sector and do nothing to strengthen the ETS.

Eoin Bannon September 28, 2014 - 12:44

Denmarks position: Carbon pricing must complement sectoral legislation, not replace it

- The EU's climate and energy policies are not sufficient to deliver the increased 2030 climate target and climate neutrality by 2050.
- Carbon pricing and sectoral regulation will be mutually supportive if designed right.
- Along with strengthening and extending the ETS, the Danish goverment supports increasing ambition regarding renewable energy, energy efficiency, CO_2-standards for cars and more.
- Working for a phase-out of new petrol and diesel cars by 2030.

Joint paper by Austria, Belgium, Denmark, Greece, Ireland, Lithuania, Luxembourg, Malta and the Netherlands, March 2021

EU needs phase-out date for new petrol and diesel cars, nine countries say

By Marine Strauss, Kate Abnett

3 MIN READ

BRUSSELS (Reuters) - The European Commission should set a date to ban sales of new petrol and diesel cars across the European Union to align the transport sector with climate goals, nine member countries said on Wednesday.

Therefore, nine Member States are joining forces, encouraging the Commission to put forward ambitious and cost-effective policies to support an accelerated and balanced shift towards zero-emission vehicles, including:

- A phase-out date for the sale of new petrol and diesel cars and vans in the EU as an important policy tool to incentivise the transition to zero emission vehicles.
- EU legislation allowing Member States to take action at national level to incentivise early phase-out of new petrol and diesel cars and vans.
- Ambitious and cost-effective regulation at EU level, including a significant strengthening of the CO_2 emissions performance standards for new passenger cars and for new light commercial vehicles.
- Strengthening charging and refueling infrastructure for zero-emission vehicles.

Denmark’s arguments for extending carbon pricing to road transport and buidlings

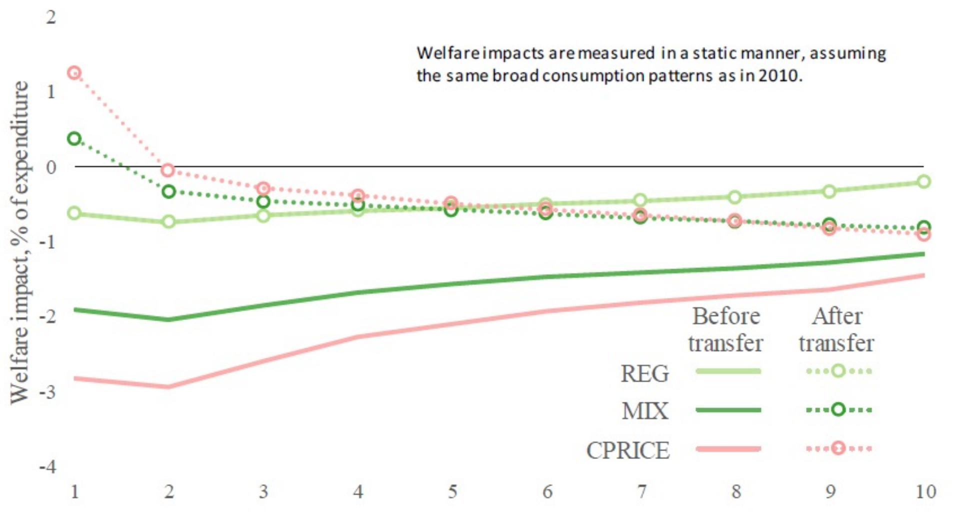
- **Increases certainty of delivering sufficient GHG emissions reductions.** The financial penalties under the EU ETS in case of non-compliance apply directly to the emitting entities and ensure high certainty to deliver the environmental outcome.
- **Increases cost-effectiveness.** A carbon price signal will incentivise switching from fossil fuels for heating in buildings and uptake of low carbon mobility technologies while improving the overall cost-effectiveness of the EU’s climate efforts.
- **Makes it possible to address distributional effects.** Will significantly increase the revenue from auctioning of allowances and create a revenue stream that Member states can use to tackle distributional effects caused by increasing costs for households. Alternative types of regulation and policies also have considerable implicit distributional impacts - but without generating financial means to address them.
- **Can strengthen the joint effect of carbon pricing and complementary policies.** Will focus attention on how to target standards and other regulatory measures to challenges where carbon pricing alone is insufficient.

Adressing distributional effects – findings from the Commission Impact Assessment

- Distributional effects of the Commision's REG, MIX and CPRICE scenarios for the Impact Assessment of the 2030 climate target.
- Lower income households more affected in the CPRICE scenario where carbon pricing plays the strongest role.
- However, this can be mitigated and even *reversed* with redistribution of revenues.
- If there is political will in Member States to address regressive effects, carbon pricing is the most progressive option.
- Not the fault of the EU if Member States do not prioritise this.

Commission Impact Assessment, Part 1

Figure 16: Changes in relative welfare by expenditure decile due to changes in relative prices (fragmented action REG, MIX and CPRICE scenarios with 55% level of ambition)



Source: JRC-GEM-E3 model

An example: Denmark’s green cheque

- Distributional effects of climate policy is addressed by conventional redistribution mechanisms in general taxation policy.
- In 2010, a tax-free and income dependent *green cheque* was introduced in Denmark.
- In practice, it is a reduction in the calculated income tax to compensate citizens with lower income against a number of increased green levies introduced in a tax reform in 2009.

The Green Cheque – an overview

- A fixed of an amount of money for all citizens over 18 years old together with a supplementary amount per child for up to two children per family.
- Income dependent and reduced stepwise with an amount equal to 7.5% of the part of the recipient's top tax base that exceeds a basic amount.
- In 2013, an additional compensation for low-income families was introduced. The supplement is given to citizens with an income lower than a basic amount.

The current politics of distributional effects

- The effects on citizens of a visible carbon price is given all the spotlight… while the costs of alternative regulation is left out of the picture.
- The options for Member States to address distributional effects through recycling of carbon pricing revenue is disparaged as politically infeasible … while the Member States who hold the power to do so express deep concerns about same distributional effects.
- The call for new sources of finance to compensate specific groups for the effects of climate policy are increasing … while the EU has set of an historical amount of funding for climate purposes trough the MFF and Next Generation EU.
- The political challenges of ETS extension are being overstated … while the alternative of a political the zero sum game of raising Member State non-ETS targets is overlooked.

The alternative: Sticking to business as usual. Bad policy – and worse politics?

- The alternative to carbon pricing in the non-ETS sectors is not simply sectoral regulation. Sectoral regulation cannot ensure the environmental integrity of the EU's climate target.
- The alternative: increased national reduction targets in the Effort Sharing Decision as the main driver for climate action.
- The Commission Impact Assessment: an average increase of Member States targets of 10-11 percentage points will be needed to deliver the 55 percent climate target.
- Would this be any less politically difficult than introducing carbon pricing? Will it provide better certainty for delivering sufficient reductions?
- Will it ensure a fair and just transition? Will it be possible to get a deal on the *Fit for 55 package* without revenue from carbon pricing to address distributional effects?