DANSK ERHVERV
Børsen
1217 København K

www.danskerhverv.dk
info@danskerhverv.dk
T. + 45 3374 6000

To: European Commission - DG CLIMA
From: Danish Chamber of Commerce

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Climate change – updating the EU emissions trading system (ETS)

Amendment of the EU Emissions Trading System (Directive 2003/87/EC)

The Danish Chamber of Commerce thanks the European Commission for the opportunity to respond to the formal consultation regarding revision and updating the EU emissions trading system (ETS).

The Danish Chamber of Commerce supports the Commission's proposal to strengthen ETS. We believe that action at the EU and international level is essential to mitigate the consequences of the climate crisis and decrease CO2 emissions.

Adapting ETS to the 2030 climate goal

In order to maintain a well-functioning ETS system, that effectively delivers reductions in greenhouse gas emissions and steers investments away from CO2-emitting activities, the ETS must be further strengthened in the forthcoming Phase IV and better reflect the proposed increased target of at least 55 pct. reduction of CO2-emissions by 2030. An important part of the revision is to; increase the climate target for the EU ETS, lower the emissions ceiling and ensure the necessary climate contribution from the ETS sectors. The current EU ETS linear reduction factor (LRF) is based on the previous 40 pct. reduction target by 2030 and reduces the ceiling each year by 2.2 pct. To reach the reduction target of at least 55 pct. by 2030, the LRF needs to be increase. Studies have pointed out the important of an increase in the LRF of between 3-5.4 pct. The Danish Chamber of Commerce strongly recommends that the Commission carries out a study that analyzes the necessary target in 2030 and how to create the most cost-effective LRF to achieve the climate goals. In addition, the increased LRF should be implemented and used as soon as possible to ensure the reduction path towards 2030 and 2050 is as cost-effective and optimal as possible.

Expansion of ETS

The Danish Chamber of Commerce agrees with measures to update ETS and expand it to further sectors. This will lead to a more level playing field and fair competition. Meanwhile, securing all sectors contributing to the green transition and reducing the risk of carbon leakage.

To get the most socio-economically fair transition, we support utilizing economic instruments when establishing climate policy. Here, ETS is the most cost-effective instrument at the EU level to deliver CO2 reductions. An expansion of ETS will incentivize investments in CO2 reduction in new sectors, since ETS provides a credible price signal, which is also stable after introduction of MSR. However, the integration of these sectors into the ETS cannot stand alone in climate policy and must be seen in the context of other policies to reduce CO2 emissions across the economy.

Market Stability Reserve
The Danish Chamber of Commerce supports the retention of Market Stability Reserve (MSR). MSR has bettered the quota system's resilience towards economic crises and therefore contributed to a stable and credible price signal for investors in green technology. This has especially significance for economic crises that for example COVID-19. MSR will secure a more stable CO2 price signal. Therefore, we recommend maintaining the in-take rate at 24 pct. after 2023, rather than reducing it to 12 pct.

Carbon price floor
However, the Danish Chamber of Commerce also recommends other methods of giving a clearer and more credible long-term price signal - for example, a carbon price floor (CPF). A CPF will support green technologies at a credible CO2 price and provide security for investors. This can be introduced by a predefined CO2 price based on the climate goal of 55 pct. in 2030 and the CO2 neutrality-goal in 2050.

Phase of free allocation
Due to the risk of carbon leakage, free allowances have been allocated to industrial companies on EU's carbon leakage list. The Danish Chamber of Commerce supports the Commission's approach and the existing approach in ETS. However, it is crucial that there is still an ongoing assessment of BAT, so there is no overcompensation when allocating free allowances. The free allocation of allowances should be seen in the context of CBAM, and with the introduction of CBAM, these allowances should ideally be abolished.

Incitament til carbon capture and storage og negative Co2 emissioner
In the current system, carbon capture and storage (CCS) and other negative CO2 emissions are not included in the ETS. On that basis, there is no financial or economic incentive to achieve negative emissions. It is both through classic CCS solutions and CCS biomass-based power plants, where there will be real negative emissions. The same applies to large-scale fermentation plants where there is a great potential for carbon capture. The Danish Chamber of Commerce recommend that the EU introduce a mechanism that can issue certificates to CCS and other projects which generate negative emissions – to increase incentives for the entire value chain. These certificates create an economic incentive for escalation and industrialization of new green technologies. This will promote a market-based development of green technologies as well as promote the innovation needed to carry out the climate goals.

Regarding the production of hydrogen, today free allowances are given to fossil hydrogen production, however there is no allocating free allowances to sustainable hydrogen production by electricity. This distorts and slows down the market for sustainable hydrogen production and the escalation of new PtX solutions. One should also address this in the reform of the ETS.

Best regards,

Ulrich Bang
Head of Climate and Energy