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## The Global Dimension in the Danish Climate Act

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Climate change is high on the political agenda and a new and ambitious climate act is being negotiated these days. A 70% reduction in 2030 compared to the level in 1990 has been set as a clear target across (almost) the entire Danish Parliament on the pathway towards Denmark achieving with net zero emissions within the next 2-3 decades. It is however imperative that the international dimension features prominently in the Climate Act and its implementation. A global pillar of the Climate Act must both reflect Denmark's responsibility in the world and take advantage of the opportunities that the public sector, citizens and companies have to take initiatives for the benefit of the climate, even if they do not, for technical reasons, count toward the national 70% reduction target.

Let us start by making clear that a Danish target of 70% reduction followed by rapid further reductions on the way to net-zero is both *fair, necessary and beneficial for Denmark and the world*. And that international efforts must be developed in parallel and coordinated with national efforts, but not used as an argument for watering them down with reference to Denmark's limited emissions at a global scale or access to cheap emission allowances in the international market.

*Fair* in light of our contribution to the historical emissions together with other developed countries and because we are a rich country that has the resources to do something about the problem. *Necessary* because science clearly tells how big and urgent the challenge is, and no countries can therefore dodge their role in the global effort, where the Paris Agreement commits all countries to contribute to the joint effort. *Necessary* also because fairness and willingness to act by developed countries matter when other countries have to decide on their contribution. *Beneficial* because the world takes notice when we demonstrate that you can be a developed, dynamic economy while moving toward net zero. It is also *beneficial* because Denmark, with an ambitious effort, contributes to the development of technologies, business models and public-private forms of cooperation that can be used in other countries. Denmark has already contributed enormously to developing onshore and offshore wind energy and making them competitive through a combination of large-scale research, development and investment. Beneficial also to the Danish economy and employment, which CONCITO has also previously documented in the project "Denmark as a green winning nation".

It is also obvious that we will have to work hard and intensively to accelerate the global transition and reduce emissions that take place outside Denmark. Denmark's emissions account for around a tenth of one percent of global emissions, and Denmark and the OECD countries' share has fallen from just under half to about one third over the past decade. As we decarbonize Denmark and the EU as quickly as possible, it becomes increasingly obvious how crucial it is to influence developments in the rest of the world. Developments over the next decade - especially in a number of growth economies and developing countries - will decide whether we shall be able to achieve the global climate targets.

We *can* make a difference for global development. It will require both international alliances and making climate action a cause to which all Danish actors contribute, regardless of whether the emissions impact is achieved in Denmark or abroad: Both public authorities as purchasers and responsible for planning and regulation, citizens as consumers and savers, companies as producers and buyers, pension funds and banks as investors and financiers must be mobilized to influence how goods are produced and investments made abroad. Denmark and Europe's international "muscle" is first and foremost normative, economic and

technological, and it must be used actively and wisely for the benefit of the climate and thus our own future.

In short, it is crucial that the global dimension gets its clear and defined role in the Climate Act, as a starting point for the many important efforts Denmark and Danish actors can make to reduce emissions outside Denmark. Below are eight specific areas where Denmark can make an effort for the world's climate – and others may be added.

## **Eight areas where Denmark can do more for the world's climate**

### **1. Ambitious climate diplomacy: Coalition building beyond governments**

The Paris Agreement and the global climate negotiations at the UN remain the foundation, although they cannot deliver the ambitions alone. Denmark, together with other ambitious EU countries, must play an active role in the negotiations, with a focus on a continuous increase in the level of ambition and robust accounting rules for e.g. biomass.

Climate diplomacy is also about making it clear that every important international relation is affected by whether we solve the climate challenge. Climate is also security policy and crucial to financial stability. Climate diplomacy should be used more aggressively in the bilateral dialogue with key countries. When the prime minister and sector ministers meet with their counterparts, climate must be high on the agenda. And when we talk to partners in bilateral energy cooperation like China, Vietnam, South Korea and Indonesia, we need to put pressure on them to curb coal investment and exports.

Climate diplomacy must be expanded beyond government offices and include alliances with investors, companies, civil society and international organizations. The climate summit in New York was a good example, where the Danish pension funds made headlines with the announcement of a commitment to invest \$50 billion in green investments.

### **2. Enabling actors to address consumption based emissions**

The consumption by Danes gives rise to significant emissions outside the country when we import electronics, food or clothing. When the production of goods, food and feedstuff takes place abroad, emissions are not included in the Danish accounting, but that does not mean that we can simply disclaim any responsibility for the consequences of personal behavior. Fundamental to the citizen's ability to act as a consumer is access to information about the specific product's climate footprint, which allows the consumer to choose less climate-impacting goods and groups, thus making climate impact a parameter in consumer choice. It requires a significant investment in data and communications to give the consumer this choice, but it is necessary in an imperfect world where there is no global CO<sub>2</sub> price that sends the necessary price signal. Municipalities and public and private institutions must also use their purchasing power actively in procurement, including in connection with tenders. The government procures for more than 300 billion DKK per year, and climate performance criteria is an important tool in the hands of the public sector, the emissions effect of which will partly be reflected in Danish GHG accounts, partly global.

### **3. Companies must take responsibility internationally**

Danish companies are central to climate action, also internationally. Danish companies must be encouraged to set ambitious goals and take concrete steps to reduce their direct and indirect emissions both in the supply chain and during consumption of their products. An international movement is underway towards companies taking responsibility for reducing their emissions. Global companies like Arla (dairy) and Carlsberg (brewery) are examples of Danish businesses that have defined a *Science-Based Target* and are working intensively to reduce their carbon footprint throughout the value chain. Danish companies in all sectors should follow suit. When a critical mass of international customers demand products with a decreasing carbon footprint, emerging economies that wish to attract international investment will pay attention. Companies wish to have access to renewable energy for their production facilities, and international initiatives and coalitions such as RE100 and the "Clean Energy Investment Accelerator" work to promote corporate sourcing of renewable power. The public sector in Denmark can support these efforts

by investing in the necessary data and methodology development and look for ways to reward companies that take action.

An special case is about companies active in international shipping and aviation, which are not included in Denmark's emission reduction obligations. Their transformation must also be promoted through a combination of national and international regulation, technology development and coalitions with frontrunners in the industries.

#### **4. Money must drive the green transition**

It is a separate objective of the Paris Agreement that all financial flows must be made consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. The Danish financial sector has now started planning how to contribute to this goal. The frontrunners among the pension funds have announced an target of \$50 billion in green investments by 2030, and some have explicitly established a net-zero emissions target. In a globalized financial sector, international activities and their climate footprint must be part of such objectives and commitments.

The Danish public development finance institution IFU and the export credit agency EKF should play an even more active role in promoting the role of companies and investors in the global transformation, both as a catalyst for private investment and through cooperation with developing countries' authorities and financial sectors. Both institutions must quickly cease funding of fossil energy<sup>1</sup>, following the example shown by the European Investment Bank.

The government should actively work to ensure that Danish and European/international financial regulation supports the Paris objectives. It is positive that the Danish central bank *Danmarks Nationalbank* is engaging in international cooperation on the importance of climate for financial stability.

The voice of Denmark in the multilateral development banks, the UN system and international organizations such as the IEA/OECD must actively support the international transformation and phasing out of support for fossil energy and other emission-intensive activities.

MDBs can be strong levers for Danish international efforts, however this requires a consistent, active effort both at the political board level and in the form of concrete initiatives and partnerships. Denmark should consistently and across all development firmly take the most ambitious line and work to ensure that loans and investments from public financial institutions are consistent with 1.5 degrees and mobilizes private investments in clean energy and climate-friendly infrastructure.

#### **5. Technology development**

Denmark, in collaboration with other countries, will make a significant contribution to research, development and market maturation of new technologies, thereby helping to make climate solutions competitive and accelerate their deployment around the world, as has been the case for wind energy.

In connection with the strengthened technology research and development efforts, the international perspective must be strengthened. Areas must be prioritized where Danish technology can be expected to make a global difference through subsequent investments and reduced emissions. Examples include increased electrification, power-to-X solutions, other energy storage and sustainable food production. The recommendations from the Danish Innovation Fund's Climate Panel are a good starting point for strategic R&D efforts in the green space.

Denmark should intensify international technology cooperation including in the Nordic region with a focus on maximizing the medium and long-term contribution to the global transition.

#### **6. Global knowledge sharing and *Clean Energy Transition Deals***

Developments over the next decade in a number of emerging economies, in particular in Asia, will be crucial to the global climate future. A number of countries are at a tipping point where they have to invest heavily in the energy sector while the clean solutions have become competitive, but institutions, policies

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<sup>1</sup> On 28 November 2019, IFU announced that it will phase out funding of fossil energy over a period of three years.

and funding remain in the fossil energy era. There is great international demand for Danish skills as well as competitive, climate-friendly solutions in clean energy, energy systems integration, energy efficient buildings, sustainable cities and climate-friendly food production. Cooperation in these areas will have side benefits also for Danish exports. Initiatives to meet this demand include the Danish Energy Agency's government-to-government cooperation with countries such as China, Indonesia and Vietnam.

Cooperation and support for the transition must be accelerated sharply, and the efforts to influence the development pathways of emerging economies are too fragmented and sporadic. We recommend that Denmark should build coalitions of partners including i.a. the Nordic countries that go "all in" to enable countries to choose a clean, low-carbon energy development path by offering larger, better coordinated and more coherent efforts. *Clean Energy Transition Deals* would be made with a number of emerging economies in which:

1. Governments contribute by setting ambitious targets and putting in place investment-enabling framework conditions.
2. The private sector contributes with technology, demand for clean energy and financing (including mobilized institutional capital).
3. Expert organizations & development banks provide technical support and concessional finance to support the expansion of clean and phasing out coal.

## 7. Climate finance

Denmark's public climate finance is important for at least two reasons:

1. Because developing countries need support to accelerate the transition to low emission and strengthen their ability to deal with climate change.
2. Because climate finance in international negotiations has become an important marker for developed countries' recognition of their responsibilities and an indispensable *deliverable* when substantive progress is to be made in the UNFCCC negotiations.

Contrary to what Denmark has committed to internationally, which is a growth in climate financing until 2020, Danish climate finance has fluctuated and in periods has even been declining. It is time to correct this to avoid undermining the credibility of Denmark's international leadership. A mechanism should be established to ensure transparency and predictability around high levels of climate financing. Specifically, we propose that:

1. All Danish development assistance must be climate-proofed and incorporate adaptation and resilience.
2. Target figures for Denmark's reported official climate financing should be established that are in line with the joint commitment by Denmark and other developed countries to scaling up climate finance to developing countries.

As important as the scale of climate finance is its quality and impact. The resources that target emission reductions must be channeled to the emerging economies and the sectors where the reduction potential is greatest and the transition to low-carbon is most urgent. This support for middle - income countries can be included under the overall development assistance framework, but should be in addition to the 0.7% of GNI threshold for development assistance. Financing of adaptation and strengthening resilience should be directed at the most vulnerable poor countries.

## 8. The European dimension

The EU plays a key role at all levels of Danish efforts: The EU's level of ambition and related regulation to a large extent define:

- 1) Our national mitigation efforts;
- 2) The tenth of global emissions taking place within the EU; and
- 3) Global efforts reflecting the EU's role in the climate negotiations, in climate finance and in trade and investment agreements.

Denmark must at all times be among the absolute frontrunners in the EU , both in terms of climate legislation, a stricter reduction target for 2030, mandatory climate neutrality targets by 2050, and strengthening of the climate dimension in EU regulation within the EU ETS (including a floor price on CO<sub>2</sub> ), sectoral policies, research and technology development, and greening of EU structural and investment funds as well as EU international assistance.

As the EU and Denmark decarbonize all sectors of the economy, everyone must contribute, including heavy industry exposed to global competition. As a result of this, there is new momentum around a carbon border adjustment mechanism as a tool to level the playing field between European industry and producers in other countries without the same ambition level. We see market access and trade and investment agreements as tools that Europe must use wisely and strategically to support the climate agenda, and not restricted to the protection of particular industries from unfair competition.

Trade and investment related measures are examples of “issue linking”, which Europe will have to be prepared to use on a larger scale to get the most important countries to respond more quickly to the climate crisis. When less ambitious countries need to be encouraged to accelerate the transition to low emission, both “carrots” and “sticks” will be needed. The “carrot” side of the green transition is growing at a record pace as green technologies become more competitive and several emerging economies are suffocating from local air pollution. In most cases, it is no longer economics but inertia and special interests that are holding back the change, and here both companies, consumers and governments have a role in applying the pressure needed to overcome the barriers.