

# Action plan for the financial sector's climate partnership

Summary and recommendations

March 2020



## The financial sector's climate partnership

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DVCA  
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## Foreword

The climate partnership for the financial sector hereby presents its action plan for how the partnership can contribute to Denmark reaching its goal of reducing its CO<sub>2</sub> emissions by 70 per cent by 2030.

Financial sector companies will reduce their own greenhouse gas emissions by at least 70 per cent by 2030. However, the overall impact of this will be limited, as the financial sector's own emissions are very small.

Therefore, the financial sector's climate partnership believes that its most important task is to finance initiatives in other sectors on market terms. From providing loans to energy-saving initiatives in homes and to SMEs to the capitalisation of major energy infrastructure projects such as the expansion of offshore wind farms, the electrical grid and an energy island in the North Sea.

In addition, there will be venture capital for the expansion and scaling up of green technologies that, among other things, convert electricity to non-CO<sub>2</sub> propellants (Power-to-X) and reduces the climate footprint of the agricultural sector's livestock farming.

The public sector plays an important part as purchaser, as a tenant of buildings and as the project owner of major construction projects. Together with private sector partnerships, the public sector can contribute to a noticeable reduction of CO<sub>2</sub> emissions by, for example, involving the financial sector in public-private partnership solutions.

The climate partnership for the financial sector has held workshops with and gathered information from the other 12 climate partnerships. We would like to thank the participants for the positive and open

collaboration which has been an invaluable factor in getting the necessary overview of the challenges - and not least, the possible means of solving them.

We look forward to continuing this positive collaboration to examine solutions that can help Denmark collectively to meet its targets for the sustainable transition.

The financial sector's climate partnership includes Insurance & Pension Denmark, Finance Denmark, DVCA and The Danish Association of Investment Firms.


Torben Möger Pedersen, CEO of PensionDanmark, is the chairman of the climate partnership. Associated key individuals are Lasse Nyby, CEO of Spar Nord, Allan Polack, Group CEO of PFA and Christian Frigast, chairman of DVCA.

The secretarial functions of the climate partnership for the financial sector are managed by Birgitte Søgård Holm, Peter Jayaswal (both from Finance Denmark), Jan V. Hansen (Insurance & Pension Denmark) and Jan Kæraa Rasmussen (PensionDanmark).

Copenhagen Economics has provided technical assistance.

*Torben Möger Pedersen,  
Lasse Nyby, Allan Polack and Christian Frigast*

12 March 2020



**”” The climate partnership for the financial sector can fully endorse the target of reducing the emission of greenhouse gases in Denmark by 70 per cent in 2030, and all key actors in the financial sector are ready to contribute to meeting this target.**

*Torben Möger Pedersen  
chairman of the climate partnership for the  
financial sector*

# We stand united to fulfil climate targets via green growth

We, the 13 climate partnerships, have worked intently on solving a task that is both difficult and important: That is, to simultaneously develop concrete proposals for the Danish Government for which initiatives can contribute to meeting the target of reducing Denmark's CO<sub>2</sub> emissions by 70 per cent in 2030 and making Denmark an example to the rest of the world.

We have approached this task based on the idea that we must, at the same time, make Denmark and Danes richer - while also making the world more sustainable. If we are to reach the targets, it will require major investments. Therefore, sustainability and growth must go hand in hand, and therefore we as a society must be ready to prioritise climate investments. We, in the Danish business community, are ready to do our part of the work in close partnerships with the Danish Government and Parliament - and the rest of society.

Future economic growth is a prerequisite for us being able to afford solving the climate challenges in such a manner that we maintain a good and well-functioning society. This requires that we ensure that Denmark remains competitive and that we create growth and new jobs while we are putting the climate ambitions into practice.

The climate challenges are a global issue. We must meet our national targets without driving business out of Denmark. We must implement a real green transition of our society which measurably reduces the emission of greenhouse gases around the world - and we must do so via development, not cutbacks. With our initiatives serving as inspiration for taking action, we must work on an international level via,

among others, the UN and the EU in order to ensure a reduction of global emissions and to speed up the development of green Danish solutions that we can export to the rest of the world.

In the 13 climate partnerships, we stand united to contribute to Denmark meeting its political targets.

We look forward to the proposals being carried over to a concrete and comprehensive climate action plan that must contain two clear targets: To contribute to solving the climate challenges in Denmark and around the world while at the same time ensuring a strong business community, more Danish jobs and a more prosperous society.

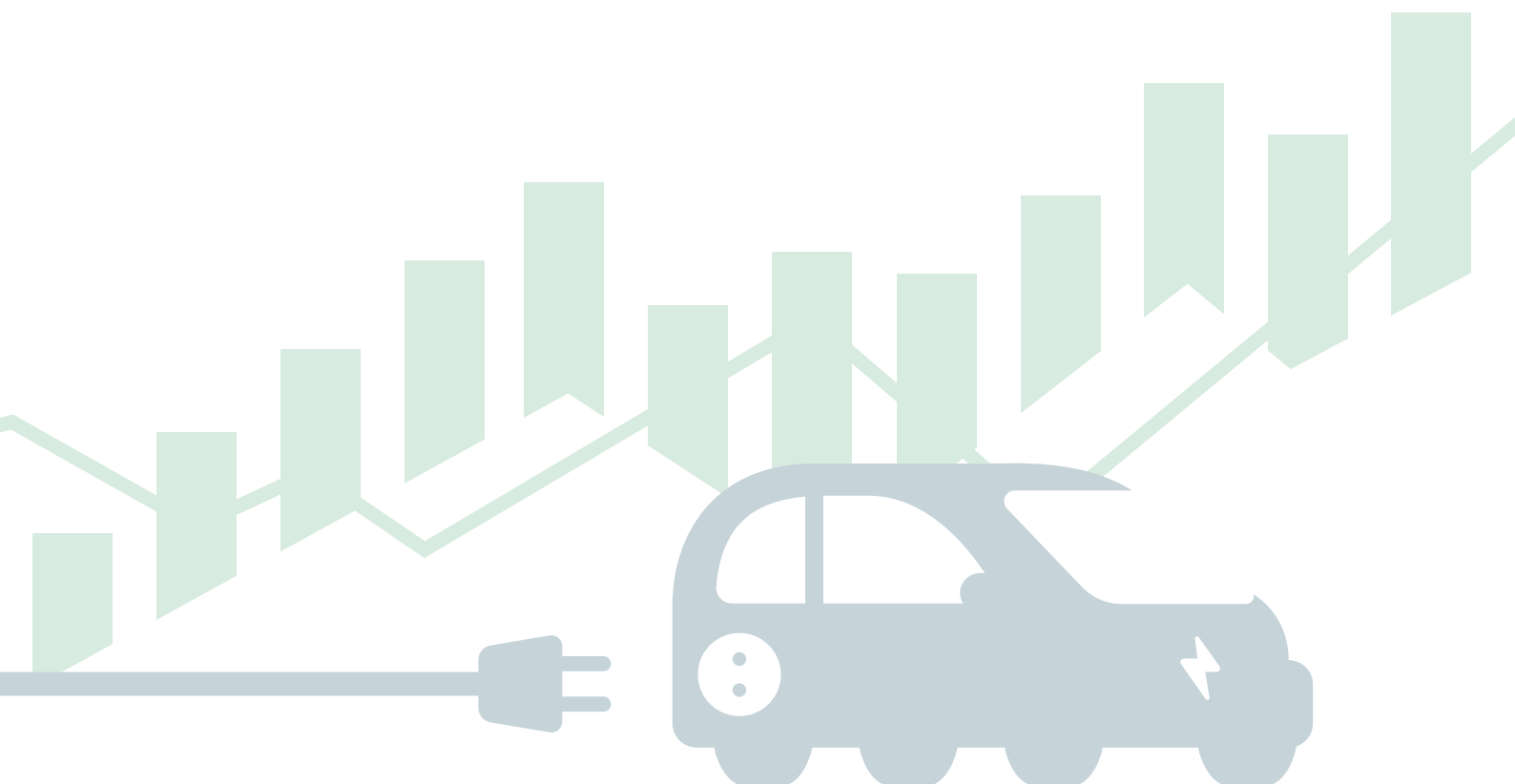
The proposals from the 13 climate partnerships have for good reasons been prepared separately, and many proposals cross sectors and industries. The next step is therefore to prepare a unified climate plan. In this context, it will be critical that the unified climate plan takes into account the consequences of every individual initiative - and that the plan as a whole ensures that the green transition will go hand in hand with continued growth and prosperity in Denmark.

We hope that all of our proposals are read in the spirit and context of what we have described here.



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# Summary



The Danish Government's target of reducing the emission of greenhouse gases in Denmark by 70 per cent in 2030 requires a significant transformation of the Danish economy and massive investments in green infrastructure and technology.

A core element of the Danish Government's target of reducing emissions is that it should very much be achieved on market terms and without negative consequences for the Danish business community, Danish competitiveness and employment numbers. Therefore, a great deal of responsibility has been delegated to the Danish Government's climate partnerships in terms of identifying and realising investments that can lead to significant reduction in the climate footprint of the different sectors.

The financial sector's own greenhouse gas emissions account for less than 0.1 per cent of the total Danish emissions - this is the smallest among the climate partnerships. The sector has begun work on initiatives that are aimed at reducing emissions. However, with such a modest level of emissions to begin with, the sector's direct contribution to the total will be limited.

On the other hand, the financial sector will play a critical role in relation to financing projects in the other sectors. Though it is a bit of an oversimplification, one could say that the other 12 climate partnerships are responsible for identifying and implementing the required investments while the financial sector assumes responsibility for financing them. In addition, the financial sector, via its natural points of contact with customers, will be having dialogues about the opportunities for financing energy renovations and other sustainability initiatives. The sector is also responsible for ensuring that borrowers and investors get reasonable returns and that the projects are financially profitable.





“ Even though the financial sector is facing a very demanding task, the headline is that it is not a lack of capital and lack of financing for viable projects that will be a barrier.

In order to identify the required investments, the climate partnerships have collected information and held workshops with the other partnerships. On this basis, Copenhagen Economics estimates that investments of up to DKK 600 billion may be needed between now and 2030 in order to realise the transition. Investments generally fall into one of four main themes:

1. More energy-efficient buildings and production processes
2. Massive expansion of renewable energy
3. Electrification of a much greater proportion of the economy
4. Venture capital funding for innovation, development and export of low-emission solutions.

The investment needs cover a wide area with very different risk profiles and opportunities for providing collateral. Therefore, the full spectrum of financing options must be applied:

- Mortgage loans for, among other things, energy renovations in households and SMEs
- Business loans for, among other things, more sustainable production methods for agriculture and SMEs
- Equity financing for building new offshore wind parks, electrical transmission and new technologies
- Public-private partnerships (PPP) wherein authorities are responsible for a task or project but where private enterprises finance and operate them.

In addition, there is the financial sector's contributions via an increased focus on climate issues when it comes to providing loans and investing in shares, properties and infrastructure.

Even though it is a very demanding task the financial sector is facing, the headline is that it is not a lack of capital and lack of financing for viable projects that will be a barrier. The core of the challenge will be to create a framework in Denmark and around the world which allows for the necessary investments to be profitable.

In terms of realising the investment needs, the financial sector will itself measure the lending and investment portfolio's climate footprint on an ongoing basis and put forth targets for green investments. While banks and mortgage credit-institutions will be part of identifying and nudging green projects forward among the many small and medium-sized Danish enterprises and households via its contacts with customers and newly developed tools, pension funds, investment funds and asset managers will practice active ownership to push forward the green transition among large in Denmark and around the world.

The task should be viewed from a long-term perspective and the focus should be on ensuring that the initiatives contribute to reducing the global emission of greenhouse gases. In practice, this means that some of the green investments will only have an impact after 2030 and outside of Denmark's borders via the development of technologies and solutions with global potentials. Denmark must therefore also work towards ensuring that the EU plays a coordinating role - also internationally.

# The financial sector's work on the four focus areas

## Set targets for and monitor the reduction of customers' CO<sub>2</sub> footprint

- The financial institutions will designate concrete targets for reducing the carbon footprint of the activities they finance and report on the same.
- Follow-ups on financing contributions from pension and insurance companies which have pledged an additional DKK 350 billion to green loans and investments in Denmark and abroad.
- Banks and mortgage credit-institutions have an ambition of increasing the green loans by DKK 300 billion by 2030 and thus bring the total amount of green loans issued in Denmark up to DKK 700 billion.
- The development of tools to calculate the carbon footprint of loan and investment portfolios and to track developments.

## Actively engage with customers and projects

- The active ownership exercised by pension funds, investment funds and asset managers will promote the development of climate-friendly business models in companies in which they own shares.
- Pension funds and other institutional investors will demand high energy standards for the buildings they own and commit themselves to ensuring that new construction projects are certified based on high standards for sustainability, such as high DGNB standards.
- Banks and general insurance companies will take on a more active role towards their customers by using natural points of contact to have a dialogue about energy improvements, replacing heat sources, etc.

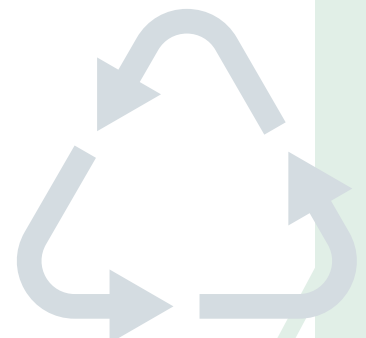


## Integrate sustainability in business models

- The banks and mortgage credit-institutions will develop and offer loans that encourage those owning homes and commercial properties to reduce their energy consumption.
- The financial institutions will offer investment and savings products that are aimed at investments in sustainable activities.
- The general insurance companies will focus on preventing damage that has a strong climate footprint, such as fires and reconstruction projects, etc.
- Financial institutions will put a stronger focus on the risk management of assets that are negatively affected by the green transition and climate changes, including potential consequences for the companies' assets such as, for example, properties at risk in the event of rising sea levels or temperatures (physical risks) and also transition risks for assets based on fossil fuels - the so-called stranded assets.
- Employees will be trained to enter into dialogue with customers and partners about sustainable investments.

## Reduce the emissions from the financial sector itself

- The financial sector will designate targets for its own CO<sub>2</sub> emissions and report on such.
- The purchase of certified green electricity and heating.
- Energy renovation for corporate buildings.
- Ongoing replacements of the car fleet using low-emissions cars.
- Review of canteen operations, energy optimisation of office spaces, etc.



# Recommendations for the Danish Government

## Ensuring long-term and predictable frameworks

### Transforming taxes and subsidies associated with energy

Aimed at promoting the rollout of heat pumps and low-emission cars in a long-term perspective with a focus on cost efficiency and predictability.

### Revision of existing schemes

Energy labelling must be more precise and widespread. The HouseJob scheme (BoligJobordningen) must be revised so that the craftsman deductions can be accumulated over time for major energy renovations. The energy savings scheme must be in effect up to 2030. The requirements for energy inspections must be spread to SMEs, but take into account proportionality.

### New financing structures

The Danish Green Investment Fund must work together with companies when it comes to offering ESCO solutions. Loans with Vækstkaution must be offered for the sustainable transition of the agricultural sector. There must be a stronger focus on green investments in Dansk Vækstkapital 3. EKF, Vækstfonden and The Danish Green Investment Fund must work together with the banks to come up with new risk sharing models for financing the transition of, among other things, SMEs. The regulatory framework in Denmark and the

EU should be adjusted so that it increases retail investors' opportunities for contributing to the financing of the green transition.

### Regulation of investments in electrical grids

The regulation of Energinet and distribution companies must ensure that the necessary expansion is completed by opening up for PPP solutions where the private sector supplies the financing while the ownership of critical infrastructure remains on public hands.

### EU frameworks

The EU's frameworks for lending and investments must support the sustainable transition. The taxonomy for sustainable activities should therefore support the transformation towards more sustainability and documentation requirements must be manageable.

## Venture capital financing of innovation, development and export of low-emission solutions

### The development and maturation of low-emission technologies

Increased use of a mix of public funds and venture capital to finance the combination of development projects that have the potential to reduce global emissions, for example, via the development of e-fuels and CO<sub>2</sub> capture and storage (CCS).

### Support for scaling and export

Funds from EKF must be used to strengthen the export potential of green technologies and thereby add the necessary levels of scale that make the projects profitable and thereby relevant to financial investors.

## Standardisation, digitalisation and access to data

### Data for sustainability

Taking the initiative to develop industry-specific standardised key figures for, among other things, CO<sub>2</sub> accounts and proactively contributing to the European initiatives in developing - ideally - global reporting standards.

Working towards the establishment of a common and freely accessible EU data register with standardised and digitalised ESG data.

### Promoting independent consultancy services based on common standards.

Taking the initiative to promote the certification of energy consultants and standards for reporting and documentation.

## The public sector's own role

### Public buildings and facilities

The measurement and publication of public buildings and facilities' carbon footprint. Increased use of the ESCO model to realise savings potentials, where private operators handle implementation and operations. Public building projects must specify high requirements for energy efficiency, climate-friendly materials and solutions in the tender documents.

### Public budget management and purchases

Reform of public financial management systems: transitioning from expense management to cost management in order to increase incentives for energy optimisations. The state and municipal purchasing organisations must specify a purchasing policy that better supports the green transition via a climate-friendly purchasing of goods and services. Public lease agreements must from now on set high standards for sustainability.

### Public tenders for public transport

The electrification of public transport: Here, PPP solutions may be relevant where the financing and implementation is done by the private sector while the control and long-term ownership remains on public hands.

### Sharing public data with the private sector

The possibilities for sharing public data must be increased.

# Green transition in Denmark up to 2030

The green transition has come a long way in Denmark compared to the rest of the world, but it has been very unevenly distributed across the different sectors. The utility sector has come a long way in terms of replacing coal, oil and gas with wind, biomass and, to some extent, solar power

to produce electricity and heating for households and companies. On the other hand, fossil fuels are still dominant in the transport sector and in heavy industries. There remains a significant amount of potential to use energy more efficiently across sectors.

## Focus areas

### 1. Energy-efficient buildings and production plants

There remains a significant potential for reducing energy consumption in existing buildings and production plants among both households and companies:

- **Households**

For example, the insulation of outer walls, floors, ceilings and roofs and energy-efficient windows and doors - often in connection with other types of renovation projects.

- **Small and medium-sized companies**

Improving the energy efficiency of the production industries by, for example, reducing heat loss and electricity consumption and insulating buildings.

- **Agriculture**

Transitioning towards a more sustainable agriculture is about more than an impact than improving energy efficiency. For example, building plants that treat animal slurry and more widespread slurry processing, etc.

In energy efficiency projects, it is often not profitability that is a barrier. The financing costs can often be covered by the energy savings that the project will realise. Therefore, the biggest barrier is that energy efficiency projects are not being prioritised or being overlooked entirely by households and companies.

The core task is therefore to develop better instruments for identifying and completing the most promising projects with a private financial profit for the investor. Here, banks and mortgage credit-institutions will play an important role in having a dialogue with customers so that homeowners are encouraged to carry out energy renovation projects if their house equity and credit scores make providing a loan a safe option. The higher value of an energy-efficient building can also in some cases be used as collateral for borrowing for renovation works. For agriculture, it may be necessary to take a closer look at a scheme involving, for example, Vækstkaution for an investment in more sustainable operations.

Digitalisation and access to data on the energy consumption of households and companies creates new opportunities for, for example, bank advisors having better dialogues with customers about energy renovations, and this may help customers to seek advice from energy consultants, etc. about the opportunities, costs and advantages of reworking their energy solutions and the like.

*The task is therefore to improve the dialogue, advice and implementation of solutions that customers gain from implementing.*

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## 2. Massive expansion of renewable energy

A core element in the transition will be to replace fossil fuels with a massive expansion of renewable energy to drive an electrification of the economy. Here we are mainly speaking of increasing cheap wind power, but also more and more solar power, which even at Denmark's latitudes is becoming a cost-effective alternative.

Already, robust financing models exist that are increasingly used around the world in connection with the establishment of wind parks, etc. They are often based on equity financing from an infrastructure fund with, for example, pension funds and other institutional investors being owners together with industrial partners. This can be leveraged with bank financing, bonds and, in some cases, mortgage financing. After a few years of operations, the risks of ownership are reduced, and then the plant can be sold on to, for example, other institutional investors.

The challenge is thus not the lack of good financing models, but risk on the demand side, i.e.: How high will the electricity demand be, and at what price? Currently, the total electricity consumption in Denmark is expected to exceed the conventional electricity consumption by 14 per cent in 2030. Therefore, there will be a great

amount of investment risk when expanding, for example, wind parks in the North Sea if there are no reasonably clear and justified expectations for the required level of additional demand materialising.

Similarly, there is uncertainty about whether the required expansion of infrastructure will happen so that the electricity that is produced can reach the end user (the required investments in expanding the infrastructure is expected to be around DKK 40 billion in Denmark between now and 2030). Here, private capital from pension funds and other institutional investors can contribute with funding. Private funds can be invested in public infrastructure - and thus ensure the required expansion - via PPP schemes or other models where the investment does not have to result in ownership of critical infrastructure, but rather an entitlement to future profits. A quick decision on setting up a "wind island" in the North Sea can therefore be recommended.

*The task is thus to create a framework that increases the demand for green energy and guarantees that the required infrastructure that allows for private investments in the expansion of renewable energy to be profitable is built.*



### 3. Electrification of the economy

The electrification of the economy and the replacement of fossil fuels is a cornerstone of the green transition. The production of electricity and district heating is already on its way to becoming 100 per cent green. The next step is to roll out new electricity-based solutions for energy consumption by the end users with the associated financing:

- **Households, small business and service companies**

Heat pumps are already today a profitable alternative to oil and gas furnaces in areas without district heating. In the coming decade, low-emission cars will increasingly be competitive with conventional cars, including in terms of functionality like driving range, charging times, etc. Bank loans and/or mortgages will be able to be used for both types of investments if it can be justified based on the collateral behind the loan and the customer's finances. There will be cases where the value of a property or a customer's finances cannot finance, for example, the replacement of a heating source with a heat pump. In such cases, it may be necessary to take a closer look at other financing models, for example, including The Danish Green Investment Fund.

- **Heavy industry and international transport**

From a global perspective, these sectors are large and growing sources of greenhouse gas emissions. The alternative green fuels, such as biofuels (for example, based on algae) and electro-fuels (artificially created via the use of electricity) remain significantly more expensive than fossil fuels and require investments in order to mature the technologies for industrial scale use. At the same time, the buyers of alternative green fuels, i.e. heavy industry, airlines, shipping companies<sup>1</sup> and international hauliers operate in highly competitive markets. This puts a limit on how much more expensive green fuels can be before their use results in significant lost market share and the moving of greenhouse gas emissions outside of Denmark (carbon leakage).

*The task here is thus to in part examine possible financing structures that can support the transition in cases where financing on market terms is difficult and also in part to mature technologies for the market and to create frameworks that offer sufficient incentives to invest in the development and use of green fuels in an international context. De-risking investments via long-term contracts for the entire value chain is a critical factor in attracting private investments for green electricity and green fuels (Power and Fuel Purchase Agreements).*

### 4. Venture capital funding of innovation, development and export of low-emission solutions

A long-term and cost-effective solution to the global climate challenges requires the development and use of new technologies. This certainly also applies to the electrification of a far greater proportion of the economy. It requires the use of a broad mix of instruments and the public and private sector working together. Actual basic research must, however, be financed by the public sector. In a Danish context, it would be particularly interesting to see if it is possible to create growth and jobs via the export of solutions developed in Denmark by Danish companies and competences.

There is a significant potential in Denmark to realise these opportunities. The Danish Government has supplied significant funds to Vækstfonden and EKF to promote innovation and

the export of green solutions. Similarly, there are already significant amounts of money in Danish innovation funds and research grants that could be targeted at e-fuels and carbon capture and storage (CCS) technologies. Danish institutional investors have already invested significant sums in green technologies around the world, and they have created the financing models that have developed the utility industry together with energy producers and industrial actors, particularly in the case of on- and offshore wind, biomass and solar power.

*The challenge is to create a package of instruments that enable the potential to be realised.*



# Total investment need

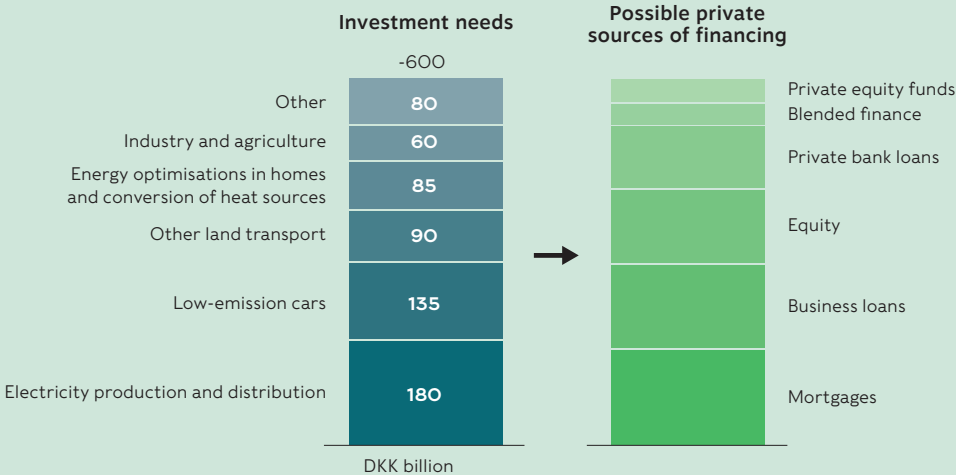
A calculation from Copenhagen Economics shows that such a green transition may require investments of up to DKK 600 billion between now and 2030, cf. figure 1 in Copenhagen Economics’ calculation of investment needs, but there are also different challenges and potential solutions for the financing need which is also described above.

Bank and mortgage financing will mainly contribute with loan capital, while pension funds, investment funds, asset managers, etc. are obvious choices for final investors for equity financing - both as a result of direct investments in companies (via the issuing of shares) or indirectly via investments in private equity funds. Furthermore, pension funds, investment funds and asset managers can be the final investor for

some of the green bonds and mortgage bonds that the banks and mortgage credit-institutions issue. In addition, there is the financial sector’s contributions via an increased focus on climate issues when it comes to providing loans and investing in shares, properties and infrastructure.

The above is in line with the declaration from the pension sector concerning the additional investment of DKK 350 billion in green activities up to 2030, and also the ambition of banks and mortgage credit-institutions to increase green loans by DKK 300 billion up to 2030 and thus bring their total green lending up to DKK 700 billion.

**Figure 1: Copenhagen Economics’ calculation of investment needs up to 2030 and possible sources of financing, in DKK bn.**



Note: Private loans include private car loans. The above calculation, does not include investment needs for establishing the “Wind island” (“Vindø”) initiative in the North Sea, but the initiative may be partially included under, for example, increased electricity production. The investment needs have been evaluated across a range and have been inserted as midpoints in the figure. Source: Copenhagen Economics

# The global, business policy and social dimension

The global climate challenge is also very much a matter of Danish business policy. The exporting of climate solutions developed in Denmark can contribute to solving the global climate challenges, but only if they can compete with solutions developed in other countries. Conversely, if Danish companies are forced to use solutions that result in them having significantly higher costs than their international competitors, then production and, subsequently, the CO<sub>2</sub> emissions will simply shift to other countries with lower direct or indirect taxes on greenhouse gases (carbon leakage). Danish climate policy can thus either promote or hinder growth and job creation in Denmark.

There is also a clear connection between the business policy dimension and the social dimension. If Danish solutions can be sold internationally, the green transition will be cheaper for Danish consumers and tax payers: Development and production costs can be distributed across international customers and not just Danish ones. On the other hand, if the product can only be sold in Denmark, the costs are borne entirely by Danish consumers. Therefore, a high export potential for climate solutions can also result in lower costs for Danes.

The international business policy dimension and the social dimension thus go hand in hand: The development of solutions by Danish actors able to sell them globally provides the greatest contribution to solving the global climate challenges and also provides the best opportunities for creating jobs in Denmark as well as resulting in the lowest costs for Danish consumers and tax payers.

This basic correlation is also critical for the Danish financial sector's approach to the green transition.

Investments in the development of products and solutions that have the potential to be sold on international markets, including by relying on Danish competitive advantages, are the most interesting investments. These investments are competitive in the long run, they are less risky and they need less capital spent on saving each unit of greenhouse gas.

If handled correctly, the broader electrification of the Danish energy grid is a clear opportunity to expand existing competitive advantages and potentially create new ones. The point here is that Denmark is already in a leading global position when it comes to the production, setting up and financing of wind parks around the world. The greater the share of the world economy that becomes electrified, the greater the demand will be for such competences. The North Sea is Europe's largest wind resource, and the expansion of offshore wind capacity there will be able to supply not just Denmark, but large parts of Western Europe with green energy. The development of new types of fuels - a critical prerequisite for solving the climate challenge - is also a potential Danish competitive advantage with Danish suppliers and buyers operating on the global market in the form of strong industrial actors.

The Danish effort should also be based on the obligations and opportunities that, not least, EU legislation and initiatives will be rolling out in the coming years. This concerns reporting on climate risks and requiring financial institutions to play an active role in the emissions of their customers. The Danish effort must be focused on affecting the shape of these rules in future years and, in particular, to avoid having parallel special Danish rules in comparable areas.



**The financial sector assumes responsibility for making available about a large part of the financing needed to realise the 70 per cent target.**





“ Models for public-private partnerships in the form of blended finance and using funds from Denmark’s Green Future Fund and the experiences from the SDG fund will be one way of moving forward.

# The financial sector's commitments

The sector has a responsibility for ensuring that investors and borrowers - who finance their investments via banks, mortgages, pension funds, investment funds, etc. - get a reasonable return on their investment. The financial sector neither can nor should invest in projects that are expected to generate a loss or result in lower returns than projects with a comparable risk, and the lending should make sense for both the lender and borrower. There may therefore be a need for public initiatives to ensure the financial profitability of green investments. Models for public-private partnerships

in the form of blended finance and using funds from Denmark's Green Future Fund and the experiences from the SDG fund will be one way of moving forward.

When the fundamental financial incentives are in place, it will be the financial sector's job to facilitate financing. Specifically, the financial sector will focus on five types of initiatives:

## 1. Reducing emissions from the financial sector itself

The financial sector will, at a minimum, reduce its own emissions by 70 per cent between now and 2030. For Finance Denmark's members, it is estimated that the direct emissions were around 4,000 tonnes of CO<sub>2</sub> in 2018. In addition, a large part of the sector's operations and development of IT systems takes place in data centres. For 2018, it was estimated that the data centres' emissions from operating IT systems amounted to more than 4,400 tonnes of CO<sub>2</sub>.<sup>2</sup>

Specifically, the reduction of emissions in the sector will be supported by company-specific annual systematic reviews and reporting on companies' own CO<sub>2</sub> and setting targets based on such reporting. The reduction target can be met via several of the following initiatives that are consistent with the Climate Council's recommendations for a cost-effective reduction of emissions:

- Consistent purchasing of certified green electricity and heating
- Energy renovation of the companies' buildings, including ongoing energy-reduction initiatives such as new roofs and windows, new ventilation systems, LED lighting, solar power units and wind turbines
- Ongoing replacement of the car fleet to low-emission cars
- Review of canteen operations, energy optimisation of office spaces, etc.
- Increased use of video meetings and alternatives to air travel in addition to reducing the number of flights taken
- Initiatives to reduce paper waste
- Increased focus on sorting waste and reducing food waste
- Digitalisation of work processes
- Green purchasing policies.

## 2. Designate targets for and monitor the reduction of customers' carbon footprints

The financial sector assumes responsibility for facilitating a large share of the financing that is needed to realise the 70 per cent reduction target. The individual financial institutions will set specific targets for reducing the carbon footprint of the activities they finance. As part of this, the financial institutions will calculate and publish the carbon footprints on an ongoing basis so that it becomes possible to monitor the realisation of the objective. For this purpose, the sector will continue to develop tools to calculate the loan and investment portfolios' carbon footprints.

In the coming years the measured carbon footprints from the financial institutions' loan and investment portfolios may initially increase as the

financial institutions contribute to the identified financing needs. Companies with high emissions typically also need a lot of financing to make the transition. This applies, for example, to companies in the transport, agriculture and heavy industry sectors. Financial institutions that contribute with financing to such companies could see an increase in their carbon footprint statements. This would be an expression of financial institutions actively contributing to realising the green transition in these sectors, however, and is therefore obviously a better strategy than not providing financing to such customers in order to get "better" carbon footprint numbers.

## 3. Actively engaging with customers and projects

For pension funds, investment funds and asset managers, this active role can be particularly applied via the exercising of active ownership in the companies in which they are shareholders. Via the equity investments, the institutional investors not only receive part of the profits generated by the companies they invest in, they also get a say in how the companies are run. The institutional investors will actively use this influence to promote green solutions:

- Together with other shareholders, they can support the development of climate-friendly business models in the companies in which they own shares. Several Danish pension funds are part of global investor alliances that use their active ownership to work towards reducing the carbon footprints of their investment portfolios.
- Danish pension funds have significant investments in (primarily) Danish properties that they often rent out as the sole owners. This provides an opportunity to require high energy standards, which will typically also allow for higher rent to be charged. It is therefore recommended that the companies specify policies and targets for upgrading their existing property portfolios to, for example, high DGNB standards and commit themselves to ensuring that all new investments/new construction projects are certified based on high standards for sustainability and energy efficiency.

Banks and insurance companies will be more active in their dealings with customers by using natural points of contact to enter into a dialogue with their customers about possible energy improvements and to help them move forward by, for example, recommending an energy consultant:

### • Private customers

For private customers, the focus will be on energy renovations and investments in equipment that create a smarter energy consumption (for example, using more electricity during the night rather than the day) and phasing out oil and gas furnaces and investing in heat pumps or geothermal power. This is to take place in connection with house purchases and when there would in any case be renovations made to the building before moving in and also in connection with loan conversions. The dialogue with the customers may involve helping them get in touch with an energy consultant and will take place within the regulatory framework for home loan facilitation. In insurance situations, the general insurance companies are in touch with customers and can help them find a different and more environmentally friendly solution. When a house is sold, a property condition report is prepared as the basis for making offers on change-of-ownership insurance and this may also form the basis for having a dialogue about energy efficiency. Companies can use their partnerships with suppliers and apply for the necessary permits together with the customer and inform about potential financing and subsidy opportunities.



- **SMEs**

For SMEs, the bank will have a dialogue with the customer about energy renovations, but there are even more opportunities: Banks can provide information about possible investment projects in general. An active approach would also be beneficial, as SMEs often do not have the necessary competences and analysis capabilities to evaluate green investments on an ongoing basis. The dialogue with the customer may involve helping them get in touch with an energy consultant.

- **Agriculture**

When it comes to agriculture, banks and mortgage credit-institutions will also have a stronger focus on sustainable investment plans when talking to farmers. Banks and mortgage credit-institutions will also play a key role in the financing of green investments in agriculture, as the majority of financing today takes place via long-term mortgages and loans. The transformation towards more sustainable agricultural production is about more than energy renovations and electrification, and it requires data and new methods to measure sustainability in the agricultural sector. It may promote the transition towards a more sustainable agricultural sector if a simple scheme can be implemented that supports farmers seeking financing for small-scale sustainable initiatives, such as investing in slurry acidification plants, frequent slurry transfer and other stable technologies, precision farming equipment and

other field equipment with a documented effect, etc. Vækstkaution, for example, can also be investigated, drawing on the experiences gained from, for example, Vækstfonden.

A more active approach requires tools that are operational and accessible. Energy labelling can be made more precise and there can be more incentives to make it more widespread. There is also a need for better analytical methods that continually monitor and analyse the climate footprint of customers' loans, investments and potentials for making green investments.<sup>3</sup> The first step will be to collect more of the currently available data that can be used to estimate customers' climate footprint and make such data available to investors and consultants.

## 4. Integrating sustainability in business models

The financial sector will integrate sustainability in its business models and processes - both on the strategic and operational levels. Specifically, this will include:

- **New products**

Banks and mortgage credit-institutions will work intensely on developing and providing loans that encourage owners of homes or commercial properties to reduce their energy consumption or shift to energy with lower carbon footprints. The pension funds, investment funds and asset managers will increasingly provide products aimed at investments in sustainable activities. Via the use of data and other preventive measures, the insurance companies will focus on preventing damage with a heavy climate footprint - for example, fires, rebuilding structures, etc. - and it will also develop and provide insurance products that in accordance with customers' needs and expectations support green choices and the recycling of materials when fixing damage.

- **Risk management**

Financial institutions face regulations that commit them to increasing the focus on risk management for assets that are negatively affected by the green transition and climate change. This could be sensitivity to fluctuations in energy prices or the value of collateral in the form of, for example, properties that are threatened by rising sea levels. In addition, they must ensure that they manage the transition risks for assets that are based on fossil fuels, so-called stranded assets.

- **Training employees**

To be able to enter into dialogues with customers about sustainable investments and managing the risks associated with such investments.

” Preventing damage is an area that the insurance sector will increasingly focus on.





## 5. Insurance, with a focus on general insurance and advice

The significant transformation of the Danish economy that is required in order to reach the reduction target requires - in addition to massive investments and financing - the management and sharing of risks that are or might be insurable. Danish insurance companies already insure buildings, production facilities and wind turbines, and as part of the green transition they will offer insurance products for the required expansion of renewable energy, the electrification of the economy and sharing economy business models.

In addition, the development requires comprehensive climate adaptation initiatives, and a generally stronger focus on preventing damage and the use of the insurance companies' frequent customer contacts to provide advice about energy renovations can also contribute to meeting the reduction target:

### • Climate adaptation

Despite the efforts made to meet the reduction targets in the Paris Agreement, Denmark will see climate-related damage increases in the future. Insurance companies have a great deal of knowledge and a lot of data about where such damage occurs. The industry wishes to utilise this data to a great extent, so that, for example, authorities and property owners have better data when they begin working on preventive measures. Making torrential rain data available to the municipalities has already been a great success, but this could be extended to building data, traffic data, etc.

### • More preventive measures

Preventive measures is going to increasingly be a focus area for the insurance industry. Several companies have strategic goals of actively moving away from the idea of insurance mostly being about providing compensation when a damage has already occurred to - by using data and other preventive measures - instead focusing on preventing and limiting damage. Any damage that is prevented from occurring reduces the potential emissions of greenhouse gases from the damage itself, the clean-up effort and the reconstruction/reacquisition. This particularly applies to fires, which have a heavy climate impact.

### • Utilising points of contact and building expertise

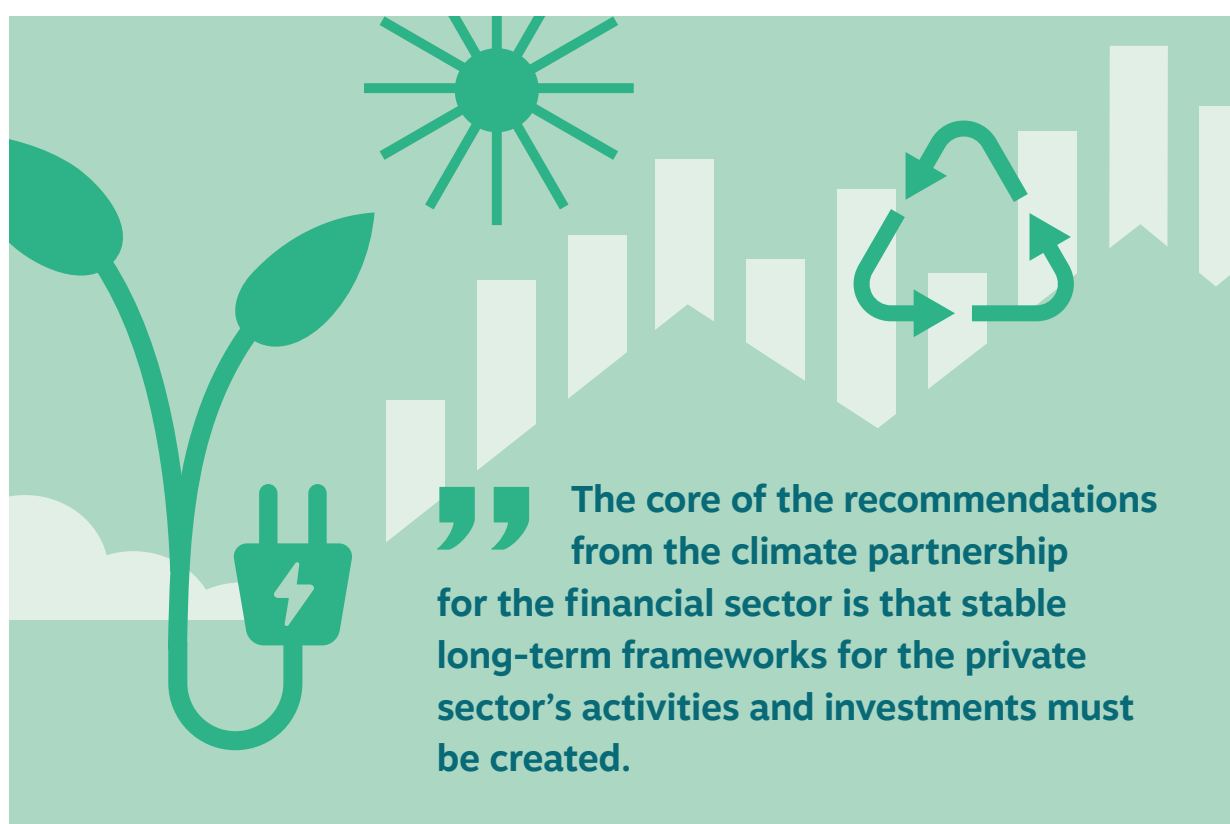
Insurance companies have many natural points of contact with their customers, for example, when signing insurance policies, when insurance adjustments are required and, not least, when customers have to file a claim. Each year, approximately 500,000 incidents of damage to buildings are recorded, in which context insurance companies can be an active participant in bringing about change. Insurance companies have a great deal of technical knowledge about buildings and they can advise and assist customers with energy renovation projects related to damage repair or reconstruction. The companies can also use their partnerships with suppliers, apply for the necessary permits on behalf of the customer and inform them of possible financing and subsidy options, for example in collaboration with banks.

In order to make the most of this customer contact and the building expertise, it is, however, critical that the regulatory framework is in place. Among other things, this requires an examination of the rules for subsidiary activities so that insurance companies can take reasonable steps towards assuming a more advisory role. The accounting rules should also be changed so that insurance companies' expenses for preventive measures are considered as compensation payouts and not, as today, as operating costs.



# Recommendations for the Danish Government

The climate partnerships have shown possible ways of achieving the 70 per cent reduction target for Denmark and have also pointed out that this needs to be done in an international context, taking into account the global nature of the climate challenges.



” **The core of the recommendations from the climate partnership for the financial sector is that stable long-term frameworks for the private sector’s activities and investments must be created.**

There is a lot of work to be done for the private sector in order to develop solutions that can contribute to this. The financial sector plays a major role by contributing to the financing of these solutions. It is critical that the EU’s frameworks for lending and investment supports the sustainable transition. The taxonomy for sustainable activities should therefore support the transformation towards more sustainability and documentation requirements must be manageable.

A long-term green transition also requires a significant effort from the public sector. The core of the recommendations from the climate partnership for the financial sector is to create stable long-term frameworks for the private sector’s activities and investments that can contribute to ensuring a sufficient development of and demand for new climate-friendly solutions and thereby to create a market that is of sufficient scale for both current and new solutions. Four specific priorities are:

# 1. Long-term and predictable frameworks

There are significant risks associated with investing in low-emission technologies. Particularly in the context of assets such as wind turbines, industrial solar power plants, heat pumps, cars, electrical grids, and new facilities for the production of biofuels and electro-fuels which have life expectancies measured in decades. To this should be added the lead time for development and production of industrial facilities.

In terms of selling low-emission cars, it will be important to get clarity on the terms of the final report from the commission for the green transition of passenger cars in Denmark.

The transition towards more energy-efficient buildings requires better energy labelling schemes and incentives via the HouseJob scheme (BoligJobordningen). There is a need for financing structures involving EFK, Vækstfonden and Denmark's Green Investment Fund. The transition towards a more sustainable agricultural sector must be supported via a special scheme, for example one that includes Vækstkaution.

- **The reform of taxes and subsidies associated with energy consumption and the overall car taxation system**  
The current system is a result of ad hoc changes over the decades and is not aimed at a cost-effective green transition of the Danish economy.
- **Revising the energy labelling scheme**  
Energy labelling must be made more precise and the incentives to increase the use the scheme must be strengthened.
- **Revising the HouseJob scheme (BoligJobordningen)**  
The transition of properties should be supported via a revision of the HouseJob scheme so that the craftsman deduction can be accumulated over a number of years for major energy renovation projects and expanded so that the demolition of homes with very poor energy efficiency can also be included as a deductible expense. The expansion of energy labelling will be supported if the preparation of the energy label is deductible under the HouseJob scheme.
- **Continuing the energy savings scheme**  
Targeted subsidy schemes can contribute to the acceleration of the transition in small and medium-sized companies. Experiences from recent years indicate that the energy savings scheme has been a critical factor in the completion of a number of transition projects at production companies and the scheme should therefore be continued.
- **Expansion of the requirement for energy inspections**  
Taking into account administrative burdens, the requirement for energy inspections for small and medium-sized companies should be expanded. The scheme must be varied based on the sizes of companies.

- **Financing structure with Denmark's Green Investment Fund**

There will be cases where the value of a property or the customer's finances cannot justify the financing of, for example, replacing a heat source with a heat pump. In such cases, other financing models will be required. We propose a financing structure in which Denmark's Green Investment Fund can finance companies that offer fully financed solutions for the installation of heat pumps in private homes and where the repayment is at an amount that is covered by the savings.

- **Financing structures for the agricultural sector's sustainable investments**

The transition towards a more sustainable agricultural production is about more than energy efficiency and electrification. It may promote the transition towards a more sustainable agricultural sector if a simple scheme can be created that supports farmers seeking financing for small-scale sustainable initiatives, such as investing in slurry acidification plants, frequent slurry transfer and using other stable technologies, precision farming equipment and other field with a documented effect, etc. Vækstkaution, where one can use the experiences gained from, for example, Vækstfonden, and the opportunities for immediately writing off sustainable investments of, for example, less than one million Danish kroner should be looked at more closely.

- **Better opportunities for retail investors to contribute to the financing of the green transition**

Danish citizens' bank balances and other liquid assets can to a larger extent contribute to the green transition without compromising on investor security. A review must therefore be carried out of the regulatory frameworks for the packaging of alternative investments (AIF, UCITS, MiFID II, etc.) and of banks' opportunities to work with the financing of green projects (rules for subsidiary activities).

- **Better regulation of energy grids**

The current regulation of Energinet and the utility companies creates uncertainty about whether the required expansion is going to be implemented and it also risks becoming too expensive. In this connection, PPP solutions may be relevant, where the financing and implementation are handled by the private sector while the control and long-term ownership of critical infrastructure remains on public hands.

## 2. Financing innovation, development and the export of low-emission solutions

There is a need for innovation and the development of new technologies and new solutions for the global climate challenges. Successful solutions developed in Denmark would support green growth in the coming years. Specifically, we recommend that the Danish Government start work on the following initiatives to realise this potential:

- **The development and market maturation of low-emission technologies**  
Increased use of public funds and venture capital to finance development projects with the potential for reducing global emissions, for example, the development of e-fuels and carbon capture and storage (CCS).
- **Supporting research in new technologies**  
Universities have a unique part to play in finding new solutions that can fulfil the climate targets. There is a need for grants to universities becoming more targeted at research areas that help to fulfil the climate targets. At the same time, knowledge must be commercialised.

If knowledge from the universities can be used in new commercial success stories, it can make a significant contribution to ensuring that Denmark will experience a new green growth adventure. This requires that it is made simpler for entrepreneurs to apply new knowledge and new technologies from universities.

- **Innovation and entrepreneurship**  
In order to create growth and jobs, the Danish Government must enter into dialogue with the business community about how Denmark can use research and the education system, taxation and business-promoting systems to promote an investment culture that is willing to take risks and which is keen to start new companies that use green solutions.
- **Support scaling and exports**  
The increased use of funds from EKF to strengthen the export potential for technological developments and thus add the required level of scale that will make the projects profitable.

## 3. Standardisation, digitalisation and access to data

In order to finance the green transition, it is critical that the financial sector has easy and inexpensive access to standardised and digital data regarding companies, households, etc. that need financing. And this data needs to be aligned with the future EU rules on reporting for the financial sector.

The need to be able to have uniform reporting on climate and other criteria for sustainable development is a global one, and it is currently one of the big two items on the agenda for the World Economic Forum's meeting in Davos. It is also a significant part of EU's green pact from December 2019 which, among other things, contains a revision of the rules for non-financial reporting aimed at improving comparability and to achieve a higher degree of standardisation in reports from different countries. Access to data as a catalyst for growth and development is also the focal point for the Commission's recently released data strategy.

Finally, it should be noted that sustainability is about more than the climate and environment, so there should also be a focus on social and governance issues when evaluating sustainability.

Specifically, we recommend that the Danish Government should focus on the following areas:

- **Requirements for the measurement of companies' carbon footprints**  
Take the initiative to develop industry-specific standardised key figures for, among other things, CO<sub>2</sub> accounts that take into account the associated administrative burden.
- **Contribute to the development of reporting standards**  
Contribute proactively to the ongoing European work on developing (ideally) global standards for reporting on climate and sustainability.
- **Establishing a common EU data register**  
Work towards establishing a common EU data register with standardised and digitalised data on climate and the environment and governance conditions (so-called ESG data) that is freely accessible to all.
- **Strengthen the certification of energy consultants**  
In order to address the growing need for independent energy and climate consultants that can advise about and prepare impact analyses for specific projects for individual companies. The energy consultants' reporting and documentation should also be standardised to the greatest extent possible, so that banks and investors have a better and more objective basis for making financing available.



## 4. The role of the public sector

The public sector amounts to a very significant part of the total economy and is, among other things, responsible for public transport, the ownership of a large part of the utility sector and also a large proportion of the total building mass. The public sector therefore has significant opportunities - both directly as a buyer and construction project owner and indirectly as a trendsetter - to promote the green transition in Denmark.

The financial partnership sees significant opportunities for entering into enhanced private-public partnerships in these areas and has the following specific recommendations:

- **Public buildings and facilities**

As a tenant and construction project owner, the public sector should demand certified and energy-efficient construction projects. For major construction projects, there must be a focus on lifecycle considerations and the use of the most climate-friendly materials. So-called ESCO financing may also become relevant - it involves a private actor making an energy saving investment for free on behalf of a public authority, but then that private actor receives back the ongoing electricity bill savings. This allows the private sector to either permanently or over a number of years assume the role of an operating partner focused on reducing overall costs, including energy costs.

- **Public budget management and purchases**

A reform of the public budget management so that it moves away from expense management and instead focuses on cost management for comprehensive solutions that encourage energy savings. The state and municipal purchasing organisation (SKI) must designate a purchasing policy that supports the green transition via a climate-friendly purchasing policy for goods and services.

- **Public transport**

As in the private sector, the 70 per cent reduction target requires an electrification of public transport systems. Here, PPP solutions may be relevant, where the financing and implementation is carried out by the private sector while the public sector remains in control.

- **Sharing of public data**

In order to finance the green transition, it is critical that the financial sector has easy and inexpensive access to standardised and digital data regarding companies, households, etc. that need financing - for example, data on the energy efficiency status of properties. This also applies to data from the public sector. Access to sharing public data must therefore be enhanced.

<sup>1</sup> For ships and planes, only domestic transport is included in the Danish 70 per cent reduction target.

<sup>2</sup> Delimiting industries by climate partnerships means that some data centres are included in the financial climate partnership and that others are included in the climate partnership for the services industry which is not taken into account here.

<sup>3</sup> See also Principle 3 in "Principles of Responsible Banking"



