



English Summary of the Danish Flexmex Report

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In 2003, the Danish government decided to place significant importance on the use of the flexible mechanisms when fulfilling the Danish obligation under the Kyoto Protocol.

Instead of introducing new programmes, the Danish Joint Implementation (JI) and Clean Development Mechanisms (CDM) approach is a mere continuation of the former Danish Corporation for Environment and Development (Danced) and Danish Environmental Assistance to Eastern Europe (Dancee) activities. The approach is being applied in order to gain from earlier relations and know-how. However, the problem is that current JI and CDM projects mainly replace former Danced and Dancee activities, which were financed through the Danish environmental support, however without receiving CO₂-credits in return. Consequently, the JI and CDM approach is not supporting a reduction of greenhouse gas emission compared to a scenario with a continuation of the Danced and Dancee activities. Or put more directly, the approach does not lead to further emission reductions with a benefiting for the atmosphere, which would otherwise have been the case. The change in approach is essentially a political decision of cutting down the budget for Danish aid. It seems obvious that the only reason for continuing the activities within the same countries as previously involved in the Danced and Dancee has been to be able to purchase CO₂ credits at favourable prices.

The Danish International Development Agency (Danida) as well as the Danish Environmental Protection Agency (DEPA) have obviously been granted the mandate to purchase as many CO₂ credits as possible for the least amount of money. This mandate has clearly influenced the Danish project portfolio. In particular, the CDM projects are lacking focus on sustainable development. For an aid organisation like Danida, it should not be questioned whether or not sustainable development should be prioritised. However, the report shows that it has not been given much priority.

The Danish Government argues that the reason for investing a total amount of 151 million Euros in purchasing CO₂-credits is to assist in developing a market for JI and CDM projects. Until now, the market has been dominated by buyers that are simply pursuing credits at low costs with little or no concern for the environment. As a result, the international NGO society, lead by WWF, has developed a so-called "Gold Standard" for CDM and JI projects. The standard exclusively recognises renewable energy and energy efficiency projects as contributing to a long-term reduction of greenhouse gases.

If Denmark is going to contribute to a trustworthy and long-term solution for the global climate change problem, it is of utmost importance to focus on the quality of the projects. This is only possible, if the actors on the market prioritise to develop high quality projects, having a positive effect with regard to the atmosphere as well as within the host country. State financed actors like Danida and DEPA should represent front runners by setting a high standard for projects for the private actors to follow.

Danida and DEPA is far from a worst case scenario, although some countries have a higher standard than Denmark. The World Bank and the CDM/JI program in the Netherlands have for a long time dominated the market. As regards these projects, both the additionality and the project outcome have been vague. Likewise, Japan strives to get low quality projects accepted by the international approval system, in order to influence the credit market. In the other end of the spectrum, Belgium uses Gold Standard criteria for approving state financed projects, and Sweden declines to use CDM credits from state financed projects for compliance with national obligations under the Kyoto Protocol.

Although in a short-term perspective, that is, the first commitment period (2008-2012), it is macro economic feasible to purchase credits abroad, it will be far more expensive for Denmark to buy credits through CDM and JI projects in a long-term perspective.

In the end of the first commitment period (2012) the credits purchased by Denmark must be withdrawn from the market and used to verify compliance with the Kyoto commitment. By doing this, the effect of the credits in future periods ends.

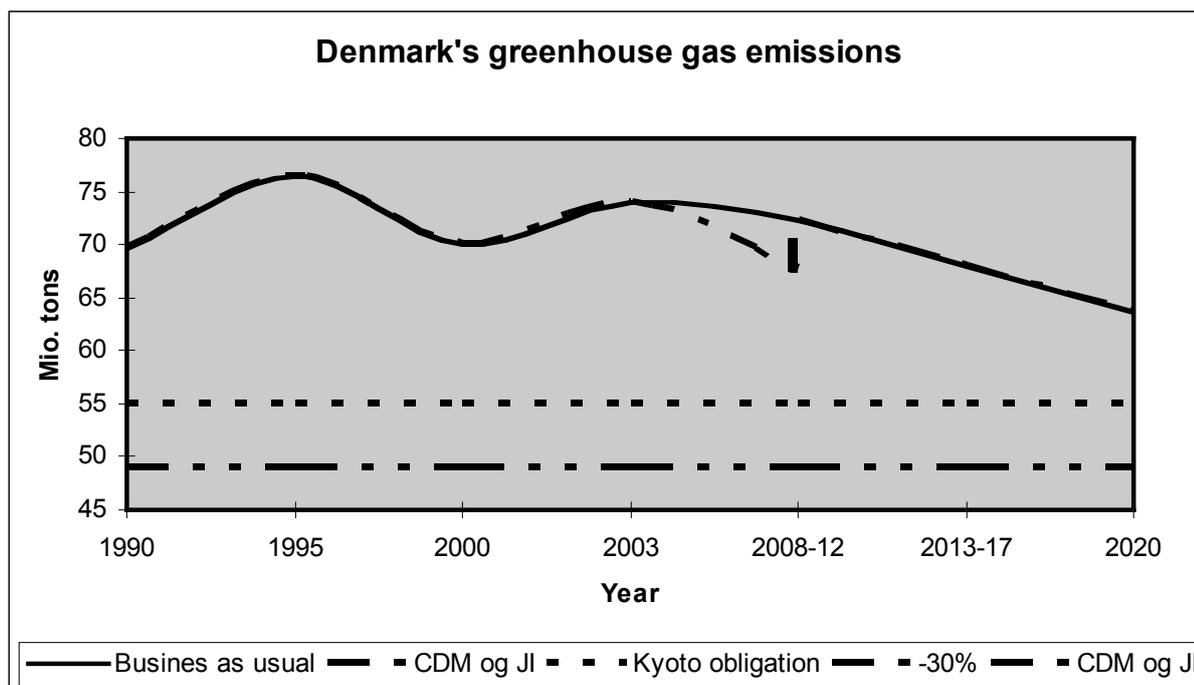


Figure 5: Illustration of the consequences of the use of CMD and JI

As shown above, the Danish greenhouse gas emissions will by 2012 be lower when using CDM and JI than in the business-as-usual scenario. When a second commitment period has to be satisfied, e.g. with a reduction of 30 percent for the period 2013-2017, Denmark will initiate the emission reductions at the business-as-usual level, as the previous CDM and JI credits have been withdrawn. The amount to be reduced in a second commitment period therefore increases with the amount of the credits from the former commitment period. In comparison, the effect of domestic activities would be static.

There is no doubt that new commitments on emission reductions will influence the prices on the market, simply for the reason that the demand increases. In a second commitment period, Denmark will be forced to purchase credits through CDM and JI, but at higher prices. The prices are expected to increase even further when developing countries settle on some form of commitments.

In a long-term perspective, it will not be macro economically feasible for Denmark to buy credits abroad. Even though a price of 6.7 Euro per tonne CO₂ can be achieved today, it is unlikely that Denmark will be able to continue to purchase credits at this price during the entire commitment period. It is expected that the price will increase during the period until at some point it converges with the prices of the internal emission trading system of EU at 20 to 30 Euros per tonne CO₂.

Besides this, domestic activities would in fact benefit the macro economy and as a result influence the GDP in a positive way. This has not been taken into consideration. Actually, the report *Danish action plan for a renewed effort - energy conservation and the market* outlines, that a reduction at 24 percent of the total amount of the energy consumption in Denmark in 2015 through energy conservation would be both macro and micro economically feasible. Transport is however not included, but according to the EU green book, a 20 percent reduction of the total EU energy consumption in 2020 through energy conservation will be macro economic feasible, including transport. This is a significant reduction, which is not being realised neither in Denmark nor EU. Denmark is spending tax-payers money to purchase credits abroad, instead of investing in domestic activities that would have benefited the macro economy at the same time as fulfilling the international commitments.

The reason why energy conservation activities are not being carried out, is because they from a micro economic perspective constitute minimal savings compared to the difficulty of implementing the energy conservation equipment.

Consequently, buying credits through CDM and JI projects does not benefit Denmark's macro economy neither in a short nor long perspective. Therefore, a Danish involvement in the area of CDM and JI should as a minimum benefit the involved host countries and primarily focus on the projects contributing to long-term sustainable development in the host countries.

The existing commitments under the Kyoto Protocol only relate to 1 percentage of the total amount of the global CO₂ emissions at present (approximately 5% of the 1990 level). According to the recommendations of the Intergovernmental Panel on Climate Change (IPCC), the reduction must be in the range of 60-80 percent in 2050 in order to avoid global dangerous climate change. It is in this perspective that the Danish strategy should be seen. The perspective emphasises the importance of a flexible and robust long-term strategy.

Denmark's and other countries' lack of ambitions can be explained by the uncertainty of whether or not the Kyoto Protocol was going to be put into force. This doubt has now been eliminated. At the same time, global warming is more frequently being used as an explanation to local nature- and weather changes. This demonstrates clearly the magnitude and actuality of the problem. The reasons for preparing a national climate strategy with focus on a long-term commitment are obvious. The experience of expanding renewable energy in Denmark shows that it is possible to be ambitious and at the same time develop and fit the systems without too much struggle.

JI and CDM are very important means from a global point of view. The mechanisms can push forward a modernization, technology transfer, and sustainable development in many countries. However, it is necessary to prioritise these aspects higher than they are prioritised today. A focus on low prices alone results in projects which only fulfil the formal standard and only contributes to a long-term solution of the global climate problem.

Seen from this perspective, many of the Danish projects are very good pilot projects with a technological speeding effect, which will hopefully result in local or national initiatives, thereby supporting a long-term development within the country. The Danish government should strengthen this effort and focus more on CDM and JI projects that contribute to a sustainable development within the host countries instead of merely pursuing low prices.