Fact sheet: Denmark ends public finance and export promotion for fossil fuels in the energy sector abroad

As contribution to raising global climate ambition and shifting financial flows and investments from black to green, the Danish government has decided to end new public finance and export promotion for fossil fuels in the energy sector abroad, except in very limited circumstances in a transitioning period. The decision will enter into force no later than the beginning of 2022.

The fossil energy sector affected by the decision covers:

- Fossil fueled power plants;
- Drilling, exploration, extraction, refining and sale of crude oil, natural gas and thermal coal:
- Storage, supporting infrastructure (pipelines etc.), transportation and logistics, and services primarily related to fossil fuels.

The decision covers export financing through EFK, Denmark's Export Credit Agency, export promotion through Trade Council, the Danish position in multilateral banks and investments through IFU, Investment Fund for Developing Countries. Following the government's decision, a guidance note to support the implementation will be elaborated.

Excemptions and conditions
In a transition period until 2025[1], there will be a limited number of exemptions, conditioned that strict criteria are met. The exceptions and criteria are:

1. Natural gas power projects in particularly challenged countries[2], conditioned that the following circumstances are met:

a) The investment contributes substantially to the implementation of the country's NDC *(Nationally Determined Contribution)* and to more ambitious NDCs, hereby supporting the country's transition towards climate neutrality in accordance with the Paris Agreement.
b) The investment does not delay the transition to renewable energy and the risk of lock-in to fossil fuels is assessed to be minimal.
c) Alternative renewable energy solutions have been thoroughly examined and are found technically or economically infeasible.
d) It is assessed that the project is not at risk of becoming a stranded asset.
e) The project will use the best available technology and follow best environmental and social standards and practices, including precautionary measures to minimise methane leakage.

2. Supporting infrastructure – transportation, transmission, storage and distribution – can be supported in exceptional circumstances, provided that the project supports natural gas based electricity production in a particularly challenged country, cf. item 1. The infrastructure must be directly connected to the use of gas from national power production. LNG terminals for export will not be supported. Further, the conditions a-e) under item 1 must be met.

[1] The exceptions expires primo 2025 for export promotion, the multilateral development banks and IFU; and medio 2025 for acceptance of new application for EKF.
[2] Particularly challenged countries are defined as the poorest developing countries (IDA- and ADF-countries).

3) Export related projects where natural gas plays a role as a transitional solution, conditioned that the project objective is climate neutrality by 2050. Throughout its life cycle, the project must reduce emissions significantly, e.g. by transitioning to less carbon intensive fuels as they become available at a larger scale (e.g. green hydrogen). Further, the conditions a-e) under item 1 must be met.

4) Support for gas based solutions for cooking and heating in areas in the poorest countries where there are no other options for energy access and where the electricity grid is not available or unstable. This must be viewed in context of the negative health, social and natural consequences linked to indoor use of polluting energy from non-sustainable sources such as solid biomass, coal and oil.

Areas not affected by the decision

The stop does not affect projects, investments, and activities related to fossil fuels outside the energy sector, including heavy industry with need for high temperatures (e.g. cement and steel production), or in relation to CO_2 transportation and storage, including repurposing of oil and gas infrastructure. Further, projects related to decommissioning of existing fossil fuel-fired power plants are not affected by the stop.

In addition, the decision does not include export promotion and financing supporting the green transition of existing production facilities as well as energy and climate optimization of existing plants and production facilities, conditioned that the life span is not prolonged and the production capacity is not increased.

The stop entails that Trade Council will no longer provide counsel or support related to promotion, marketing, and sales of services and products for fossil related energy projects. However, affected companies can receive other counselling and support, e.g. for commercial disputes, factual market information, and custom duty support etc. Further, companies will have access to counsel for non-fossil cases as usual.