



WP/20/235

IMF Working Paper

Climate Mitigation Policy in Denmark: A Prototype for Other Countries

by Nicoletta Batini, Ian Parry, and Philippe Wingender

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I N T E R N A T I O N A L M O N E T A R Y F U N D

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European Department

Climate Mitigation Policy in Denmark: A Prototype for Other Countries

Prepared by Nicoletta Batini, Ian Parry, and Philippe Wingender¹

Authorized for distribution by Miguel Segoviano

November 2020

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Abstract

Denmark has a highly ambitious goal of reducing greenhouse gas emissions 70 percent below 1990 levels by 2030. While there is general agreement that carbon pricing should be the centerpiece of Denmark's mitigation strategy, pricing needs to be effective, address equity and leakage concerns, and be reinforced by additional measures at the sectoral level. The strategy Denmark develops can be a good prototype for others to follow. This paper discusses mechanisms to scale up domestic carbon pricing, compensate households, and possibly combine pricing with a border carbon adjustment. It also recommends the use of revenue-neutral feebate schemes to strengthen mitigation incentives, particularly for transportation and agriculture, fisheries and forestry, though these schemes could also be applied more widely.

JEL Classification Numbers: Q48, Q54, Q58, H23

Keywords: Climate change, Denmark climate mitigation, carbon pricing, feebate, revenue recycling, border carbon adjustment, transportation, agriculture.

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¹ We are grateful to Juan Carlos Benitez and Khamal Clayton for contributions to the paper and for very helpful comments and suggestions from Miguel Segoviano, Peter Birch Sørensen, Ulla Blatt Bendtsen, Ralph Chami, Cory Hillier, Signe Krogstrup, Lars Haagen Pedersen, Eva Smidt, Vimal Thakoor, several reviewers from various IMF departments as well as colleagues from the Danish Ministry of Finance, Danmarks Nationalbank, Danish Economic Councils, Ministry of Taxation, Danish Council on Climate Change, Ministry of Climate, Energy and Utilities and Ministry of Industry, Business, and Financial Affairs. We also wish to thank Nicholas Werquin for helpful discussions on the generalized compensation approach and for sharing his code. All errors remain our own.