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A Green Denmark: First country to tax agricultural emissions

MARKET INTELLIGENCE REPORT

Summary

- Denmark is moving ahead with the world's first carbon tax on agriculture. The Danish government, business and non-government actors have agreed a historic tripartite package of measures – "A Green Denmark" - that will:

    - Tax agricultural greenhouse gas emissions to take effect in 2030 and increase in 2035;
    - Introduce a 60 percent tax rebate to incentivise farms that achieve low emissions;
    - Return the revenue raised to the agriculture sector through greening initiatives;
    - Provide NZ$9.5 billion in government funding for reforestation (250,000 hectares) and peatland recovery (140,000 hectares);
    - Introduce a subsidy programme for biochar through pyrolysis and other measures.

- The agreement was achieved after months of difficult negotiations, with the tax rebate and government subsidies being critical features. Although a tax on agriculture was controversial (just months earlier farmers across Europe protested against Euroean Union environmental measures), the tripartite agreement appears to have broad support within the agriculture and business communities. There are still details to work through, but Denmark appears to be on track to manage these. Entry into force in 2030 means farmers have some time to adjust to the new requirements.

Report

Denmark will tax livestock farmers for the greenhouse gases emitted by their cows, sheep and pigs from 2030. This action will make Denmark the first country in the world to tax its agriculture sector, with the aim to reduce greenhouse gas emissions and their contribution to global warming. Denmark is a big dairy and pork producer, and a quarter of Denmark's greenhouse gas emissions come from agriculture.

The Tripartite Agreement

Denmark announced the tripartite agreement on 24 June 2024 and work is underway to convert it into law. Taxation Minister Jeppe Brus said the deal would help Denmark meet its target of a 70 percent reduction in greenhouse gas emissions by 2030.

The agreement includes:

- A tax on emissions of 300 kronor (NZ$71) per tonne; rising to 750 kronor (NZ$178) per tonne in 2035.
- A tax deduction (60 percent) to incentivise farms that have low emissions. This reportedly equates to an effective carbon tax of 120 kronor (NZ$28.43) in 2030 and 300 kronor (NZ$71) per tonne in 2035.
- The proceeds from the tax in 2030-31 are to be returned to the agriculture sector via a green transition support pool, to support the adoption of on-farm green technologies and initiatives. The management of these funds will be revisited in 2032 as part of an overall review of the agreement.
- Substantial new funding for afforestation and restoration of wetlands. A green landscape fund commits Euro 5.4 billion of government funding for afforestation. 250,000 hectares of new forests are expected to be created with an additional 140,000 hectares of peatland recovered.
- A subsidy scheme of just over 10 billion (NZ$2.4 billion) is being set up for the production and storage of biochar through pyrolysis until 2045 (i.e. bio charcoal from woody wastes through high temperature processing).
- Continued focus on reducing fertiliser/nitrogen use on farms. Farmers already supply authorities with detailed information on their use of nitrogen via manure and fertiliser. Combining this with emission-measuring means they can account for farm-level emissions.
- In addition to government funding, Novo Nordisk Foundation (international enterprise foundation and wealthiest charitable foundation in the world which owns Novo Holdings, the holding company for Danish pharmaceutical company Novo Nordisk) has committed an additional DKK 10 billion (NZ$2.4 billion) in support of the government's plan over a 10-year period.

- Danish-Swedish dairy cooperative Arla is also helping to reduce the agriculture sector's emissions through an incentive programme which delivers higher milk prices to Arla farmers achieving the best results.

Reporting methodology

The new tax system, which comes into force on 1 January 2030, will be based around two measures:

- Animal head count: The tax will apply only to pork and bovine animals. Pigs are categorised as either slaughter pigs, piglets or swine, and there are 15 categories for bovine animals (including breed, milk production capacity etc).
- Emissions per animal: The calculation will take account of a series of metrics that affect emissions (e.g. old or new stables, management of effluent, days spent outside, how the animals are fed, food composition, use of climate-friendly technologiesetc). 15 climate friendly technologies have been approved at this stage for inclusion in the emissions calculation.

Beyond the exclusion of livestock other than pigs and bovine animals, fertiliser use (quality is considered) and small farms are two other significant exclusions.

The livestock head count of each farm will generate a calculation of emissions overall. Working through the different metrics, farms will settle on their overall reductions against the baseline assessment (of 2024 or 2025 levels) and be taxed accordingly.

Farmers who transition land from farm to forest are entitled to one-off compensation per hectare (estimated to be around 75,000 kronor per hectare). The amount would be fixed on a national level and take account of the costs of taking land out of production and planting trees, reduced by the expected profits from management of the new forest.

A guiding principle of the agreement is that funds received from the new tax should be returned to farmers to help reduce the burden over time through green technology innovation.

Further details will be available when the bill to implement the new approach is tabled in Parliament.

Next steps

The new agreement is yet to be approved by Parliament. The Ministry of Taxation is leading the process of converting the agreement into law. There is currently no English version of the full agreement text, but there are English fact sheets about the content of the agreement published by the Ministry of Food, Agriculture and Fisheries. The full agreement text is available in Danish here.

The Danish government has initiated political negotiations on the agreement with the parties in the Danish parliament, and the agreement is expected to result in legislative proposals to be presented to parliament. However, the exact dates for the presentation of the expected bills have not been set.

On 28 August, Prime Minister Mette Frederiksen announced the creation of a new Ministerial portfolio and agency - The Ministry for the Green Tripartite - to implement the green tripartite deal. Frederiksen said she hoped the tax would “pave the way forward regionally and globally” for similar initiatives.

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