



AprODEV/CIDSE Response to EC Communication on Climate Finance, September 2009

No Sign of Leadership: 'Historical Responsibility' absent from EC Communication

The European Commission Communication on Climate Finance, adopted September 10 2009, provides an important step forward for advancing the EU position on climate finance in the UNFCCC negotiations. Industrialized countries' previous unwillingness to put money on the table or even comment on other parties' financial proposals has contributed to a sense of stalemate in the climate talks, which must urgently be broken in order for progress towards Copenhagen to be made. The fact that the EU is, for the first time, putting a figure on the table and preparing a climate finance offer to developing countries provides important momentum for the negotiations in the months ahead.

However, the European Commission's complete failure to acknowledge the EU's historical responsibility for climate change throughout its analysis risks turning the EU finance offer from being a potential deal-maker into becoming a trust-defying deal-breaker.

Industrialized countries have created the climate problem, the consequences of which are now being born primarily by developing countries. Further, decades of unlimited emissions in industrialized countries have given rise to a constrained atmospheric space, with little room for developing countries to grow and develop their economies.

Without an acknowledgement of industrialized countries' historical responsibility, as enshrined in the UNFCCC principle of common but differentiated responsibilities and capabilities (Art 3.1), translated into ambitious reduction targets and financial obligations for Annex 1 countries, there is little chance of any agreement in Copenhagen, let alone an agreement that would be able to steer away from a climate emergency and prevent dangerous climate change.

An EU finance offer which does not take equity and climate justice concerns into account will *not* be the positive signal for the UNFCCC negotiations many had hoped for, but rather re-enforce the sense of distrust between developing and industrialized gap currently causing the current deadlock. AprODEV and CIDSE urge EU Member States and the European Commission to reconsider the assumptions underlying the EC Communication and ensure that the EU historical responsibility for climate change is reflected in all aspects of the EU position on climate finance.

1) Underlying assumptions not in line with a 2-degree pathway

- The assumptions on emissions reductions throughout the Communication are of great concern, and not in line with the EU goal of limiting global warming to 2 degrees. Annex 1 ambitions are low both regarding emission reductions and the provision of climate finance. Both the Annex 1 and non-Annex 1 reductions, used as underlying assumptions in the Communication, are at the lower end of the IPCC 2-2.4 degree scenario, making it nigh on impossible to limit average temperature rise to 2 degrees, let alone stay well below it as many recent scientific studies deem necessary.
- The EC assumes that Annex 1 countries reduce their emissions by 31% by 2020, and that non-Annex 1 countries deviate 13% compared to Business as Usual (BAU). This should be compared to the IPCC estimates that Annex 1 countries need to reduce by 25-40 %, and non-Annex 1 deviate from BAU by 15-30% by 2020, in order to obtain the IPCC 2-2.4 degrees scenario. Further, these assumptions do not take into account more recent scientific studies indicating that even limiting warming to 2 degrees will not be sufficient to avoid “dangerous climate change”.¹

2) Scale: Inadequate international/EU public finance commitment: Overreliance on developing countries’ own actions and carbon markets/private finance

- The estimates of the international public finance contribution in 2020 (€22-50 billion) and EU fair share of this (€2-15 billion) are totally inadequate. Estimates of annual adaptation costs alone range from €40 billion² and upwards; recent studies indicating costs of 2-3 times this scale.³ CAN has estimated the total public finance needs for adaptation and mitigation to be at least €110 billion p.a. by 2020, of which the EU fair share would be approximately one third, i.e. at least €35 billion.⁴
- Developing countries are expected to pay a large share of both mitigation and adaptation costs themselves. The Commission sees a very limited role for international public finance – covering only 10-20 % of additional costs of mitigation in the energy and industry sectors. In particular, a large share of mitigation costs are identified as ‘long term low cost efficiency measures’, to be paid by developing countries themselves. But many of these measures are of the type that even industrialized countries have not managed to undertake – due to bottlenecks, upfront costs, short-term unprofitability, etc. Demanding this of developing countries is not only unrealistic but also deeply unjust.
- Further assumptions underlying the EC Communication which should be questioned include:
 - i. That Annex 1 countries will retire AAUs from the first commitment period,

¹ Hansen J, Sato M, Ruedy, *et al* (2007): “Dangerous human-made interference with climate: a GISS modelE study”, *Atmos Chem Phys* 2007; 7: 2287-2312.

² Oxfam International (2007): “Adapting to climate change”, Oxfam Briefing Paper 104, Oxfam International.

³ IED and Grantham Institute for Climate Change at Imperial College (2009): “Assessing the costs of adaptation to climate change: a review of the UNFCCC and other recent estimates”

⁴ This represents around one third of the overall finances required from industrialised countries: in line with the EU’s capacity to pay (GDP share); and its historical responsibility for climate change (share of cumulative emissions since 1990).

- ii. That an OECD-wide cap and trade system will be in place by 2015 . This is however unlikely given the timescale it took for the EU ETS to be established,
 - iii. That countries can capture the all the rent. There are various arguments against this assumption; 1. This would dis-incentivize project developers if all rents are captured, 2. This is not public finance, 3. There is no guarantee this money will stay in developing countries 4. There is no guarantee this will be ploughed back into mitigation 4. In an effective market, the rents themselves would be minimised, meaning that even if part of the rents were captured this would further dis-incentivize project developers.
- Given the low level of ambition in the analysis, adaptation costs will need to be significantly revised upwards.⁵
 - The Communication also states that “a large part of the funding for adaptation can also come from private household and private firms as it is in their own economic interest”. This is fundamentally in conflict with the principle of historical responsibility for climate change and does not take into account the reality of many developing countries. Industrialized countries are by far the largest emitters from a historic perspective, and should be obliged to pay for the consequences, born largely by developing countries.
 - The role of public finance should be clarified and strengthened. Whilst both public and private climate finance is needed, public finance has a special role to play:
 - i. Developed country *governments* are obliged to cover the full incremental costs of climate change in developing countries, as agreed in Art 4.3 of the UN Framework Convention on Climate Change in 1992.
 - ii. Private funds cannot be expected to meet the full *incremental* costs of climate action. Public funds are often required to leverage private finance and steer it in the right direction. For example, the private sector will not necessarily invest in building solar panels in developing countries if they see insufficient returns and if conventional fossil fuels turn out to be more profitable. A feed-in tariff, for example, could help leverage private sector investments, but would require public financing to cover the initial incremental costs.
 - iii. Public money is needed to ensure a more equitable outcome and steer money towards areas where market-based instruments are not sufficient/appropriate, for example in the Least Developed Countries (LDCs) and to the poorest and most vulnerable people and communities. As agreed in the UNFCCC Art 2, a key objective of the Convention is ‘enabling economic development to proceed in a sustainable manner’. Art 3.4 further stipulates: ‘parties have a right to, and should promote, sustainable development’.
 - iv. Many developing countries question the idea of ‘no-regrets’ action, i.e. the notion that certain emission reductions in developing countries would come without a cost. In fact, even these actions may need up-front financing to support initial capacity building, etc.

⁵ IED and Grantham Institute for Climate Change at Imperial College (2009): “Assessing the costs of adaptation to climate change: a review of the UNFCCC and other recent estimates”

3) Diverting ODA to fund climate action in developing countries: ODA seen as a key source for climate finance

- The European Commission identified ODA as a key source for climate finance in both the near, medium and long term. The EC position is not acceptable from a development perspective, sends completely the wrong signal at a crucial point in the ongoing UNFCCC negotiations and will be rejected by developing countries.
- Aprovev and CIDSE urge Member States to adopt a clear position to ensure that climate finance is new and additional, as agreed in the Bali Action Plan, in order not to undermine poverty eradication efforts. Diverting existing or already promised ODA to finance climate actions means less money for health, education and other development goals. Additionality must be clearly defined as new and additional to ODA commitments (0.7 % or above). Anything less would constitute a severe threat to development.
- Climate change action and development must be handled jointly on the ground, but should be financed from separate sources in order not to undermine each other.

4) Risk for double-counting remains: lack of clarity on role of offsets and link to financial obligations of industrialized countries

- Aprovev and CIDSE welcome the European Commission acknowledgement that 'procurement of offset credits cannot be counted towards the public financial support that developed countries pledge in addition to their reduction targets, as this would in effect count such offsets twice'.
- However, the idea that private finance through carbon markets (offsets) and public finance are interchangeable seems to prevail. Ambiguity remains regarding the 'recognition' that must be given to private finance flows.
- If carbon markets are used to offset emissions in developed countries, additional (international public) finance will be required to enable any emission limitations in developing countries. As long as emission reduction targets (including the use of any offsets via carbon markets) in developed countries do not reach 40% by 2020, carbon markets cannot be expected to pay for emission limitations in developing countries. These costs must be covered by additional funds, so as to ensure the scientific integrity of EU emission reduction targets. The EU position must be clear on the role of carbon markets vis-a-vis public funds in relation to emission reduction targets.

5) No mention of AAU auctioning , one of the few innovative finance mechanisms that could provide predictable support to developing countries

- The European Commission has completely abandoned its support for one of the most promising innovative finance mechanisms on the table in the UNFCCC negotiations: international auctioning of AAUs (building on the Norwegian proposal), and does not mention this in its Communication, despite the explicit mandate to further explore merging the Norwegian and Mexican proposals in the Environment Council Conclusions in March and the European Council Conclusions in March 2009.

- The Norwegian proposal is based on the polluter pays principle, enshrined in the Convention. It creates financial flows which are additional to ODA commitments, and is not reliant upon discretionary flows subject to political will, but is an automatic mechanism. The proposal can also be amended in several ways to enhance its predictability and to embrace an automatic compliance mechanism.
- Member States should make sure that the proposal to auction AAUs on international level is kept in the EU “toolbox” and made part of a comprehensive EU finance offer in the Environment, ECOFIN and European Councils in October, in combination with a Central UN Climate Fund (building on the Mexican proposal) and other innovative finance mechanisms such as levies on aviation and shipping.

6) Universal contribution does not take into account the historical responsibility for climate change. It can be improved by the introduction of a development threshold.

- The idea that all countries (except LDCs) should contribute to cover the costs of climate change in developing countries does not take into account the right of poor countries to development or the historical responsibility of industrialized countries for climate change. The idea of universal contribution also disregards the terms negotiated in Rio and Kyoto, based on the principle common but differentiated responsibilities and capabilities. If industrialized countries attempt to redefine one of the fundamental principles of the Convention, without having kept its side of the bargain, there will be significant political difficulties and further deadlocks in negotiations.
- The fact that the EC uses 2005 as a baseline when calculating responsibility even further evades the notion of historical responsibility.
- Aproved and CIDSE believe that only Annex 1 countries should have international climate finance obligations under a Copenhagen climate agreement.
- However, if the idea of universal contribution continues to be pursued, as indicated by recent EU positions, it is absolutely vital that it is based on the effort sharing principles historical responsibility for emissions and capacity to pay, accompanied by a **development threshold**,⁶ as proposed by the Greenhouse Development Rights (GDR) Framework, codifying the right to development. The GDRs give one model of a demonstrably fair universal contribution system.
- The ‘development threshold’ is set at a level of welfare below which people are not expected to share the costs of the climate transition. It is important to note that the threshold is not an “extreme poverty” line, which is typically defined to be so low (\$1 or \$2 a day) as to be more properly called a “destitution line.” Rather, it is set to be higher than the “global poverty line,” to reflect a level of welfare that is beyond basic needs but well short of today’s levels of “affluent” consumption. People below this threshold are taken as having development as their proper priority. As they struggle for better lives, they are not similarly obligated to labor to keep society as a whole within its sharply limited global carbon budget. People above the threshold, on the other hand, are taken as having realized their right to development and as

⁶ SEI, ECOEquity, ChristianAid and Heinrich Boll Foundation (2008) Greenhouse Development Rights 2nd edition, Executive Summary, <http://www.sei-us.org/climate-and-energy/GDR.html>

bearing the responsibility to preserve that right for others. They must, as their incomes rise, gradually assume a greater fraction of the costs of curbing the emissions associated with their own consumption, as well as the costs of ensuring that, as those below the threshold rise towards and then above it, they are able to do so along sustainable, low-emission paths. Moreover, and critically, these obligations are taken to belong to all those above the development threshold, whether they happen to live in the North or in the South.

7) Language on developing country mitigation actions is insufficiently linked to financial support

- The European Commission's proposals on Low-Carbon Development Strategies, to be undertaken by developing countries, risk further widening the trust gap with developing countries, as they do not entail a clear link to financial support.
- The EU has vowed to improve its language and communication on LCDS, to avoid inciting developing countries' fears of financial support being followed by burdensome conditionalities. However, the Climate Finance Communication fails to address these concerns.
- Any proposals for developing countries to commit to mitigation actions must be clearly linked to the provision of MRV finance by industrialized countries, to cover both capacity building needs and the incremental cost of climate action.

8) Proposal for UN Climate Fund is good but not broad enough

- Aprodev and CIDSE view the current aid paradigm as inappropriate for climate finance. It entails a continued risk of 'donor darlings', i.e. donor countries choosing programs and projects based on their political priorities for the moment, rather than directing funds in a co-ordinated manner to where they are needed the most. Building an international climate finance architecture on a jungle of bilateral and multilateral channels also means that developing countries will have to continue to 'shop around' for financial support, with huge transaction costs, immense administrative burden and lack of effectiveness and efficiency as a result.
- Aprodev and CIDSE believe that a Central UN Climate Change Fund⁷ would be able to ensure the necessary coherence and co-ordination of funds, an equitable distribution of resources and allow developing countries to focus on climate actions themselves rather than the process of shopping around amongst a multitude of donors for financial support.
- The European Commission acknowledges that there may be a need for a central UN Climate Fund, to complement bilateral and multilateral channels of climate finance. Although this would enhance the ability to close potential funding gaps and improve the chances of an equitable outcome, the fundamental problem of donor proliferation and ineffectiveness would remain.
- Furthermore, the institutional architecture proposed by the EC is somewhat confusing, as there is a distinct lack of clarity regarding roles and responsibilities of

⁷ Aprodev (2009): "The United Nations Climate Fund: An Equitable Financial Mechanism under the UNFCCC", Submission to the UNFCCC, <http://unfccc.int/resource/docs/2009/smsn/ngo/161.pdf>

the proposed institutions. The very weak reference to a compliance mechanism is another cause for concern.

- Aprodev and CIDSE urge Member States to support the idea of a Central UN Climate Fund, under the authority and guidance of the COP, as the *main vehicle* for climate finance.
- Existing institutions could still have a role: a) as the main sources of finance, particularly for capacity building, in a transitional period before the post-2012 architecture is in place, b) as agencies for implementation and delivery under a UN Central Climate Fund c) as agencies that need to climate-proof activities that take place in bilateral development cooperation, without ‘masking’ the additional costs as ODA

9) Member States should support and contribute to proposed EU near-term finance offer

- The European Commission proposes a near-term finance commitment by industrialized countries, amounting to €5-7 billion p.a. during 2010-2012, to cover near-term adaptation, capacity building and technology research and development costs.
- Aprodev and CIDSE urge Member States to urgently support the Commission proposal and commit to an EU fair share, approximately a third of the total cost, as a pre-Copenhagen offer, with a potential to provide much needed trust and momentum in the UNFCCC negotiations.
- It is crucial that the near-term finance offer is not used a cheap way to ‘buy off’ certain developing countries in the negotiations, but is closely linked to an ambitious, adequate, predictable and sustainable long-term finance offer.
- It is also important that institutional arrangements to support near-term finance do not undermine or second-guess negotiations on a post-2012 architecture, whilst providing an necessary bridge between near- and medium term action so as to avoid any gaps in the provision of support to developing countries.

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*APRODEV is the association of the 17 major development and humanitarian aid organisations in Europe, which work closely together with the World Council of Churches (Including Church of Sweden, Diakonia, Norwegian Church Aid, DanChurch Aid, Finn Church Aid, ICCO, EED, Brot für die Welt, Bread for All, and Christian Aid).

*CIDSE is an international alliance of Catholic development agencies, with the overall goal of working for poverty eradication and the establishment of global justice. It has 16 member agencies including Cafod, Cordaid, Manos Unidas, CCFD Terre-Solidaire and Trocaire.