

CAN Europe priorities for Climate Finance in 2012

The global fight against climate change requires co-operation on a scale previously unknown, with all countries, developed and developing, contributing to the challenge with bold and ambitious action. Financial support to developing countries is crucially important to enable their transformation to low-carbon development pathways as well as to allow them to adapt their societies to a changing climate and deal with the unavoidable impacts. Promises were made by developed countries at the UN climate summit in Copenhagen end of 2009, and reconfirmed and formalised in Cancun and Durban to deliver 30 billion US dollars to support early action in developing countries as fast start finance for 2010-2012, and to mobilise new and additional financial support to increase to 100 billion US dollars per year by 2020.

We recognise the difficult financial situation the EU is currently facing with the focus being on keeping the Euro alive and avoiding the collapse of Greece and other countries. However, with the fast start period coming to an end this year, 2012 is a crucial year for ambitious decisions and substantial progress to ensure the scaling up of new and additional climate finance over the 2013-2020 period to meet the 100 billion USD promise. The establishment of the Green Climate Fund in Durban as well as the agreement on a work programme on sources of climate finance offer unique opportunities. CAN-Europe welcomes the EU workshop on climate finance as a key opportunity for the EU to make substantial progress on the main challenges for climate finance in the year to come.

Capitalisation of the Green Climate Fund

With the operationalisation of the Green Climate Fund (GCF) in Durban, the EU will have to prepare its initial pledges to the GCF. Start-up pledges will be needed over the coming weeks and months to enable the GCF to establish a secretariat and take up its preparatory work. Substantially larger pledges for the GCF's programmatic funding should be made by the EU in 2012, no later than at the UN climate conference COP18 in Qatar. A clear signal on the EU's support for such an initial capitalisation of the GCF should also be reflected as early as possible in the conclusions of EU Finance and Environment Councils.

Identify a pathway for Climate finance 2013-2020

Over the course of this year the EU should develop a plausible climate finance roadmap 2013-2020 that demonstrates how the EU takes the responsibilities of being in a high ambition alliance with AOSIS and the LDCs serious. Such a roadmap should include:

- How the EU intends to scale up climate finance until 2020 and meet its fair share of the 100 billion promise
- Intermediate targets as well as clarity on financial support in 2013, ensuring there is no decrease in climate finance after the end of the fast start finance period.
- An outline of how climate finance will be provided through a combination of budgetary contributions from EU Member States and innovative sources e.g. ETS auctioning revenues or a potential new mechanism to address emissions from international shipping.

Work programme on climate finance sources

In Durban, a work programme on sources of climate finance was launched and the EU has the opportunity to ensure that this will result in agreement on international sources of climate finance. At the same time, the discussion will also have to be progressed further on the G20 agenda and the meetings of the International Civil Aviation Organisation (ICAO) and International Maritime Organisation (IMO). A global carbon pricing mechanism for the international shipping sector could generate substantial revenues of at least 10 billion USD per year by 2020 for the Green Climate Fund. This should be done through an automatic set aside of finance from an international collection mechanism. The proposal has seen growing

support from developing countries, specifically if it takes into account the incidence it incurs on them, as proposed in the World Bank and International Monetary Fund report to the G20. Additionally, considerable climate finance can also be raised through earmarking a proportion of revenues from a financial transaction tax, firstly at the EU level but also worldwide, as mentioned in the latest G20 conclusions and in the report by the UN high-level advisory group on climate change financing.

Strengthen the ETS and push up auctioning revenues

The auctioning of ETS revenues and their use in supporting climate action provide an important source of new and additional climate finance. But most Member States still have to fulfil the provisions of the ETS directive that stipulates that at least half of the ETS revenues should be used for domestic and international climate action. To ensure the functioning of the carbon market and its price signal for directing investments towards EU low-carbon economy the current mitigation target of 20 per cent greenhouse gas reductions by 2020 should be increased to 30% per cent. In absence of such an economy-wide increase of the target, other options to strengthen the ETS legislation need to be supported, such as withholding emission allowances and increasing the annual reduction trajectory. This would avoid a lock-in into high carbon infrastructure, and also allow substantially higher revenues from the auctioning of permits. Reporting on the use of ETS revenues will be important to ensure full transparency internally and towards third parties, hence, the EU should adopt strong reporting provisions on climate finance and the use of ETS revenues as part of the upcoming revision of the greenhouse gas emissions Monitoring Mechanism Regulation.

International climate finance in the 2014-2020 EU Budget

The positive elements that have already been set out in the Commission's Multiannual Financial Framework proposal need to be supported and further strengthened. There should be a transparent and robust methodology to ensure separate accounting of international climate finance, which should be additional to the EU's existing ODA commitments. The proposed Rio markers methodology should be fully discussed with stakeholders, in view of a credible approach that accurately reflects the qualitative contribution of international climate funding to) adaptation and mitigation objectives. Furthermore, the Commission should be prepared to offer a joint vehicle – the Global Climate & Biodiversity Fund or other – to channel future revenues from the FTT and other new sources of climate finance, such as from shipping and aviation towards international climate finance and the Green Climate Fund.

Define the role of Private Sector Finance

Finance ministers as well as the Commission have often emphasised that the private sector will play a large role in financing climate action in developing countries. We understand that in times of tight public budgets, private sources such as global carbon markets, private sector flows and private finance leveraged through the multilateral development banks, may deliver significant flows of climate finance. However, it is widely recognised that most of these funds will flow towards mitigation projects, particularly in emerging economies, and not towards funding the adaptation needs of poor countries with high vulnerability to climate change. Lessons should be learned from previous successes and failures from involving private finance in the global public good, and the rights and needs of poor people should guide the interventions. There are further considerable challenges in allocating responsibility for these private financial flows and reporting on them in a transparent and accountable manner. European member states should agree on stringent standards for accounting for private climate finance to ensure that private sector finance delivers on the objectives and is not used to disguise paltry contributions from budgetary and innovative finance sources. Private finance has a role to play, but only in addition to new flows of public finance.