10 September 2009

Paying the climate bill

Media briefing on the European Commission's communication on climate finance & what's next in the countdown to Copenhagen

The European Commission today presented a proposal entitled "*A European blueprint for the Copenhagen deal*". The Commission communication puts forward proposals on how to generate and manage **financial support for climate action in developing nations** under a future Copenhagen climate treaty, to be agreed in December. Financial support would be made available for the development of clean and efficient energy and industry, the protection of forests and for measures to adapt to the already unavoidable impacts of climate change in developing countries.

Over coming weeks, EU member states are expected to agree on a concrete position on Europe's financial contribution to the next climate regime. European leaders meeting on 29 and 30 October in Brussels are expected to come up with concrete numbers on financing for climate action in developing countries as well as on the mechanisms and institutions to generate and manage these funds. EU leaders are also expected to discuss climate financing for developing countries at the special EU summit that will be held in Brussels on 17 September.

This briefing answers the following questions:

- How much money is needed for developing countries?
- How should the money be governed?
- What are the key forthcoming dates in negotiations?
- What is expected from the most vocal EU member states?

The EU's responsibility to act

The European Union must take the lead on climate financing and send a strong signal to the rest of the world if we are to reach a fair and safe deal at the Copenhagen climate conference in December. As EU environment Commissioner Stravos Dimas said in March this year; "No money, no deal". Constructive negotiations can only start once rich countries put concrete numbers for financial support on the table.

Financial contributions to tackle climate change and adapt to its effects in developing countries should in no way be seen as charity, but as money owed by rich countries for having caused the climate crisis.
Together, industrialised countries are jointly responsible for 64% of today's global warming, due to the large quantities of greenhouse gases they have emitted since their industrial revolutions in the 19th century. The largest portion of historic responsibility can be attributed to the United States, closely followed by the EU.[1]
Without support for developing countries the world cannot keep global warming under the 2°C threshold and avoid the worst effects of climate change .

It is vital that climate financing for developing countries is new and additional to existing development aid commitments. Developed countries must fulfil their existing commitments to provide 0.7% of their national income as aid to developing countries, while recognising that fighting climate change requires substantial new costs that were not taken into account when this target was set.

How much financial support is needed?

The European Commission's 10 September communication calls on industrialised countries to annually contribute **€22 – 50 billion** in public finance by 2020 for climate actions in developing countries. Greenpeace and Oxfam

[1] Müller et. al. (2007). 'Differentiating (Historic) Responsibilities for Climate Change' http://www.oxfordclimatepolicy.org/publications/DifferentiatingResponsibility.pdf.

International believe these figures to be woefully inadequate and call for **at least €110 billion** of annual public finance by 2020. Ultimately, adaptation needs alone may be several times this amount.[2]

	Greenpeace and Oxfam	**European Commission**
Mitigation	70	10-20
Energy and industry	*40*	*3-6*
REDD (deforestation)	*30*	*7-14*[3]
Adaptation	40	10-24
Total	**110**	**22–50**[4]
EU Contribution	**35**	**2-15**

Table: International annual public finance requirements by 2020 (in billion euros)

Industry and energy
Greenpeace and Oxfam believe that most of the capital to clean up the energy and industrial sectors in developing countries should come from the industries themselves, but rich countries must pay the costs of leveraging these new investments.

In January, the Commission estimated that total investment in these sectors in developing countries will amount to €71 billion annually by 2020 (in 2005 prices) – including financing to pay for offset credits through the carbon market. The need for additional public funding was estimated at between €33-48 billion annually by 2020.

However, in its 10 September communication the Commission indicates that the vast majority of these costs should be covered by developing countries themselves. The Commission suggests that most of the measures needed are energy efficiency savings that will pay back in the long run, so should be financed either by national businesses or by developing country governments. **The Commission suggests that industrialised countries pay only €3-6 billion.**

Greenpeace and Oxfam note that these energy efficiency savings (e.g. renovation of buildings) require substantial upfront investments at a time when developing countries are already struggling to cope with the financial crisis. Without additional public money from developed countries, these projects will simply not take off.

Greenpeace and Oxfam call for at least €40 billion annually by 2020 for industry and energy-related mitigation.

Forest protection (REDD)
Deforestation is responsible for about 20% of global greenhouse gas emissions, more than the total emissions of the United States, so halting deforestation is a crucial part of efforts to tackle global warming. International forest funds under public control are needed to provide a financial incentive for forest protection.[5]

In its communication on deforestation in October 2008, the Commission estimated that halving deforestation by 2020 would cost €15-25 billion annually.[6] Halting deforestation within the same time frame would entail a cost two to three times higher.

However, in its 10 September communication the Commission suggests that just 30-60% (€ 7-14 billion) of the total required amount should be paid for by industrialised countries to reduce emissions from deforestation and agriculture.

Greenpeace and Oxfam campaign for zero deforestation by 2020 and at least €30 billion in annual support by 2020.

Adaptation
Climate change is already devastating lives across poor countries. Greenpeace and Oxfam believe that rich nations should provide at least €40 billion annually[7] for adaptation measures in developing countries, starting as soon as possible.

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[2] See Parry et al. (2009), "Assessing the costs of adaptation to climate change," IIED / Grantham Institute.
[3] Including agriculture mitigation
[4] The European Commission is including finance for R&D and capacity building
[5] Greenpeace (2008), Forests for Climate: developing a hybrid approach for REDD, www.greenpeace.org/raw/content/international/press/reports/forestsforclimate2008.pdf.
[6] European Commission (2007), 'Communication on Deforestation, October 2007, eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0645:FIN:EN:PDF, page 9.
[7] Oxfam International (2007) 'Adapting to Climate Change: What's needed in poor countries and who should pay'.

The European Commission presents a much lower figure (€10–24 billion by 2020), based on the UNFCCC estimation of adaptation costs of €23-54 billion annually by 2030, despite noting that recent work by IPCC lead scientist Martin Parry *et al.* has suggested costs might be as high as $200 billion annually. In this light, Greenpeace and Oxfam note that including a range starting from only €10 billion annually is grossly inadequate and could threaten the lives of hundreds of thousands of poor people.

Greenpeace and Oxfam call for €40 billion annually from today for adaptation measures.

'Fast start funding'

Oxfam and Greenpeace welcome the Commission's proposals on so-called 'fast start funding'. This refers to funds made available before the beginning of the Copenhagen commitment period (2012/2013). The Commission proposes €5-7 billion per year for the most urgent adaptation needs of poor countries and to prepare the ground for the larger sums of climate finance that will flow under a Copenhagen agreement.

Greenpeace and Oxfam call for the Commission and EU member states to pursue the annual provision of 'fast start funding' by 2010.

Who should manage the funds?

Greenpeace and Oxfam call for a new structure, established under the UNFCCC with fair representation for developing countries, to manage the climate funds in an equitable, transparent and effective way.

The Commission proposes a structure that would largely operate outside of the UNFCCC, channelling funds through a range of existing institutions like the World Bank or through bilateral channels. Greenpeace and Oxfam are concerned that these existing institutions are driven by the political priorities of rich countries and are not trusted by developing countries. Such a system also risks being overly burdensome for poor countries, requiring them to 'shop around' different funds, complying with different eligibility criteria, to receive the climate financing they are owed.

Greenpeace and Oxfam welcome the fact that the Commission is also considering a UN-backed fund, but regret that in its proposal the fund would be limited to filling the gaps of existing structures.

Key dates

17 September: Extraordinary EU Summit
European leaders will meet in Brussels to prepare the forthcoming G20 Summit in Pittsburgh, which will also discuss climate finance. EU leaders are expected to agree on €5-7 billion "fast track funding" for capacity building and immediate adaptation needs in developing countries.

24-25 September: G20 Pittsburgh
Climate finance will be high on the agenda between the world's major developed and developing economies.

28-9 October: Bangkok UN climate conference
Penultimate round of UN negotiations before Copenhagen. Low expectations for progress on climate finance issues since the EU will not have formally agreed on its position yet.

20 October: ECOFIN Council
European finance ministers meeting in Luxembourg are expected to adopt conclusions on climate finance.

21 October: Environment Council
European environment ministers will be meeting in Luxembourg to agree on the EU position for Copenhagen.

29-30 October: EU Summit
Heads of state and government will agree on the EU position on climate finance and other elements of a future Copenhagen treaty.

2-6 November: Barcelona UN climate conference
Final UN preparatory meeting before Copenhagen. The Barcelona conference is expected to be crucial.

7-18 December: Copenhagen climate conference
COP15. The final meeting in Copenhagen.

Most vocal EU countries

United Kingdom
In June 2009, Gordon Brown became the first world leader to call for a specific amount of funding to developing countries to fight climate change. He suggested a ‘working figure’ of $100 billion. However, this number includes private funding through carbon markets. Brown also proposed that contributions from existing aid commitments to developing countries be capped at 10%.

Netherlands
The Netherlands are one of the most active EU member states on the issue of climate finance. The Netherlands are strongly support the additionality of climate finance to exiting development aid commitments. The Dutch government announced that $100 billion of new and additional public financing should be made available for developing countries.

Denmark
Host of the Copenhagen climate conference. Denmark is working hard to encourage the EU to lead the world towards a successful deal and has a strong position on additionality of climate finance to existing aid commitments.

Sweden
is the current holder of the EU Presidency is very pro-active on climate finance. Sweden is in particular very keen on the ‘fast track funding’ for the period until 2012-2013. Despite a strong track record on development aid (1% of Swedish GDP), Sweden has not taken a leading role on the issue of additionality of climate finance to aid commitments.

Poland
So far Poland is mainly concerned with the scale of its contribution towards the total EU climate funding for developing countries. Poland has been advocating a finance burden-sharing formula that would to some extent compensate the central and eastern European economies.

Spain
Spain is advocating a big role for private money and carbon markets. Has not expressed strong willingness to commit to significant public funding for climate action in developing countries, but wants to see a good deal in Copenhagen to avoid problems under its EU Presidency in the first half of 2010.

France
France is strongly encouraging all countries to contribute to climate finance, arguing that not only developed countries, but also more advanced developing nations should pay. The French position on additionality of climate finance to aid commitments is still unclear.

Greenpeace and Oxfam International demands:

- **The establishment of a new public financing mechanism under the future Copenhagen treaty.**
- **Rich countries should contribute at least €110 billion per year in public funding to develop clean energy and industries, for forest protection and for climate adaptation in the developing world.**
- **The EU should contribute €35 billion annually by 2020.**
- **Funds should be managed by institutions operating under the UNFCCC structure.**
- **The creation of a robust mechanism, such as the auctioning of emission allowances, to generate funds. In addition, a tax on aviation and shipping emissions could generate significant finance.**
- **‘Fast start funding’ of €5-7 billion should be made available before 2012 to finance the immediate needs for capacity building and adaptation.**
- **Industrialised country contributions should be based on ‘ability to pay’ and ‘responsibility for emissions’**
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Contacts:
Joris den Blanken – **Greenpeace** EU climate and energy policy director:
+32 (0)2 274 1919, +32 (0)476 96 13 75 (mobile), joris.den.blanken@greenpeace.org
Tim Gore – **Oxfam International** EU climate change policy adviser.
+32 (0)2 502 9803, +32 (0)478 139 340 (mobile), tim.gore@oxfaminternational.org