

Climate Compact Special on the AGF-Report

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English translation of Germanwatch's Climate-Compact-Special published on November 5th on the AGF report, with a translation of the executive summary and evaluation of its main aspects.¹

One of the concrete results of last year's Climate Conference in Copenhagen was the summoning of the so-called "High-level Advisory Group on Climate Change Financing" (AGF) by UN Secretary General Ban Ki Moon. The group's mandate contained in the Copenhagen Accord (that hasn't formally been adopted) was to analyse potential financial sources, including alternative sources, in order for developed countries to mobilize USD 100 billion by 2010 for climate finance in developing countries.²The AGF, whose members are high-level experts in finance and science, as well as heads of state, has met several times throughout 2010 and has now presented its final report.

While the overall report and the background studies contain technical information about the role and potential of different financial instruments, the executive summary is considered a political document. It has been subject to intensive and controversial debates among members and many governments worldwide.

Limited ambition of the AGF's mandate

The executive summary shows that the AGF adhered quite closely to the mandate given by the Secretary General. This fact itself is contentious, since the Copenhagen Accord is not accepted by all Parties to the Convention. The additional costs of responding adequately to climate change in developing countries through both emission reductions and adaptation to climate change are estimated to be much higher than USD 100 billion annually in the next decade. The overall need is rather three to four times this amount.³ (On the other hand, there are doubts if specific need assessments of this magnitude will be brought forward.). Nonetheless, it was the first time that a mandate has been given on the highest political level which concretely considers climate finance in a three-digit number.

In this regard, it is not surprising, but still disappointing, that the executive summary doesn't at all indicate that the instruments could very well generate more than USD 100 billion, even though the analysis clearly shows this result. At the same time, the executive summary builds on rather conservative assumptions which could, of course, be designed more ambitiously. The reference price of USD \$20-25 per tonne of CO₂ equivalent can be classified as rather moderate. In the past, these price ranges have indeed been reached in the EU emission trading system. On the other hand, the emission reduction target of the Copenhagen Accord has been used as basis that is by no means compatible with the 2°-limit agreed upon in Copenhagen. Therefore, a higher price is needed which would then lead to higher revenues. Moreover, the allocation of 20-25% of the revenues from the transport sector for climate finance is a relatively moderate approach offering countries the option to use the remaining revenues for purposes such as national climate activities or consolidation of their national budget. It can be concluded that USD 100 billion can be achieved even with quite conservative assumptions, but it is definitely possible to generate more.

¹ See Executive Summary and Report as well as the list of members of the AGF at <http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300>

² See Copenhagen Accord at <http://unfccc.int/home/items/5262.php>

³ See e.g. World Bank's World Development Report, 2010, p. 260, <http://siteresources.worldbank.org/INTWDR2010/Resources/5287678-1226014527953/Chapter-6.pdf>

Prioritizing instruments

The AGF refrained from recommending certain instruments explicitly; therefore, the report doesn't provide a ranking. On account of risk distribution, it is indeed reasonable not to focus only on a single instrument. Furthermore, each instrument has its own implications and constraints; however, for the next steps, politicians need a clear direction.

Nonetheless, some instruments that have been analysed in the report are not mentioned in the executive summary (e.g. Special Drawing Right at the IMR or border tax adjustments). This fact leads to an implicit hierarchy. Apart from auctioning emission allowances in industrialized countries, which is already used for climate finance in Germany, it is particularly welcome that the international transport sector is explicitly mentioned what would imply pricing on carbon for international maritime and air transport.

Germanwatch considers this option to have great potential to generate financial flows in the tens of billions and to provide economic incentives for emission reductions. The system should be designed as to incorporate the (partially valid) concerns of smaller developing countries, such as the small island states, regarding negative economical impacts. However, several models have already proven, first of all, that this is possible, and second of all, that the impacts would almost be negligible.⁴ In particular, the passenger air transport would not contradict poverty reduction since only the rich part of the world's population would be affected. Moreover, this would be a political bridge to the least developed countries (LDCs) that spoke in favour of a levy on passenger air transport.⁵ Together with progressive developing countries, the EU should actively endeavour to develop models that take the developing countries' concerns into consideration.

Moreover, it must be positively emphasized that the rejection of the financial transaction tax by some AGF members (mostly the US) wasn't carried through. It is mentioned in the executive summary, albeit with the comment that a global implementation could be difficult due to different prevailing opinions. Nonetheless, it can be implicitly understood as support for Germany and the EU to continue their aspirations even without the US. The AGF gives a similarly cautious assessment of the reduction and conversion of fossil fuel subsidies (a declared objective of the G20) that should be reduced to zero in the mid-term. This would give leeway to use parts of these funds for international climate finance.

If the revenues of these instruments flow directly into national budgets or international funds, they can be classified as public funds. Without the use of innovative public funds, the margin for additional sources within the national budgets is regarded as very little by the AGF. In the long-term, however, direct budget contributions will continue to play an important role.

Even though the AGF refrains from recommending certain instruments or bundles of instruments, as have been analysed in the report, one can implicitly deduce a promising bundle of national and international approaches that can achieve resource up to and even above USD 100 billion, if there is political will.

What happens with the international forest protection?

From the executive summary, it is unclear which option the AGF foresees for financing forest protection in developing countries (Reduced Emissions from Deforestation and Degradation, REDD+) - what is doubtlessly a key area for climate (and biodiversity) politics. Germanwatch sees the risk that

⁴ WWF, 2010: Bunker Finance: a brief for the High-Level Advisory Group on Climate Change Financing. http://assets.panda.org/downloads/wwf_agf_briefing_on_bunker_finance_june_2010_2.pdf

⁵ LDCs, 2008: International Air Passenger Adaptation Levy (IAPAL). <http://unfccc.int/resource/docs/2009/awglca5/eng/misc01.pdf>

this is an attempt to include REDD into the emission trading, in other words introducing additional certificates into the market. In our opinion, such an approach would be counterproductive and, in addition, would counteract the calculation by the AGF. Such an inclusion to the market and, e.g. its conjunction with the EU emission trading scheme, would result in decreasing CO₂ prices that are already well below USD \$20-25 (the AGF reference base). Since currently there is only the EU emission trading system, the volume of the REDD certificates would almost fulfil all the EU emission reduction obligations. Consequently, the competitiveness of German and European coal power plants will directly increase compared to renewable energies, which from a climate perspective, is highly counterproductive. Therefore, REDD+ should be financed through public funds which, for instance, come from innovative sources.

In addition, there is the risk that an optimization only based on the CO₂ price could have negative implications on the respective biodiversity and the rights and livelihood of indigenous people and communities dependent on forests (and therefore acts against the agreement recently signed at the UN biodiversity conference). Furthermore, it is very unlikely that, prior 2020, which is the period under consideration, there will be a well operating market in hardly any country.

To develop REDD into an effective climate instrument, methods must be found which use public funds to harmonize forest protection in developing countries with biodiversity protection and to maintain that REDD+ will not be included into the market.

Quick mobilization of funds is needed

The executive summary very clearly states that at least some instruments to increase climate finance can be implemented relatively quickly, what is a positive result. To achieve the Copenhagen Accord's goal to limit temperature rise to less than 2°C above preindustrial levels, the global emission trend must already be reversed in this decade. Any approach that contributes to a substantial increase in climate finance by 2020 is, in this respect, doomed to failure. The AGF emphasises that the direct budget contributions can be scaled up relatively quickly (at least in theory), since they don't require the introduction of new instruments.

By introducing a ticket levy, in less than a year Germany showed that it is also possible to generate resources out of the aviation sector in a relatively short time period. However, a negative feature is that these revenues are not used for climate finance. This needs to be adjusted. In light of the climate crisis and the opportunity of a global energy transformation, there should be the political will for this.

What is the appropriate institutional structure to govern the funds?

As it was not the explicit mandate of the AGF to consider the institutional structure of international climate finance, the executive summary only vaguely touches this subject. All in all, the focus lies (not surprisingly) on the UN system, the multilateral development bank and on bilateral cooperation. The reference to the potential of the new climate fund (which has long since been asked for by developing countries and then in Copenhagen at the level of Heads of State and Government) is important. Critical, however, is that other existing funds under the UNFCCC, in particularly the Adaptation Fund under the Kyoto Protocol, haven't at all been mentioned. The Adaptation Fund gives developing countries direct access to the funds, which is a key innovation. The direct access is closely linked to the hope for a system more closely aligned to the needs of developing countries and more efficient, since there is a quite a big discontent regarding the multilateral development banks and UN

organisations. The AGF could have also addressed this problem by mentioning the potential role of national financial institutions in developing countries (a crucial element of the Adaptation Fund).

More funds through multilateral development banks? Caution urged in implementation!

The AGF report clearly emphasises the multiplier effect through strengthening multilateral development banks, such as World Bank, Asian Development Bank etc. With each paid dollar, three to four dollars of additional investments can be generated. This leverage potential is certainly important when it comes to the business environment that makes private investments (in particular for climate protection) attractive in emerging economies. It plays a key role for the necessary large-scale transformational programmes. Regarding adaptation to climate change for the poorest, the instrument is seldom suitable and raises the risk of new indebtedness. Adaptation in the poorest countries should therefore be financed through grants.

Even though the instruments are elegant in theory, one should not overlook the fundamental critique of the role of multilateral as well as regional development banks. Social and ecological standards are not met satisfactorily in many investments. Development banks should clearly give priority to the energy transformation, prioritizing renewable energies, energy efficiency and smart grids. Implicitly, that would mean a focus on emission reduction in emerging economies.

How to move on?

What are the next steps, what will happen with the report? It is Ban Ki Moon's responsibility as UN Secretary General and contractor of the report to transmit it to the national governments. This will happen through the general UN process, rather than through the UN climate negotiations. Since the AGF didn't receive its mandate by the parties of the climate convention (the Copenhagen Accord wasn't officially recognized by all parties) there won't be a formal process under the UNFCCC. Of course, individual countries could call for this within the UNFCCC.

At this stage, it is of utmost importance that heads of state pick up the report and use it for concrete decisions. The G20 should put their focus on the establishment of innovative financial instruments - in particular, regarding international aviation and shipping, financial transaction taxes and creating a larger framework of action for development banks with a clear focus on climate investments. This should be combined with the commitment to decide on a finance mechanism at COP17 in South Africa in December 2011. This could happen through a new climate agreement or as a component for an agreement that will be adopted later on. In South Africa, there should also an answer to the question of which activities should be implemented with climate finance. Certainly there won't be an international climate agreement without reliable long-term finance. Without innovative finance instruments, there won't be (at least as long industrialized countries are in budget crises) reliable finance.

Therefore, it is crucial that different countries and country groups partly or entirely feed in the AGF report into the UNFCCC negotiation process. A decision that would generate a substantial (though probably not sufficient) financial flow would also increase the relevance of the UNFCCC process. Strengthening the UN process should be a common interest of all governments that are neither in favour of the chaos option (uncurbed climate change) nor of the hegemony option (only few countries take all decisions). For the EU, whose interest lies in a functioning multilateralism and in combating climate change, this should be a priority in the next month.

In light of the financial needs for other global goods (the decisions taken on recently in Nagoya also have financial implications) another imaginable scenario would be that parts of this financial mechanism will be decided on at the Rio + 20 summit in Rio de Janeiro in May 2012 by the highest political level. A mechanism developed at UNFCCC beforehand could be designed in a way that it could be further developed in Rio, e.g. by additional financial sources or tasks. In case UNFCCC fails, Rio + 20 could also serve as a fallback option.

Basically, the indicated bundle of options in the executive summary of the AGF offers a perspective for an overall finance strategy for sustainable development at the international level with only some adjustments needing to be made.

Together with other countries, the German government, reinforced by its increased responsibility for global politics through the seat at the UN Security Council, should actively and politically promote this process.