Financing Developing Country Mitigation and Adaptation Actions: Generating Significant and Predictable Support

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UNFCCC Side-Event
12 June 2008
Bonn, Germany

About the Center for Clean Air Policy (CCAP)

- Washington and Brussels-based environmental think tank (w/ offices in Sacramento, New York, and Beijing)
- Committed to advancing pragmatic and cost-effective climate and air quality policy through analysis, dialogue, and education
- CCAP's 30-country climate policy dialogue has produced agreements on emissions trading, design of Clean Development Mechanism, now focused on post-2012 climate policy
- Working with key developing countries (China, India, Brazil, Mexico) and U.S. states to design climate policies
- Conducting "proof of concept" for sectoral approaches in China, Brazil, and Mexico
- Helped design the EU CO_2 emissions trading program
- Running multi-stakeholder dialogues in the U.S. and the EU to build agreement on elements of a US national climate policy package and EU strategy
- Active participant in past and current negotiations on land-use change and forestry under the UNFCCC and other fora

Dialogue on Future International Actions to Address Global Climate Change

- Brings together senior climate negotiators from some 15 developed and 15 developing countries and a limited number of companies
- Informal, off-the-record forum to discuss mitigation and adaptation options for a possible post-2012 international framework for climate policy
- CCAP produces working papers on options and quantitative analyses (e.g. Brazil, China, India Analysis)
- Discussions focus on practicality and implementation

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Overview of Presentation

- Bali roadmap highlights the important role of financing to support developing country emissions reduction actions and adaptation
- Several critical questions arise towards implementation of this, including:
  - What is the scale of necessary funding to assist developing countries in mitigation and adaptation?
  - What sources of funding could be mobilized to generate the necessary scale?
  - What would the funding be used for? How would this be decided?

⇒ Presentation focuses on potential sources of funding
  - focus on using the value of allowances or the proceeds from auction revenues.

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The Bali Action Plan: Developing Country Mitigation Provisions

- Enhanced national and international mitigation action
  - Mitigation actions by developing country Parties in the context of sustainable developmenté
  - **supported and enabled by technology, finance, and capacity building…**
  - **in a measurable, reportable, and verifiable manner.**
- Some incentives spelled out:
  - REDD programs and other forestry
  - sectoral approaches
  - market mechanisms
  - expanded technology development and transfer

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Developing Country Mitigation Framework Developed in the Future Actions Dialogue

- Developing countries would create comprehensive national strategies based on the following elements:
  - Countries outline ñunilateral actions" to achieve sustainable development and reduce GHGs
  - Outline other additional actions they are willing to undertake with assistance from developed countries, the UNFCCC or KP mechanisms, or new post-2012 frameworks, and specify the technologies needed
  - Developed countries provide assistance to developing countries to undertake these additional measures
- Each countryôs plan quantifies the sustainable development impacts and GHG reductions below BAU in key sectors

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The Bali Action Plan: Adaptation Provisions

- Enhanced action on adaptation:
  - International cooperation to support urgent implementationé
  - Risk management and risk reduction strategiesé
  - Disaster reduction strategies and means to address loss and damage associated w/ climate changeé

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Financing is Critical to the Bali Action Plané

- ñEnhanced action on the provision of financial resources and investment to support action on mitigation, adaptation, and technology cooperationé ò
  - Improved access to adequate, predictable and sustainable financial resources and technical support
  - To support ñenhancedò Developing Country mitigation
    - Help reduce emissions to needed levels
    - Drive the necessary technology transfer & deployment of advanced technologies
  - To enhance action on adaptation
    - Expand the resilience of developing countries
    - Address the unavoidable impacts

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How Much Financing is Needed?

- Example cost estimates for mitigation and adaptation in developing countries:
  - Economy-wide: $176.2 billion in 2030 (UNFCCC, 2007)
  - Power generation: $43.3 billion in 2030 (UNFCCC, 2007)
  - Industry: $21 billion in 2030 (UNFCCC, 2007)
  - Deforestation: $3-12.2 billion per year (Stern Review, 2007; UNFCCC, 2007)
  - Adaptation: $9-80 billion per year (World Bank, 2006; UNFCCC, 2007; Oxfam, 2007; UNDP, 2007)
- Detailed estimates are roughé
- **BUT, general agreement that the existing sources of funding under the Convention and the Kyoto Protocol for these activities is not at the scale necessary.**

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Developing Countries and others have stressed the need for…

- Scaled-up funding
- More predictable/sustainable funding
- Move away from the donation/development assistance framework

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Options for Scaling-Up Financing

- Options proposed include:
  - » Increasing scale of the carbon market
  - » Applying share of proceeds to all international transfers
  - » Official development assistance
  - » Auctioning of allowances for intõl aviation & maritime
  - » Levy on intõl air travel
  - » Specific portion of developed country GDP (e.g., 0.5%)
- Option that is gaining growing attention is to use value of emissions allowances or proceeds from auctioning of allowances

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Example Proposals: Allowance Value or Auction Revenues

- Germany is setting aside ~1/3 of its auction revenues in Phase II EU ETS for international activities
  - » ~ú137 million/year
- Lieberman-Warner-Boxer (L-W) bill in the US sets aside allowances or auction revenues worth (cumulative 2012-2020):
  - » **~$68.3 billion** towards **international forestry efforts**
  - » **~$344.5 billion** towards **int’l adaptation and nat’l security**
  - » **~$3.5 billion** towards technology incentives for developing countries
- EC ETS revision proposal suggests: **at least 20% of the proceeds from the auction** be used for CCS, EE/RE in developing countries, avoided deforestation efforts, and adaptation in developing countries
  - » **Could be around €10 billion** annually by 2020
- Norwegian Finance Minister proposed that a **portion of allowances from nat’l ET systems be withheld** to generate revenue for adaptation and other specified purposes.

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One Framework for Such an Approach Internationally

- Intô agreement would likely leave it to each country to decide how it generated the equivalent funding (e.g., through proceeds from ET, carbon tax, etc.)
- Agreement would be to generated financing for these activities based upon agreed:
  - » Percentage value per allowance applied toé
  - » A specific quantity of allowances

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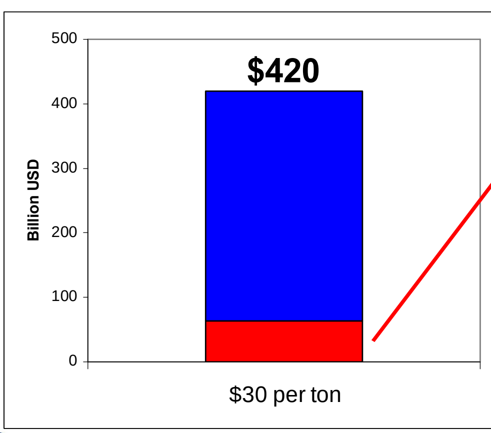
How Much Money Could be Generated: An Example*

Annual Value of Annex I Allowances



- If only 10% of the value was provided for developing country mitigation, adaptation, & technology
  - » $63 billion annually could be generated

* Based upon 20% below 1990 levels target for all Annex I emissions

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Alternative Int'l Arrangements

- Same objective could be achieved through a different intl structure:

"Coalition of the Willing"

- A group of like-minded countries would agreed to use such an approach to generate funding
  - » Would have less intl agreement & harmonization, but efforts could be made to harmonize through mutual agreement

International Set-Aside

- Portion of allowances from a country's target would be taken out from the outset & auctioned to generate funding

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Mexican Multinational Climate Change Fund (MMCF)

- Contributions from countries based upon equitable criteria negotiated multilaterally, including such criteria as:
  - » GHG emissions
  - » Population
  - » Ability to pay
- Annex I developed countries would make commitments
  - » Some of the resources from auctioning of permits could be fed into the MCCF
- Some developed countries w/ emerging economies would also be expected to contribute based upon the agreed criteria
  - » These countries could access greater funding than they contributed
- Funds would provided for:
  - » Programmatic, sectoral, or subnational mitigation activities in developing countries
  - » Efforts to adapt to adverse impacts of climate change
  - » Transfer and deployment of technologies

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Conclusions

- Using the value of allowances or revenues from an auctioning system to generate funding for mitigation and adaptation in developing countries has several advantages:
  - » Mitigation activities supported are additional to those achieved from Annex I targets (i.e., becomes an extra contribution to protection of the atmosphere)
  - » Adaptation efforts more closely based upon the "polluter pays principle"
  - » Funding is more predictable as long as the ET system or tax operates a funding source is potentially available
  - » Funding is more sustainable as long as efforts to reduce emissions continue
    - – Could also leverage the revenue stream through bonds, allowing more projects to be supported

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Key Outstanding ???s for Implementation

- Implemented through:
  - » Some sort of int'l harmonization?
  - » "Coalition of the Willing"? OR
  - » International Set Aside?

- Which countries contribute?
- What %? Specific % for defined activities?
- What allowance value?
- % applied to economy-wide emissions or some subset?
- How are funds distributed once generated (e.g., by nat'l govts or international structure and on what basis (e.g., once a certain threshold is met)?

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