SEVENTH FRAMEWORK PROGRAMME

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[POLICY BRIEF]

Climate Finance and Europe: lost momentum and challenges ahead

By Merylyn Hedger, IDS

One of the most depressing aspects of the lost momentum on the post 2012 deal has been the lack of effective leadership from the EU. Despite the strong cards it held for Copenhagen with well-placed Scandinavian Ministers, supported by the personal commitment of the heads of France, UK and Germany, it emerged as isolated and weak. The ambiguous status of the Copenhagen (CPH) Accord within the UNFCCC system added to uncertainties. The EU then played its key card, which is its adherence to its unilateral 20 % cut by 2020, and not the 30 % cut which was contingent on a global deal. Recently however the new Climate Commissioner Connie Hedegaard has been trying to reinvigorate the negotiations showing that the 30 % cut would now not be so costly for the EU to adopt. But there is a long way to go if Cancun is to deliver anything credible.

Focusing on the critical finance dimension, the situation has become more intractable since Copenhagen because larger EU finance issues have emerged. With the credibility of the Euro undermined and the financial crisis putting pressure on leadership in the UK, France and Germany, an EU drive has been lacking. Worse still the Greek crisis has revealed a deepening leadership crisis stemming from an anti-Brussels backlash in member states. Greater political European integration and coherence overall has been under threat. In the midst of all this, the issue of climate finance seems not to be at the top of the in-tray for resolution.

It is vital that the EU and its Member States get back on track: they are still the key progressive players amidst the industrialised countries for forging a climate deal. With its new paper on fast track financing the EU is creating some policy space, and it is vital to maximise opportunities. There is a need to ensure the gaps left by the CPH Accord are filled and what was promised is delivered[1]. There are three critical linked issues for attention.

Acceptance of the old whilst embracing the new place in the world order

How can European governments maintain support for delivering on their international commitments to their voters whose own jobs and incomes are under threat? There are some difficult messages to sell. On the very day that it was announced that Spain – with its weak economy, was donating to the Adaptation Fund- India announced it was establishing a new South Asia Climate Endowment Fund. Historic responsibilities enshrined in the 1992 UNFCCC cannot however be factored out and Europe must take this on board and re-build trust. Ongoing bilateral mechanisms that the EU has already established with China, India, the African Union, Latin America and ACP countries, should be used to improve relationships. Importantly, European voters need to see the bigger picture that the low carbon economy is a way of driving technical innovation and job creation, and a policy strategy of gain not pain. Unless this happens Europe will continue to toil as a global power in a new world where China and other emerging economies are surging forward and gaining the benefits: China is investing more in green investment schemes than the US and Europe combined[2].

1. See also Ryder 2010 http://www.theclimategroup.org/our-news/interviews/2010/3/25/hannah-ryder-decc/
2. Connie Hedegaard. Barbara Ward lecture at IIED London 11-05-10- see www.iied.org

Delivery on climate finance pledges

Progress before Cancun on delivery of what was promised at Copenhagen, is vital for its success. This point was specifically stated by the Environment Minister for India to the recent MEF meeting[3]. The important BASIC group of countries emphasised at its recent meeting that both the short term ($30 billion "fast track" 2010–2012) and medium term finance ($100 billion annually (by 2020) must be operationalised and provided by developed countries[4].

The Bali Action Plan states that funds must be "new and additional". Until the May Council paper, there was little in evidence from the EU apart from the vague call to get its commitment of the $2.4 billion mobilised, from a variety of sources, including alternative and innovative funding. Effective leadership on climate finance needs coordination across departments- difficult enough to achieve within Member States but much more difficult in a fragmented Commission. The latest paper for the June UNFCCC meeting in Bonn still lacks detail on Member States' individual commitments. Furthermore, there is little sign that the preferred model mechanism for disbursement of the developing countries, the Adaptation Fund, is likely to be used with consequent further erosion of trust. The role of ODA in "fast track" is not clear, though some analyses have shown that EU countries are re-badging previous commitments and not providing the new funds promised, which undermines the credibility of pledges of support and weakens the developing countries' trust in the climate process[56].

Ensuring a sustainable package

Developing countries have frequently emphasised that the new and additional climate finance should be from developed country public finances. Developed countries think that it will be innovative funding, linked to the private sector, which can deliver long term. The EU and its Emissions Trading Scheme (ETS) is indirectly providing the major source of carbon finance for developing countries and it is envisaged that introducing an auction system of permits in the next phase will generate new and additional international climate funding. Moreover, the inclusion of airline emissions in the ETS, an innovative leadership action, will help. However, carbon emissions have fallen with the recession, so EUA prices are falling, jeopardising these approaches. By moving to the 30 % target, the EU could however boost prices and kick start investment in clean technologies[7].

In recent years the G8 process has pushed climate policy along and raised the stakes. This year however, there was no pressure from Europe at recent G8 conference in Canada where the focus was almost exclusively on the international financial crisis. Currently it is difficult to see that sufficient political will exists to deliver on any new ideas emerging including those from the IMF- a new entrant on climate finance. A staff paper suggests the provision of the initial capital injection in the form of reserve assets, including Special Drawing Rights, to lever resources from private and government-related investors through the issuance of "green bonds" in global capital markets[8].

There is an urgent and substantial agenda to tackle in the second half of 2010. Creating momentum will need support and the current EU Presidency triumvirate, Spain, Belgium and Hungary should draw on EU countries which have been championing climate change interventions for longer. Credibility of the entire UN climate process is at stake now: the EU has to step up to the mark.

About the author: Merylyn Hedger is an environmental policy specialist who has worked within international, national and local levels of governance. She has specialised on climate change for 15 years, first as WWF's International Policy Coordinator, and later established the UK Climate Impacts Programme (UKCIP). As a Research Fellow at IDS she has been focusing on climate finance and planning and institutional aspects of climate change.

3. Remarks of J Ramesh, Minister of State Environment and Forests GOI at 6th MEF Meeting, Washington DC 18-04-10
4. Joint Statement of the Third Meeting of BASIC Ministers, Cape Town 25-04-10.
5. WRI 2010 Summary of climate finance pledges. 18-02-10, updated 04-03-10 http://pdf.wri.org/climate_finance_pledges_20 10-03-04.pdf
6. WBDU Climate Policy Post Copenhagen: a Three Level Strategy for Success policy paper 6 26-04-2010
7. Connie Hedegaard. Barbara Ward lecture at IIED London 11-05-10 see www.iied.org
8. IMF Staff Position Note. Financing the response to climate change. 25-03-10 SPN10/06

EADI
Kaiser-Friedrich-Strasse 11
D-53113 Bonn

Tel.: (+49) 228 . 2 61 81 01
Fax: (+49) 228 . 2 61 81 03
www.eadi.org

www.edc2020.eu

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