EUROS FOR LOW-CARBON DEVELOPMENT

29

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- In line with promises made in Poznan last December, the EU has made efforts this year to develop a position agenda for the Copenhagen climate negotiations.

- The EU's attempt to advance global climate talks has proved more difficult than anticipated and the final position has been delayed due to internal tensions relating to climate finance in developing countries.

- This demonstrates the practical difficulties of pursuing a forward-looking climate policy within the European Union.

- Committing to concrete figures on the EU's financial contribution would have however been politically premature given that other developed countries – notably the United States – have not yet signaled their own positions on finance.

- The EU will also want the most advanced developing countries to commit to meaningful mitigation action before making financial pledges.

- This will become a key issue as negotiations progress because developing countries will expect concrete figures on financing from industrialized nations before taking action on mitigation.

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Finance as a stumbling block to the EU's position for Copenhagen

The international community is currently in the midst of negotiating a follow-up agreement to the Kyoto Protocol, due to be concluded at Copenhagen in December this year. The European Union has so far taken extensive measures internally to comply with its commitment under the Protocol, and has thereby led the global effort to slow down climate change. At Bali in December 2007, the European Union played an active role in brokering a deal with developing countries on the Copenhagen building blocks, while US climate politics were still largely in gridlock.

However, the EU's difficulties in maintaining a united front within its ranks due to disputes over the EU climate and energy package did not make a good impression during midway negotiations in Poznan last December, causing the bloc to deliver mixed signals in the international arena. To address criticisms for not being able to deliver in Poznan, the EU announced that it would develop a firm position for the Copenhagen negotiations by March 2009.

This forward-looking climate policy has, however, not been entirely successful to date, as the EU position has been delayed because of unresolved issues relating to climate finance. In order to commit to mitigation actions, developing countries require certainty with regard to how they will be financed. On their behalf, developed countries – including the EU – must know which actions the developing world can deliver before committing to funding them. This paper addresses the EU's perspective to this contradictory situation, which is likely to become a key issue for Copenhagen as negotiations progress.

EU position on mitigation action by developing countries

The EU emphasizes that a significant contribution from developing countries, and in particular from economically more advanced developing countries, is essential under the new agreement. Thus, the EU has called for developing countries as a group to limit the growth of their greenhouse gas emissions to 15-30% below business-as-usual by 2020. To meet this target, the EU proposes that all developing countries, excluding the least developed countries and small island developing states, design and implement national low-carbon development strategies which outline a set of mitigation actions covering all key emitting sectors.

The EU proposes that the low-carbon development strategies and plans should differentiate between those actions that can be undertaken through domestic resources and measures, and those that will require international financial or technical support. The most advanced developing countries should present their plans and strategies even before Copenhagen. Poorer developing countries, on the other hand, will need financial and technical support in designing their low-carbon development strategies.

To match the proposed mitigation actions with financial support, the EU suggests the establishment of an international coordination instrument, such as a registry of nationally appropriate mitigation actions.

EU position on finance in developing countries

According to the European Union, significant public financial flows in addition to traditional Official Development Assistance will form a central part of the agreement on financial and technological support for developing countries. To this end, the EU has given assurances that it is ready to contribute its 'fair share' of global public finance.

To reduce emissions and scale up investments in the developing world, the EU underlines that private sector finance will also need to be mobilized, and market-based instruments and sectoral mechanisms will be the means of achieving this.

The EU proposes two principal options for generating the necessary external sources of finance. Under the so-called contributory approach, international finance would be generated through annual fiscal commitments by developed countries on the basis of an agreed formula. Under the market-based approach, money would be generated through an international carbon crediting mechanism. The EU notes these two options could be used in combination and could be complemented with funding resulting from a global instrument to address growing emissions from the international aviation and maritime transport sectors.

Within Europe, significant public revenue will be generated through the auctioning of emissions allowances under the EU Emissions Trading Scheme (ETS). Under the climate and energy package, member states have committed themselves to allocating at least half of these revenues to climate measures. To this end, member states that wish to do so could use a part of these revenues for financing in developing countries and to meet their financial commitments under the new agreement.

Development of the EU position

The formulation of the position began on January 28th when the European Commission released a communication entitled "Towards a Comprehensive Climate Agreement in Copenhagen" in which it presented a set of proposals for the EU negotiation position. These proposals were then forwarded for discussion between European environmental and financial ministers ahead of the European Council's Spring Summit on 17–19 March. Based on their recommendations, EU heads of state were expected to agree on the main principles of the EU negotiation agenda in time for the first round of international climate negotiations in Bonn, Germany, on 29 March–8 April.

The conclusions of the Spring Summit have provided EU negotiators with a mandate on many important aspects of the climate negotiations. However, due to outstanding issues relating to climate finance, the final decision on the EU's negotiation position has been postponed until the European Council's Summit on 18–19 June.

Internal tensions over financing within the EU

To the disappointment of environmental groups and developing countries, European leaders were unable to decide on concrete figures for the EU financial contribution during the Spring Summit. Due to the more pressing item on the agenda concerning economic recovery, EU ministers purposefully postponed decisions on climate finance until June. This general reluctance to address the issue has sparked accusations in the media that the bloc is losing its enthusiasm over climate matters in the face of the current economic downturn.

A decision on climate finance was also delayed due to concerns over the possible negative economic impacts of climate finance, particularly among newer EU member states. Countries including Poland, Bulgaria and Hungary expressed fears that EU negotiators would commit them to providing more finance for the developing world during international negotiations than they could afford in the current economic situation.

The reluctance of Europe's poorer nations to finance climate measures in developing countries is exacerbated by the fact that some of the developing countries in the G77 are much richer than most of the EU's new member states. Europe's poorer nations would understandably prefer to use their money for more pressing needs at home than give it away to better-off developing countries. Similarly, these member states would much rather retain control over the auctioning revenues under the EU ETS and use them for domestic efforts to mitigate climate change.

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These countries have called for clarity on how the EU's financial burden will be distributed between member states before the EU commits to any precise figures on climate finance. The criteria used to determine the level of individual commitments will inevitably become a controversial issue when EU ministers continue negotiations in June. Poland – a country highly dependent on coal – has, for instance, already announced that it will resist any attempt to divide the burden according to countries' emissions levels. Other EU member states will undoubtedly also have their own interests to protect as negotiations on individual commitments continue.

These internal imbalances will need to be addressed before the EU can develop its position on finance any further. In any event, the EU will struggle to finalize the position before other developed countries – notably the US – reveal their own plans for finance. Most member states consider it premature to commit to concrete figures without any indication of what other developed countries are willing to contribute. Consequently, EU leaders have made no commitment to reach a decision on the matter at the June summit and a final finance package is not expected until much later this year. Given the short time frame and the sensitive nature of the issue, the prospect of developing a clear-cut position on finance by December is looking rather bleak at this point.

Financing vs. mitigation action in developing countries

The EU's position on linking finance and mitigation action in developing countries is set to become another contentious issue as the Copenhagen negotiations progress in the coming months. For the EU, getting the most advanced countries in the G77 group of developing nations to commit to meaningful mitigation action is crucial for a successful deal in Copenhagen. Consequently, the EU wants these countries to present a set of mitigation plans and actions covering key emitting sectors by December so that they can form part of the new agreement. Moreover, to ensure that the proposed measures lead to sufficient cuts in greenhouse gas emissions, the EU wants to link low-carbon development strategies to financial support from industrialized nations.

This proposal has already encountered resistance from the developing world. For one, developing countries have in the past strongly opposed any kind of differentiation between the G77 group, and this view is likely to persist as negotiations progress. Developing countries are also averse to the idea of matching mitigation action to financial support on the grounds that it violates the agreement made in Bali, where developing countries agreed to mitigate their emissions only if they receive financial and technical assistance from developed countries in doing so. From their perspective, international finance should be free and act as an incentive for voluntary mitigation efforts rather than a precondition for economy-wide action to cut emissions.

UN climate chief Yvo de Boer has gone as far as to caution that by imposing new conditions on international finance, the EU risks widening the rift between the north and the south. The EU has responded to this by affirming that the bloc remains committed to delivering financial assistance in line with the Bali principles, but will need clear indications as to how European money will be spent to guarantee political backing on financing domestically. The EU is likely to gain support for this issue from the United States as well since the latter has similarly stressed the importance of 'measurable, verifiable, reportable' mitigation action in return for climate finance.

The conflict over which should come first – money or action – will therefore be a major challenge for the Copenhagen negotiations in the coming months. Considering that a comprehensive financial assistance package will be critical for any kind of involvement on the part of developing nations, industrialized countries – including the EU – will need to speed up the development of their positions on finance so that progress on these issues can be made in time for Copenhagen.

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