

FINANCE

The Key to Unlocking Developing Country Action

In a break from the Kyoto deal where developed countries paid developing countries for reducing emissions, the upcoming international negotiations on a new climate framework are expected to yield much stronger actions by developing countries. For the first time, developing countries will be expected to assume responsibility and cost for emissions reductions. However, as agreed by the United States (U.S.) and the rest of the global community in the Bali Action plan negotiated in December 2007, these actions are contingent on the provision of incremental funding from developed countries. Accordingly, developed countries' commitments to finance clean technology, reduced deforestation, and international adaptation are the key to unlocking developing country action.

HOW WILL THE U.S. BENEFIT FROM DEVELOPING COUNTRY ACTION?

Reducing emissions from developing country industries and deforestation, along with effective adaptation programs, will protect U.S. industrial jobs, agricultural production and national security interests while contributing to the global climate solution.

- **Developing country actions help level the competitive playing field for U.S. industry.** As developing countries carry out new actions in competitive and energy-intensive industry sectors such as cement and steel, it will cost developing countries in these sectors more to produce their goods, which will better reflect the true climate costs of doing business. These higher costs help to level the competitive playing field with companies in the U.S. as they work to comply with their own emission reduction goals.
- **Developing country actions to preserve forested land protects U.S. agriculture.** Developing country actions to reduce emissions from deforestation will not only protect important global ecosystems and biodiversity, but also will protect forests from conversion to farmland or livestock production, helping to maintain fair prices for agricultural production in the U.S.
- **Developing country adaptation will reduce security risks.** Climate change is expected to increase migration and conflicts over dwindling resources and access to clean water. Advance planning can reduce impacts and mitigate the need for U.S. military involvement.
- **Developing country actions are needed to solve the climate change problem.** Developing countries are projected to be responsible for most growth in greenhouse gas emissions over the coming decades through increased industrial emissions and cutting down forests (which were storing carbon). Limiting temperature increases and avoiding the worst climate impacts requires an international agreement with aggressive actions from both developed and developing countries.

HOW WILL PUBLIC FUNDING MOTIVATE DEVELOPING COUNTRY ACTION?

By joining other developed countries in a commitment to public financing, the U.S. can help bring about substantial developing country actions and support a global climate solution.

- **Finance overcomes barriers to developing country action.** Funding from developed countries is needed to overcome existing barriers to developing country actions, including inadequate capacity to implement effective programs, lack of access to advanced emission reduction technologies, and lack of financing for investments in energy efficiency and forest preservation. This does not mean paying for every ton of reduction, but rather investing funds strategically to leverage developing country and private sector actions.

- **Developed country funding can raise the bar on developing country performance.** Developed country funds can be distributed to get the most “bang for the buck,” creating an atmosphere in which developing countries compete with each other for limited funds.
- **Finance enables developing countries to adapt to new climate conditions.** Developing countries are the least responsible for global warming pollution, but will suffer the most from climate change impacts and lack the capacity to adapt to expected changes. Developed country funding will support adaptation planning and high priority adaptation projects, particularly in countries least able to afford these measures on their own.
- **Finance is needed to close the global climate deal.** Without promises of adequate financing, developing nations are unlikely to agree to the necessary reductions in emissions from industry, transportation, and deforestation, making it harder to reach a global accord.

WHAT FUNDING IS PROPOSED IN U.S. LEGISLATION?

Proposed U.S. legislation includes new commitments to public sector finance. Both the American Clean Energy and Security Act (H.R. 2454) and the Clean Energy Jobs and American Power Act (S. 1733) allocate allowance value to help unlock developing country actions, as follows:

- **Clean technology finance.** Both bills grant 1 percent of allowance value initially, growing to 3 and 4 percent over time under S. 1733 and H.R. 2454, respectively.
- **Support for reduced emissions from deforestation and degradation.** Both bills initially grant 5 percent of allowance value to pay for emissions reductions from deforestation in developing countries, declining to 2 percent over time. Importantly, this funding can also be seen as contributing to the U.S. mitigation effort, supplementing the emissions cap by achieving reductions equal to 10 percent of 2005 levels in 2020.
- **International adaptation.** Both bills grant 1 percent of allowance value initially, growing to 4 and 5 percent over time under H.R. 2454 and S. 1733, respectively.

While a good start, these finance levels are small compared to the best estimates of the need. Maintaining the allowance allocations in the proposed U.S. legislation is essential to demonstrate U.S. support for an international agreement that fully engages developing countries in the global climate solution. By expanding these proposed contributions, the U.S. could show global leadership while gaining more control over how international finance is distributed.

WHAT COMMITMENTS ARE NEEDED IN COPENHAGEN REGARDING FINANCE?

Unlocking developing country actions requires developed nations to ante up clear and specific commitments to public funding for clean technology, reduced emissions from deforestation, and adaptation in developing countries. In Copenhagen, developed countries need to commit public financing in amounts sufficient to:

- 1) Encourage developing countries to quickly propose and implement aggressive emission reduction actions;
- 2) Provide for immediate capacity building; and
- 3) Implement high priority projects to reduce deforestation and support adaptation.

Commitments will need to take the form of specific offers by individual countries, including funds offered in both the short-term and over the longer term.

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