COUNCIL OF
THE EUROPEAN UNION

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Council conclusions on International financing for climate action

2948th ECONOMIC and FINANCIAL AFFAIRS
Luxembourg, 9 Juin 2009

The Council adopted the following conclusions:

"The Council RECALLS its Conclusions on International Financing of Climate Change of 10 March 2009 and the European Council Conclusions of 19-20 March 2009 underlining the need to explore in more detail international financing mechanism.

The Council STRESSES that realising an emission path to keep the global temperature increase below 2°C will require very substantial mitigation efforts in all countries and REAFFIRMS that developed countries should take the lead by setting and implementing ambitious and binding medium- and long-term targets for reducing their emissions. Developing countries should undertake substantial nationally appropriate policies and actions to contain their emissions, with the support of developed countries in line with the principles enshrined in the UN Framework Convention on Climate Change.

The Council REITERATES that the private sector will be the main source of financing for mitigation. Driven by appropriate policies and regulation including a broad and liquid carbon market, investments in low-carbon technologies and accompanying lending will be redirected accordingly, in part by the prospect of energy cost savings and co-benefits.

PRESS

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The Council RECOGNISES that international financing including for technology diffusion and deployment will be required to facilitate developing countries' mitigation efforts, including by enhancing institutional capacity.

The Council UNDERLINES that international private and public financing should be linked to each country's mitigation efforts and level of development, providing incentives for additional effort in the recipient countries. Public support will also be needed to support mitigation actions in sectors where it may be difficult or inefficient to immediately devise and implement effective market-based incentives, including forestry. In addition, public financing and investments will be required for adaptation and to accelerate research, development and demonstration of advanced clean technologies, including joint global research cooperation efforts.
The Council RECALLS the substantial scale of needs as outlined by the Commission and other relevant institutions and mentioned in the Council (ENVIRONMENT) conclusions of March 2009. Raising the amounts needed to cover the incremental costs of global climate action is a challenge. The Council STRESSES that effectively governing and channelling the money towards climate activities and action (realising climate value for climate money) is an even greater challenge. Mitigation-related financial support to developing countries through carbon market mechanisms and from public funds should be fully recognised and scaled up over time dependent on the level of ambition of the Copenhagen agreement, the ambition of low-carbon development strategies adopted by developing countries, and the delivery over time of substantial and growing emission reductions.

The Council looks forward to further work and HIGHLIGHTS the main findings of the report by the EFC and EPC on international financing mechanisms for supporting climate policies for ensuring efficient, effective and equitable financing mechanisms for mitigation:

All countries, except the least developed, should contribute their fair share of international financing for climate action in developing countries, with developed countries taking the lead. The main principles of contribution should be the ability to pay and the responsibility for emissions [1]. This could be implemented based on a universal, comprehensive and specific contribution key, and contributions met through usual or specific new sources. Contributions based on the key should develop over time in line with the world economy. Also, global instruments addressing emissions in international aviation and maritime transport would be welcome. Irrespective of its source, all support paid for by taxpayers should comply on an ongoing basis with the principles of accountability, sound fiscal management, efficiency and effectiveness. Contributions could be channelled through a variety of multilateral and bilateral delivery mechanisms building on their comparative advantages and aligning them with the overall objectives of the convention, requiring a framework to measure report and verify (MRV) mitigation financing inside or linked to the UNFCCC.

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[1] This is without prejudice to the internal EU burden sharing which will be determined in good time before the Copenhagen Conference.

Comprehensive low carbon development strategies by developing countries, except the least developed, covering key emitting sectors, should be the basis for the contribution of developing countries to the global mitigation effort and a pathway to access to support mechanisms. Low carbon development strategies should identify autonomous nationally appropriate mitigation action and actions for which support is requested. They should also integrate longer-term perspectives in terms of emission pathways and related mitigation policies, including setting up emissions trading in key sectors. Appropriate mechanisms are needed to review, assess and verify low carbon development strategies. Validation by an international high-level body on an agreed basis could facilitate access to support mechanisms and could within a broader context be accepted by all relevant international, regional and bilateral institutions as recommended entry criteria for support. Own action by developing countries, especially harvesting negative and low cost abatement opportunities, is indispensable for a substantial leveraging of international financing, in particular in advanced developing countries. Strategies should be appropriately differentiated according to ability and level of development, whilst as a minimum demonstrating the potential for gradual transition towards a sustainable low carbon economy.

Specification and implementation of concrete mitigation action should be entered into a registry covering three levels: own effort, supported effort and effort enabled by financial support and investment generated through the international carbon market. A comprehensive system to measure, report and verify (MRV) mitigation actions in developing countries is needed. MRV of international support is also warranted. The allocation of support should move towards a performance-based system, strongly incentivising the promotion of actions which maximise climate value for climate money, such as mechanisms which rely on the principle of competition, based on effectiveness of emission reductions to access support.

A new mechanism including sectoral crediting and trading, should be developed to operate at sectoral levels, ensure environmental integrity, provide the administrative simplicity required to handle efforts at much larger scale and help advanced developing economies to make a stronger contribution to mitigation. Sectoral crediting should be based on no-lose targets whereby offset credits are issued for achieving emissions below an agreed benchmark, which is defined appropriately below the business-as-usual trend. Sectoral trading and no-lose targets would provide an important incentive for developing countries to take own actions whilst receiving support through offset credits. The project-based CDM should be reformed to ensure environmental integrity, and contribute to achieving real emission reductions. Advanced developing countries should gradually move to sectoral mechanisms and project-based CDM should be increasingly focused on least developed countries and areas where other crediting mechanisms are not feasible. An orderly transition to sector specific carbon mechanisms and in the longer term participation in cap and trade should be provided for. Sectoral approaches could also address carbon leakage concerns and assist with generating a more balanced distribution of support across developing countries.

The Council also HIGHLIGHTS:

Effective adaptation policies should aim at building resilience and ensuring capacity handle emerging threats and respond to urgent and immediate hazards, as well as move towards a long term strategic approach. In this respect the Council RECALLS its proposal for a Framework for Action on Adaptation. Substantial financing for adaptation should be directed primarily to the poorest as well as the most vulnerable countries in the context of the global climate policy framework. In the long run, greater mitigation effort will require less adaptation. Substantial adaptation support would have to be based on international public finance. The fight against climate change impacts should be fully integrated in development strategies and programmes, taking on board the lessons of aid effectiveness. Financial support for action to adapt to or mitigate climate change should support other sustainable development action.

The implementation of international climate change financing both for mitigation and adaptation should as far as possible build on existing and reformed elements and institutions of the international financial architecture. The potential of existing institutions and mechanisms should be carefully assessed, including with respect to governance, and their reform envisaged before considering the creation of new bodies. The Council RECOGNISES the need for international up-front support for the development of climate-resilient and low-carbon development strategies, including adaptation.

The Council REITERATES that in the context of a global and comprehensive agreement, the EU stands ready to contribute its fair share of international support including through public support and offset credits linked to EU’s ambitious mitigation targets. The EU encourages parties to agree to a fair and comprehensive global contribution key. The Council will assist the European Council to determine well in advance of the Copenhagen Conference
1) the EU positions on main approaches for financing mitigation, adaptation, technology support and capacity building, 2) the specifics of the EU's contribution and 3) principles of burden sharing among Member States.

All provisions therein have equal substance and value."