Dialogue on Globalization

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Copenhagen 2009: How to Finance Climate Policy

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Summary

The upcoming United Nations Climate Change Conference in Copenhagen, December 7th - 18th 2009, is an opportunity to design a new climate agreement to replace the Kyoto Protocol, which will expire in 2012. This fact sheet outlines the positions of the main countries and groupings with regards to curbing carbon emissions and sharing the financial burden.

Background

To keep the increase of global temperature below 2°C, the Intergovernmental Panel on Climate Change (IPCC) advises to cut global carbon emissions below 1990 levels, respectively by 40% until 2020 and 80% until 2050. Studies by the Stern Review on the Economics of Climate Change[1] and the World Wildlife Fund (WWF)[2] estimated the global costs as respectively US$ 500 billion and € 200-350 billion annually until 2030. These amounts equal less than 1% of global GDP, whereas, by contrast, in 2008 military expenditures amounted to 2.4% of global GDP (US$ 1.4 billion). Moreover, the Stern Review concluded that in case of inaction, the effects of global warming could cut the world's GDP by at least 5% (around US$ 2.8 billion) per year.

Three main issues will dominate negotiations in Copenhagen: 1) targets for developed countries to reduce their carbon emissions; 2) measures to curb the developing countries' future growth of emissions; 3) financial support from industrialized to developing countries. There are disagreements between parties in terms of commitments and implementation. And while scientists urge for a legally binding agreement, many of the main negotiating actors, including Yvo de Boer, the United Nations climate chief, anticipate a political agreement that will lead to further negotiations in 2010.

Positions of Main Actors

The **European Commission (EC)** insists that developing countries as well as industrialized countries have the responsibility to cut emissions. The EC plans to cut its carbon emissions compared to 1990 by 20% until 2020. Should other countries undertake similar actions, cuts could eventually increase to 30%. The Commission estimates the financial requirements for climate protection measures in developing countries by € 100bn (around 0.2% of global GDP) per year between 2013 and 2020. The European Union (EU) and other developed countries should contribute 50%. The commission suggests three main sources for financing: About 60% should come from domestic public and private finance in developing countries as well as international public finance by industrialized countries. Another 40% should be generated by an international carbon emissions trading market. The EC promised to contribute about € 15bn annually after 2013. However, there is still disagreement on sharing the financial burden among EU member states. Some EU governments block the Commission's proposal as they refuse to make concrete financial promises to the developing countries prior to Copenhagen.

The **United States** government under President Obama announced reducing carbon emissions by 17% until 2020 compared with the 2005 levels (which equals a cut of 7% below 1990 levels). By 2050 it intends to reduce its emissions by 83% below 2005 levels. The US Congress currently debates more ambitious emission-cutting targets (20% by 2020 below 2005 levels). The United States refused to ratify the 1997 Kyoto-Protocol as emission cuts were not imposed on rapidly developing countries like China and India and were considered damaging to the US economy. To date, the US has neither made any commitments to financial support for developing countries nor is the US willing to finance measures solely at their own expense without concessions from other nations. The US demands binding emission targets and more financial contribution from advanced developing countries, especially from China. Together, both countries accounts for 37% of total global emissions.

China announced actions would mainly depend on concessions from the US. China opposes binding commitments for developing nations as this would reduce their economic growth and impede eradication of

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1 http://www.hm-treasury.gov.uk/stern_review_report.ht

2 "The New Climate Deal". WWF 2009: http://assets.panda.org/downloads/wwf_climate_deal_1.pdf

poverty. Cutting carbon emissions could not be implemented without help from industrialized countries. Nations that grew rich by using fossil fuels now should bear the main financial burden (polluter-pays principle) by providing sufficient technological and financial transfers. Rather than creating a new treaty, China advocates for the implementation of the carbon reductions that the Kyoto Protocol imposes on industrialized nations. In the run-up to Copenhagen, China did not promise a fixed reduction of carbon emission, but announced to improve its carbon emission intensity (the ratio of pollution to production) by up to 50 percent until 2020. It points out that its per capita emissions is only one fifth of that of the US and therefore urges developed nations to cut emissions by at least 40% by 2020 and allocate US$ 400 billion for developing countries to fight global warming.

India, which together with China emits about one-fourth of the global greenhouse gases, also rejects legally binding emission cuts. However, it intends to voluntarily reduce its carbon emission intensity by 20 to 25 % of 2005 levels by 2020.

Table: Overview on Main Actors' Positions

	Offers (own emission cuts/ funds)
EC (13% of global emissions)	20-30% * € 100 billion/yr for developing from industrialized countries from 2013-2020 - EC's share: € 15 billion/yr
US (20%)	17% ***, 83% **** (Pending bill: 20% ***)
Russia (5%)	20-25% *
Japan (4%)	25% *
Brazil (2%)	38-42%*
	Demands on developed countries (emission cuts/ funds)
China (20%)	at least 40% * (no new treaty, but Kyoto Protocol to be implemented adequately) US$ 400 billion per year for developing countries
India (4%)	will not accept own legally binding emission cuts – plans voluntary cuts by 20-25%***
Africa (4%)	at least 40% * US$ 67 billion/yr for Africa

*Necessary emission cuts to avoid temperature rise beyond 2°C (as stated by IPCC): 40% *, 80% ***

** by 2020 below 1990 levels/ **by 2050 below 1990 levels/ *** by 2020 below 2005 levels/ **** by 2050 below 2005 levels*

Africa contributes only 4% to the worldwide carbon emissions but suffers most from the impacts of global warming. All 52 countries formulated a concerted statement with concrete claims. These include annual financial and technological support of US$ 67 billion (around 0.1% of global GDP) by developed nations. African countries urge developed nations to publish concrete numbers about financial support for poor countries. Africa also demands form industrialized countries that they heed the IPCC recommendations and reduce their carbon emission by at least 40% by 2020.

Developing countries (G77) declare they will sign up to a climate deal only if developed economies make the greatest possible efforts to cut emissions. The G77 insists that industrialized countries not impose new commitments on developing countries. The group declared that most developing countries had already launched actions and that it was now the responsibility of industrialized nations to provide additional technological and financial support. Industrialized nations have to commit to higher short-term reductions (at least 40% by 2020) and support poor nations with sufficient funds and technologies.

Challenges Ahead

- Copenhagen may not lead to a new treaty. However, a conceivable positive outcome would be a political agreement that includes commitments from industrialized countries and those of major developing countries. Such declaration could become the roadmap towards a binding treaty for the follow-up conferences in Germany and Mexico in 2010.
- The history of the Kyoto Protocol has shown that countries' commitments are only as good as their implementation. If the US, China, and the EU as biggest polluters agreed not only on commitments, but also started with their their implementation, other actors would possibly follow suit.
- So far, emission reduction and renewable energies are perceived mainly as an obstacle. Also without a legally binding treaty, green technologies could become an opportunity to boost countries' economies while cutting carbon emissions.

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