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AD HOC WORKING GROUP ON LONG-TERM COOPERATIVE ACTION UNDER THE CONVENTION
Second session
Bonn, 2–12 June 2008

Agenda item 3 (e)
Enabling the full, effective and sustained implementation of the Convention through long-term cooperative action now, up to and beyond 2012, by addressing, inter alia
Enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation

Report on the workshop on investment and financial flows to address climate change

Summary by the chair of the workshop

I. Introduction

1. The Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) agreed its work programme for 2008[1] at its first session. The AWG-LCA also agreed that its work should be facilitated by workshops and other activities to deepen understanding of and clarify elements contained in decision 1/CP.13 (the Bali Action Plan).

2. The AWG-LCA, at the same session, requested the secretariat, under the guidance of the Chair in consultation with Parties, to organize a workshop at its second session on "Investment and financial flows to address climate change".[2]

3. This note by the Chair of the AWG-LCA summarizes the presentations, exchange of views and discussions by Parties at the workshop.

4. Background to the discussion in the workshop was provided by the Parties' submissions to the AWG-LCA at its first session, the Chair's summary of the debate at that session, the secretariat's information note on ongoing work related to the Bali Action Plan[3] and a presentation by the secretariat on the overall results of the work undertaken by the secretariat on investment and financial flows to address climate change.

5. The workshop was chaired by the Chair of the AWG-LCA, Mr. Luiz Figueiredo Machado.

II. Summary of discussions

6. A representative of the secretariat briefly outlined the elements of the Bali Action Plan and ongoing work under the Convention, referring to a number of issues relating to financing under the financing block as well as under the other blocks of the Bali Action Plan. The presentation also provided an overview of the investment and financial flows needed for an effective response to climate

[1] FCCC/AWGLCA/2008/3.
[2] FCCC/AWGLCA/2008/3, paragraph 26.
[3] FCCC/AWGLCA/2008/INF.1.

change and recognized that ensuring climate change resilient development will require scaling up funding, shifts in investment patterns and optimizing the allocation of existing funds. This could be addressed by financial arrangements directly under the Convention, financial options made available through rules of the Convention that create value, and financial options outside the Convention that are nonetheless linked to it.

7. Presentations were given by the following 10 Parties: Philippines on behalf of the Group of 77 and China, Germany on behalf of the European Community and its member States, Bangladesh on behalf of the least developed countries (LDCs), Barbados on behalf of the Alliance of Small Island States (AOSIS), Mexico, China, Norway, Republic of Korea, Switzerland, India and Japan. After the presentations, interventions were made by representatives of Argentina, Malaysia, United States of America, the Philippines, South Africa on behalf of Africa, India, Brazil, Slovenia on behalf of the European Community and its member States, New Zealand, Saudi Arabia and Bolivarian Republic of Venezuela.

8. Parties agreed on the need for predictable and sustainable financial resources for mitigation, adaptation and technology cooperation to address climate change. Several Parties noted that, according to estimates, the financial resources required are much greater than those currently available under the Convention.

9. Parties noted that some requirements can be met through funds under the Convention and market mechanisms while others can be met through enabling policies that influence private-sector investments.

10. Several of the presentations outlined proposals that appear to have the potential to considerably increase the financial resources available to address climate change.

11. Many Parties commented on issues related to governance of financial resources under the Convention. Governance issues apply both to the funds collected and to the manner in which those funds are disbursed. Governance issues identified include accountability to the Conference of the Parties (COP), balanced representation of all Parties, transparency and ease of access to the funding.

12. A number of Parties suggested that new funds with specific purposes be established. Other Parties expressed concern over potential fragmentation of the financial resources under the Convention. The establishment of several new funds could create a need for an umbrella mechanism to coordinate the management of all funds under the direction of the COP.

13. Several Parties proposed principles that should apply to financial resources collected or disbursed under the Convention. Principles proposed include equity, common but differentiated responsibility, the polluter-pays principle, adequacy, predictability, sustainability, new and additional funding, grant funding, simplified access and priority access for the most vulnerable countries.

14. Specific proposals presented at the workshop include:

(a) AOSIS proposed that a convention adaptation fund be established under the guidance and authority of the COP. AOSIS also proposed an insurance mechanism and a technology fund to fast-track development of renewable energy technologies;

(b) Mexico put forward a proposal for a world climate change fund to support mitigation, adaptation and technology cooperation through financial contributions from developed and developing countries based on criteria such as emissions, population and gross domestic product (GDP);

(c) China proposed scaling up funding from developed countries through a percentage of GDP in addition to existing official development assistance to support an adaptation fund and a multilateral technology acquisition fund;

(d) Norway proposed that adaptation should be financed through auctioning a share of assigned amount units of all Parties included in Annex I to the Convention (Annex I Parties);

(e) Republic of Korea proposed that developing countries should earn credits for implementing nationally appropriate mitigation actions and that a market for such credits should be created by demand originating from deeper emission reductions commitments for Annex I Parties;

(f) Switzerland proposed a global carbon tax with an exemption for countries whose annual per capita emissions are less than 1.5 tonnes of carbon dioxide. The resources generated would flow into a multilateral fund for adaptation and insurance along with a national climate change fund;

(g) A new financing architecture proposed by India which consists of different financing streams to address specific requirements such as technology acquisition and a technology transfer fund, a venture capital fund for emerging technologies, and a collaborative climate research fund.

15. Parties used the opportunity to seek additional information on and clarification of the proposals. It was suggested that Parties be invited to submit further information on their proposals.

16. Other potential sources of financial resources were mentioned by Parties including: a levy on international air travel; extension of the share of proceeds to other mechanisms; and a levy on bunker fuels.

17. Many Parties noted the urgent need for development of economic valuation or assessment tools to enable determination of the actual costs of adaptation.

III. Possible areas of focus

18. The workshop provided a good opportunity for Parties to present their proposals. Several areas of interest and convergence emerged during the discussions, which could be further considered by Parties, including:

(a) The need for predictable and sustainable financial resources for mitigation, adaptation and technology cooperation;

(b) The financial resources required are much greater than those currently available;

(c) Proposals from Parties that appear to have the potential to meet the requirements referred to in paragraphs 18 (a) and (b) above;

(d) The possibility of meeting some requirements through funds under the Convention and market mechanisms while others can be met through enabling policies that influence private-sector investments;

(e) Provision of new and additional resources under the Convention, now, up to and beyond 2012.

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