

Response to UNFCCC Secretariat request for proposals on:

Information on strategies and approaches for mobilizing scaled-up climate finance (COP)

Global Funding for adaptation and mitigation must reach \$100 billion annually at least by 2020 in order to be adequate. A credible trajectory for scaling up public finance in the period 2013-2020 would build on fulfilled fast-start commitments of \$10 billion per year in 2010-2012, and increase by \$10 billion each year, so that the commitment of \$100 billion by 2020 is assuredly met to fill the Green Climate Fund.

Governments must make strong commitments of public financing for the next decade, while also working towards an internationally agreed upon financing mechanism. Proposals that require action on the level of national governments are likely to be implemented sooner than proposals that require coordinated international action. However, innovative global-scale proposals (including the Financial Transaction Tax and the Shipping Tax) have promising potential to leverage the necessary funds in an equitable manner. Both options should be considered. Additionally, rather than relying only on state-based approaches to financing, the Green Climate Fund must leverage private investment by embedding financial incentives into the fund's general structure. The incentives to ensure quality, productive projects should be aligned with the financial pay-offs.

In deciding on the finance mechanism(s) the UNFCCC will rely on to fill the fund, SustainUS urges negotiators to promote a new, standardized accounting system to ensure transparency, uniformity, comparability, and fulfillment of climate funding pledges. Furthermore, SustainUS highlights that all funding must be new and additional: mechanisms must be put in place to ensure that developed countries do not avoid their responsibilities by reallocating development aid already committed under Official Development Assistance (ODA).

The GCF will be crucial to the success of most mitigation and adaptation initiatives, but it can only fill this role if its source of funding is reliable and well administered. The Doha decision simply held developed countries to maintain the same levels of contributions made in the period between 2010 and 2012 and "encouraged" developed country parties to add to the fund. To ensure the success of the GCF, SustainUS proposes the following financing sources.

Developed Country Financing

We must mobilize adequate finance from 2013 onwards via the Green Climate Fund. In order to promote a paradigm shift, incentives must be introduced to promote change. With this in mind, we support a "Polluter Pays" approach to climate funding. Additionally, the principle of "common but differentiated responsibilities" (CBDR) can be addressed through revenue generation, including a rebate mechanism to ensure no net incidence on developing countries. SustainUS supports a mix of public and private financing that gradually include a strong innovative international agreement.

The specifics of public financing should be flexible and vary from country to country to promote fairness and political feasibility in each respective state. However, states must commit to a specific level of funding and use the standardized accounting method specified above. All public financing should streamline money directly into “off-budget funding streams” in order to limit re-appropriation due to competing concerns within the state. We support the following options:

1. Carbon Pricing

A carbon price—through a carbon tax, cap and trade, or hybrid system—not only holds great potential to raise the necessary level of funds, but also provides the incentive to change consumer behavioral patterns. To date, however, efforts to price carbon have fallen short in terms of price levels and overall coverage; every effort should be made to price each unit of emitted carbon at its social cost. A carbon price effectively embeds the price of carbon into the goods and services that are responsible for climate change. Ideally, a carbon price is a simple, attributable, and scalable mechanism to generate funds for climate-related projects. However, in implementation, a carbon price runs the risks of inducing leakage of emissions to areas with no carbon price and having a regressive impact on low-income stakeholders. If implemented, well-designed corrective policies, such as a rebate mechanism for low-income households, can ensure the neutrality of pricing.

- a. **Global implementation:** Past proposals for climate financing mechanisms have included a global implementation of a carbon tax. A study by The Swiss Global Carbon Adaptation Tax of 2008 concluded that a uniform global levy on carbon of US \$2 per ton of CO₂ on all fossil fuel emissions would raise up to US \$18 billion after different groups of countries retain different shares of the revenue domestically. Estimates by the United Nations Development Programme put the potential revenue at US \$265 billion if a US \$20 tax per ton of CO₂ were charged in OECD member countries. SustainUS has concerns that if globally implemented, the tax would need strong provisions to ensure that developing states were not disproportionately affected. While a carbon tax would apply in all countries, such a scheme could feature differentiated tax levels for countries of varying economic status. While there are limits to how high a country-specific tax could be without driving out business to other, not-participatory markets, this concern should not rule out the possibility of a country-by-country carbon tax. A balance could be struck between raised operating cost (much like a minimum wage) and other factors such as access to high grossing markets.
- b. **National implementation:** Recognizing that, due to the international collaboration required, a globally implemented carbon price remains highly politically unfeasible, SustainUS also supports the implementation of carbon prices at the national level. A carbon price could be made especially effective and politically feasible through revenue neutrality. For every dollar generated, existing taxes, such as payroll taxes or sales taxes, are reduced. As carbon tax revenues are phased in (with the tax rates rising gradually but steadily, to allow a smooth transition), existing taxes will be phased out and, in some cases, eliminated.
- c. **Mitigation bonus:** In addition to serving as a finance mechanism for the Green Climate Fund, a global carbon price could act as a mitigation mechanism by encouraging consumers to opt for less carbon intensive products and services.

2. Taxation of Fossil Fuel Extraction

Redirect money from the taxation of fuel extraction (such as coal and oil) to an international climate fund. This policy is best pursued on a country-to-country basis as opposed to a global mandate, as only five countries would be widely affected. This mechanism is comparable to an upstream carbon tax, and many of the advantages and concerns raised above apply here. We recognize that private financing should assist and eventually surpass the public commitment. According to the 2010 UN High Level Advisory Group on Climate Change Financing report, “International private investment flows are essential for the transition to a low carbon, climate-resilient future.” Thus, we request the implementation of public policies that will help direct private finance towards adaptation and mitigation measures. In a statement issued by 259 investors, collectively representing over US\$15 trillion, private industry representatives wrote, “Investors are concerned with the risks presented by climate change to regional and global economies and to individual assets. At the same time, investors are interested in large potential economic opportunities that the transition to a low-carbon economy presents.” To encourage more climate-conscious investments, governments should craft a policy-framework that reduces long-term risk of returns and creates a market for energy efficiency projects. Mitigation targets under the UNFCCC therefore have a direct relationship with GCF funding.

Innovative Sources of International Financing

With time and international negotiation, we support a coordinated global funding stream, which has the potential to raise funds more predictably and in larger sums. This international fund should be slowly phased in to support and eventually limit public funding. SustainUS encourages negotiators to consider the following options:

1. The Financial Transaction Tax

This approach, derived from the “Tobin Tax” proposal of the 1970s, and would apply to speculative trade on financial products: stocks, bonds, commodities and currency transactions. Since everyday transactional withdrawals and deposits are not applicable, the tax is progressive by nature, affecting the general public less than financial industry professionals. Furthermore, the digital technology currently employed by the global banking system would allow the tax to be gathered very simply. Much like implementing a carbon tax, introducing a FTT would require measures that limit potential distortion or avoidance. Even if not implemented universally, a financial transaction tax could be implemented within markets. Estimates vary, but experts suggest that at a typical rate of 0.05%, global revenues could be as much as \$400 billion to \$1 trillion per year globally.

2. Reallocation of Fossil Fuel Subsidies

G20 Leaders committed in September 2009 to “rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption”. Total subsidies to fossil fuel consumption in 37 non-OECD countries in 2008 amounted to US \$557 billion, nearly five times the yearly bilateral aid flows to developing countries as defined by Official Development Assistance (ODA). Reallocation of these funds holds enormous potential for both environmental mitigation efforts and funding streams. Currently subsidies are protected under claims of equity for low-income households, but some of the savings could be

allocated for social programs or subsidization of energy-saving products and transportation to benefit these individuals.

The benefits of eliminating such subsidies are numerous: Depending on the number of countries that participate, the speed at which they remove their subsidies, and the amount that they choose to redirect for climate finance, this approach could lead to a predictable source of funding, from a few billion to \$8 billion dollars a year. Removing fossil fuel subsidies in a number of non-OECD countries could reduce world Greenhouse Gas (GHG) emissions by 10% in 2050. In the short term, a multilateral phase out approach over the years 2013-2020 could increase global trade by 0.1%. In the long term, assuming that the subsidies are reallocated to social means, the shift would actually raise global GDP by 0.5% by 2050.

3. International transport

Develop mechanisms to reduce emissions from international transportation (bunkers) in a way that can generate finance for developing countries while reducing emissions. In practice this would come in the form of a carbon tax on all bunker fuels, equivalent to a US \$5-10/tonne of CO₂. All suppliers of fuels would be asked to register and to collect the bunker fuel levies, which would be managed by a global organization. SustainUS emphasizes the need for a thoroughly studied system of built in rebate mechanisms to prevent developing states, particularly small island states, from being disproportionately negatively impacted by the tax.

The levy would tackle the 3.3 percent of global emissions generated by shipping, emissions which are predicted to rise by between 150 and 250 percent by 2050. Estimates of the total financing in 2020 are in the range of US \$13- 49 billion per year. In aviation, there are estimates of US \$10- 26 billion. In maritime, revenues are estimated from US \$3 billion up to US \$23 billion.

4. Debt for Clean Energy Swap

Under this approach, sovereign creditors would agree to forgo outstanding liabilities of debtor governments under the condition that the funds are used domestically by the debtor governments to reduce emissions by an agreed upon amount. The distinguishing aspect here is that debtor countries would be able to use local currencies to finance recurrent costs of operations related to emission reduction within the country, instead of using it to purchase foreign currency to repay outstanding debt.

The points outlined in this submission have broad support among climate finance professionals and organizations. As we work toward filling the GCF, pursuing meaningful mitigation actions, and transparent implementation, it will be crucial to include—both formally and substantively—the views of practitioners, experts, and, most importantly, those most vulnerable to climate change impacts.

This submission was authored by members of SustainUS, an accredited observer organization within the UNFCCC process.

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