

Smog envelops the horizon as vehicles crawl in traffic along a major road in Beijing.



# International *The New Reason for Global Climate Gridlock* Climate Finance

Global climate negotiations have been deadlocked for 20 years, but now there's a new barrier to overcome that unfortunately may prove just as troublesome as the old impediments to progress. The United States has been in the international doghouse for a long time because of our failure to reduce our own greenhouse gas emissions. Our outlier status is not likely to change in the years ahead for an additional reason—our reluctance to help emerging economies finance their climate measures.

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## Climate Diplomacy until Today

For the past two decades, developed and developing countries have argued about which nations should mitigate climate emissions. On one hand, China, India, and other emerging economies declined to commit to slow the growth of their emissions prior to dramatic emissions reductions by the United States and other developed nations. On the other hand, the United States refused to take action absent simultaneous emissions abatement commitments from major emerging economies. A decade ago most of the world (but not the United States) accepted the developing country position and enshrined it in the controversial 1997 Kyoto treaty, which asked developed nations alone to modestly reduce emissions (an average of 5 percent below 1990 levels).

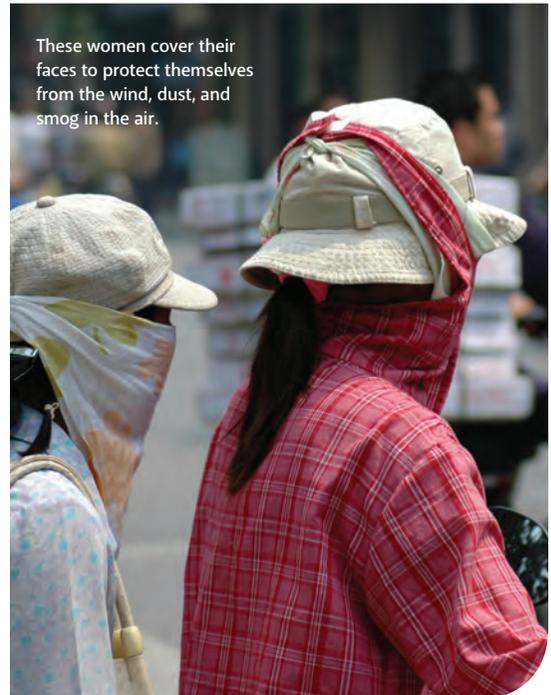
In the run-up to the news-making Copenhagen climate summit last December, there were many reasons for optimism about the prospects for a new global compact that would involve action by all major economies and thus move beyond the original Kyoto-era divide. A comprehensive climate and energy bill passed the U.S. House of Representatives that, if enacted into law, would have created the foundation for U.S. global leadership. In addition, Brazil, China, India, Indonesia, and most other major emerging economies announced new clean energy or emissions abatement targets prior to Copenhagen.

While far from perfect, global diplomacy produced the Copenhagen Accord and a new roadmap for global action. The world's major economies, including all major emerging economies, agreed to take action. They also agreed to report transparently on their progress and to participate in a new international consultation process to promote trust and accountability. President Obama committed the United States to reduce its emissions in the range of 17

percent from 2005 levels by 2020. Other major economies also made nationally appropriate mitigation pledges.

Under the Copenhagen Accord, developed countries agreed to help finance climate actions in developing nations. They pledged to provide \$30 billion in foreign aid by the end of 2012 and to mobilize \$100 billion a year from public and private sources by 2020. International climate finance is an essential part of a climate solution because historic responsibility and financial capacity point primarily to developed nations, whereas low-cost emissions reductions and climate vulnerability are primarily in developing nations. Financial flows between rich and poor nations are critically needed to make sure solutions are both fair and cost-effective.

The International Energy Agency expects that well over 90 percent of the growth in greenhouse gas emissions over the next several decades will take place in developing countries, with trillions of dollars set



These women cover their faces to protect themselves from the wind, dust, and smog in the air.

to be invested in new energy sources and infrastructure. Without billions of dollars per year in financial support to “green” these investments, the world will likely fail to reach agreement on mitigation targets. Financial incentives are also needed to help developing nations reduce deforestation, which accounts for about 15 percent of global greenhouse gas emissions, and to help protect vulnerable countries from potentially devastating and destabilizing climate impacts.

And without adequate international assistance, developing nations will simply do less than the world needs of them. This is basic economics: the world’s climate is a global public good, and incentives and collective action are required for real solutions.

### **Storm Clouds Ahead for Climate Diplomacy?**

Following the collapse of climate and energy legislation in the U.S. Senate, some climate and foreign policy experts are wondering aloud whether the Copenhagen Accord framework is stillborn. Robust U.S. emissions mitigation in the months ahead is unlikely given the outcome of the midterm elections, growing opposition to government regulation, high unemployment rates, and skyrocketing budget deficits. Even climate policy optimists envision only incremental progress on clean energy policy.

Many experts predict that the U.S. political environment will have a chilling effect on climate actions by other nations. With this backdrop, expectations for the December climate summit in Cancun, Mexico, are exceptionally modest. The best-case scenario seems to be agreement on UN text that merely restates the Copenhagen Accord and makes incremental progress toward the

creation of implementing mechanisms, such as a new “Green Fund.” If the negotiations break down (always a possibility), expect governments, advocates, and the media to point the finger of blame toward Congress and its refusal to regulate U.S. emissions.

But taking a slightly longer view, however, the outlook for global climate diplomacy may look somewhat different, although perhaps equally troubling. The collapse of comprehensive climate legislation in the United States may well have a negative impact on climate diplomacy but not for the reason being given. This is because on emissions mitigation the situation is not as dire as it may appear. The United States still has a number of potentially significant tools for reducing its emissions, including regulating greenhouse gases under the Clean Air Act, state- and regional-level cap-and-trade programs, and federal and state clean energy policies, such as renewable portfolio standards and efficiency standards for appliances and automobiles.

The consensus of researchers at RFF and the World Resources Institute (WRI) has been that the United States would achieve reductions in the range of 10 to 14 percent below 2005 levels by 2020 if these mechanisms were deployed in a robust manner. In 2020, the difference between these potential “plan B” outcomes and the 17 percent reduction President Obama pledged in Copenhagen may not be so large (in either political or environmental terms) as to derail global climate cooperation. Also, Congress might yet enact a comprehensive climate bill this decade. Given the unpredictability of U.S. and global events, accurately predicting what will happen in 2013 or 2015 on domestic climate policy is almost impossible.



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In view of this, developing nations and climate advocates are pressing donor nations to find what they are calling “innovative sources” for climate finance. Earlier this year, UN Secretary General Ban Ki Moon appointed a high-level advisory group on this subject, chaired by Prime Ministers Meles Zenawi of Ethiopia and Jens Stoltenberg of Norway. That group and others are evaluating several options including redirecting fossil-fuel subsidies, levying fees on international aviation and shipping, charging fees on certain financial transactions, and “greening” multilateral energy-sector lending by the major development banks.

Expect little agreement among countries on such ideas anytime soon. Indeed, neither the UN report on climate finance nor the upcoming Cancun negotiations are likely to provide a clear political narrative about how to pay for climate action in developing nations, what the money should be used for, what these investments would achieve in any concrete way, when any new funding sources would start, or how decisions on these and other critical climate finance issues will be made.

Answers to these questions are urgently needed to keep the Copenhagen framework from unraveling. This will take time in today’s fractious political environment. But make no mistake: international climate finance is moving to center stage. In the years ahead the world will measure U.S. leadership on climate change not just by what our nation does domestically, but also by what role we play in mobilizing the financial resources needed to create a fair and cost-effective global solution. ●

In contrast, the United States now has no real strategy for mobilizing public and private finance to support climate actions in developing nations at the level envisioned by the Copenhagen Accord. Had the Senate approved the climate bill that passed the House, the legislation would mobilize \$10 billion to \$15 billion a year in 2020 for climate actions in developing nations—a sum that begins to approach the U.S. share of the \$100 billion a year promised in the Copenhagen Accord. (The Senate bill would have set aside a portion of new revenues from the auctioning of emissions permits to industry and created financial incentives for polluters to invest in emissions mitigation activities overseas.)

Mobilizing similar sums under the Clean Air Act, automobile efficiency standards, and other incremental energy policies, however, would be challenging and unprecedented. Stated simply, the United States has no “plan B” on climate finance.