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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Stepping up international climate finance: A European blueprint for the Copenhagen
deal**

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1. EXECUTIVE SUMMARY

The EU has set the most ambitious climate reduction targets in the world, with binding mechanisms already in place that guarantee a unilateral 20% greenhouse gas emission reduction by 2020 compared to 1990 levels. The EU is committed to increase this to a 30% reduction in the context of a fair and ambitious global agreement in Copenhagen, if other developed countries commit themselves to comparable reductions, and if economically more advanced developing countries contribute adequately according to their responsibilities and respective capabilities. But action by the EU alone is not enough. An effective deal in Copenhagen requires

- ambitious cuts by all developed countries - and many need to step up their current pledges,
- appropriate mitigation actions by developing countries, especially those that are economically more advanced, and
- an effective global architecture to give the right incentives to galvanise investment into a low carbon economy.

At the L'Aquila summit in July the Major Economies Forum (MEF), which includes key developing countries, recognised the scientific view that the increase in global average temperature ought not to exceed 2°C. The challenge in Copenhagen will be to translate this objective into concrete emission reduction targets. Science shows that this means a reduction of global emissions of at least 50 % compared to 1990 by 2050 and that global emissions need to peak by 2020. Science also shows that this means that developed countries need to have made cuts of 25-40% by 2020 and at least 80% by 2050.

A deal on financing will be central to achieving an agreement at Copenhagen. UN negotiations are dangerously close to deadlock. Developed countries expect developing countries, especially the economically more advanced, to contribute to the overall effort. At the same time, developing countries want to see a clear position from developed countries on finance for mitigation and adaptation. With less than 90 days left before Copenhagen, the EU needs to re-take the initiative to enable the negotiations to move forward.

This paper seeks to unlock the current impasse in the negotiations by presenting a blueprint on climate finance. In March 2009, the European Council made clear the EU's willingness to contribute a fair share to the global financial effort. The EU should now go one step further, and set out the likely sources of finance, how to define a fair contribution, and how to organise the financing. However, it should be understood that none of the figures in this paper represent formal EU proposals for commitments. They should be seen as indications of the order of magnitude of the finance that is likely to be needed in the event that Copenhagen achieves an ambitious outcome, with universal contributions from developed and economically more advanced developing countries, and a global carbon market that fully plays its role.

The European Parliament and the Council are invited to consider the following key elements:

- Based on the Commission's best estimate, finance requirements for adaptation and mitigation actions in developing countries could reach roughly €100 billion per year by 2020. Domestic finance (public and private) in developing countries, the global carbon market and complementary international public financial flows should all play a role in meeting these requirements. Domestic private and public finance could deliver between 20-40 %, the carbon market up to around 40 %, and international public finance could contribute to cover the remainder. The more ambitious the overall agreement is in terms of mitigation, the more it will require financial support from developed countries to the developing world. At the same time, more ambitious and widespread cap and trade systems will also generate more resources for mitigation activities in developing countries;
- The international carbon market, if designed properly, will create an increasing financial flow to developing countries and could potentially deliver as much as €38 billion per year in 2020. The Copenhagen agreement needs to establish a new sectoral carbon market crediting mechanism, while focussing the Clean Development Mechanism (CDM) on Least Developed Countries. The EU should create an incentive for this transition under the EU Emissions Trading System;
- Based on the Commission's best estimate, international public funding in the range of €22 to 50 billion per year should be made available in 2020. From 2013 public funding contributions should be shared out on the basis of ability to pay and responsibility for emissions and include economically more advanced developing countries. On the basis of these assumptions, the EU share would be from around 10% to around 30% depending on the weight given to these two criteria. In case of an ambitious outcome in Copenhagen, the EU's fair contribution could therefore be between € 2 to 15 billion per year in 2020 depending on the overall size of the global financing agreed and the weight given to each distribution criterion;
- Support to adaptation should give priority to the most vulnerable and poor developing countries;
- International aviation and maritime transport can provide an important source of innovative financing, and should be further explored;
- Governance of the future international financial architecture should be decentralised and bottom-up. It must also be transparent, allow for effective monitoring, and should respect agreed standards for aid effectiveness. A new High-level Forum on International Climate Finance should monitor and regularly review gaps and imbalances in financing mitigation and adaptation actions;
- All countries, except LDCs, should prepare low-carbon growth plans by 2011, including credible mid-term and long-term objectives and prepare annual greenhouse gas inventories. The EU should present its own low-carbon growth plan for the period until 2050 by 2011.
- Between 2010–2012, in the event of a successful agreement in Copenhagen, fast-start financing is likely to be needed for adaptation, mitigation, research and capacity building in developing countries in the range of €5 to 7 billion per year. To this end, and on the basis of the above-mentioned assumptions, the EU should consider an immediate contribution of €0.5 to 2.1 billion per year, starting in 2010. Both the EU budget and national budgets should be ready to contribute to this funding;
- For the period after 2012, and as part of the package of proposals for the next financial framework the Commission would make a proposal for a single, global EU offer, including whether to fund such an offer from 2013 within the budget, or whether to establish a separate Climate Fund, as part of the package of proposals for the financial framework

post-2013, or a combination of the two. In the event of using the EU budget, a temporary solution for the year 2013, covered by the current financial framework, would also need to be proposed. Direct contributions from individual Member States could also form an important source of EU funding as part of the overall EU effort. The Commission's clear preference would be to use the EU budget, which would also allow the European Parliament to play its full role;

- If the EU budget is not used, the sharing of contributions inside the EU should follow the same principles of contribution as the international level, taking into account the special circumstances of Member States.

The scale of international public finance contributions would be significant but should not be exaggerated. For example, the scale of possible EU public finance contributions needed would be substantially smaller than the likely receipts to national budgets from auctioning revenues. Furthermore, fighting climate change is in general terms much less costly than dealing with its consequences.

2. GENERATING ADEQUATE FINANCIAL FLOWS

The scale of financial flows needed for adaptation and mitigation is estimated at around €100 billion per year by 2020¹. This sum is very often wrongly assumed to be the necessary contribution from public budgets of developed countries. There are a variety of different sources which can be expected to contribute:

- domestic finance (public and private);
- flows leveraged by the carbon market;
- international public finance flows.

Clearly the further development and expansion of the carbon market will be critical to secure the resources needed. The current carbon market triggered financial flows towards developing countries estimated at €4.5 billion in 2008, with 75% of the demand coming from the EU private sector because of the EU's emission trading system². It should be the main channel for private-sector carbon finance to support mitigation activities in developing countries. This would leave public finance to focus in the short and medium term and beyond on adaptation, capacity building and technology research, development and demonstration – and on helping to leverage private sector investment, e.g. by covering the financing needs during early uptake of new technologies.

The more the carbon market can provide, the less demand there will be on public finance. That is why a properly functioning carbon market with ambitious targets is so important, and why more advanced developing countries should follow the OECD trend and introduce cap-and-trade systems.

2.1. Mobilising domestic finance

Domestic private finance will constitute a large part of the necessary investments, not only in developed countries but also in developing countries. As a group, developing countries should limit the growth of their emissions to roughly 15 – 30% below business as usual by 2020. A

¹ See Chapter 2 of the Staff Working Document.

² Adapted from: The World Bank, State and trends of the carbon market 2009 http://siteresources.worldbank.org/EXTCARBONFINANCE/Resources/State_and_Trends_of_the_Carbon_Market_2009-FINALb.pdf.

major part of the necessary investment is already commercially viable – with the additional investment recouped via reduced energy bills. For instance, low cost energy efficiency measures can deliver two thirds of the potential emission reductions in the energy sector³. Private investment in the energy sector can be stimulated through the establishment of the right policy framework, including setting up emission trading systems covering key emitting sectors, national regulations and financial incentives. Many developing countries are already introducing energy efficiency standards which leapfrog old carbon intensive technologies. Other innovative instruments can spur private investments in developing countries. For instance the EU directive on renewable energy⁴ promotes investments in new renewable energy infrastructure in North Africa.

Furthermore, many developing countries, especially the economically more advanced ones, have sufficient own financial resources at their disposal to stimulate the necessary domestic investment. Brazil, for instance, has already announced that it will carry a significant part of the costs of reducing emissions from deforestation.

A large part of the funding for adaptation can also come from private households and private firms as it is in their own economic interest. By minimising their risk exposure they ensure that their private assets such as buildings are increasingly climate proof. However, the poorest countries, in particular least developed countries (LDCs), together with the poorest segments of the populations in developing countries, will not have sufficient means to invest in adaptation to cope with the adverse effects of climate change. They will depend largely on public assistance, both domestic and international.

2.2. Making full use of the carbon market

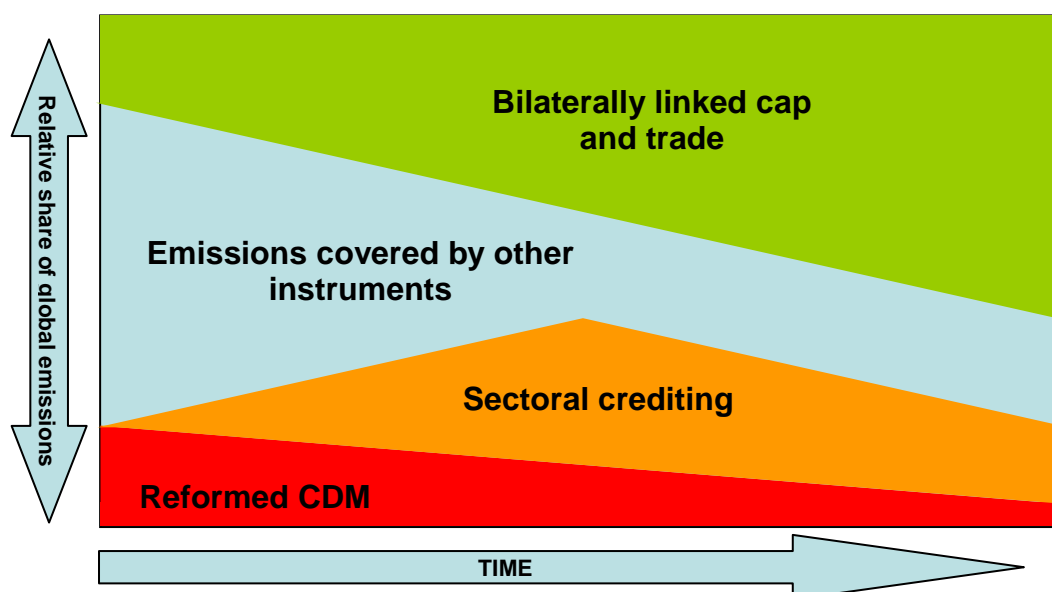
The international carbon market has proven to be an effective tool to leverage private sector investment in developing countries, while allowing developed countries to achieve their emission reduction targets cost-effectively. Naturally, most of the financial flows have benefitted those developing countries with significant emission reduction potential. To ensure a dynamic development of the international carbon market (as illustrated in figure 1), the existing Clean Development Mechanism (CDM) needs to be substantially reformed and focus on LDCs. In addition, for economically more advanced developing countries and highly competitive economic sectors, the sectoral carbon market crediting mechanism should be phased in after 2012⁵.

Figure 1: Gradual development of the global carbon market

³ See SEC(2009) 101.

⁴ Directive 2009/28/EC.

⁵ See Chapter 4 of the Staff Working Document.



In moving beyond the project-based approach this new sectoral mechanism can and should deliver a significant scaling up of investment in low-carbon technologies in developing countries and take into account the capacity by developing countries to take their own actions in those sectors. The driving force for these investments is a robust medium-term carbon price in OECD countries.

Such investments take place as a substitute for reductions in developed countries (so called 'off-setting'). Thus procurement of offset credits cannot be counted towards the public financial support that developed countries pledge in addition to their reduction targets, as this would in effect count such offsets twice.

It is useful, however, to identify and report offset credits as distinct financial flows towards developing countries. This recognition of financial flows from offset credits will need to be based on an assessment of the total net flows (measured in tonnes) in or out of a country and on average market prices. It would be desirable to base this assessment on existing reporting mechanisms on financial transfer to developing countries, e.g. OECD DAC reporting, instead of creating new independent reporting requirements.

The international carbon market delivers multiple benefits. Establishing a carbon market with a 30% reduction target for the group of developed countries would cut global mitigation costs by about a quarter by 2020. At the same time, it would generate financial flows to developing countries equalling around €38 billion p.a.⁶. Furthermore, the demand for offset credits is creating multiplier effects as it leverages substantially more carbon finance into low carbon development investments.

The potential scale of the financial flows mobilised by the carbon market depends on a number of key architectural elements of the Copenhagen agreement. In order to promote a robust carbon market that delivers finance at scale in the coming years, the negotiating Parties need to strive for a high level of ambition of emission reduction targets from developed countries, take into account or retire the surplus of Assigned Amount Units from the first commitment period, and set ambitious starting levels for the emission reduction paths for the period 2013-2020⁷. Otherwise, the supply-demand balance across all Annex I countries would

⁶ See Chapter 3 of the Staff Working Document.

⁷ See Chapter 7 of the Staff Working Document.

not give rise to a carbon price. In the period 2008 to 2012, the carbon price and the financial flows to developing countries are largely a result of EU action – i.e. establishment of a robust cap for the period 2008-2020 and non-recognition of AAUs in the EU ETS. It is therefore of vital importance for the emerging OECD-wide carbon market to isolate linked cap-and-trade systems from surplus AAUs.

2.3. Determining the scale of international public funding

The less the carbon market delivers, the higher the demand for public finance for mitigation will be. However, as the size of the carbon market cannot be predicted with certainty at this stage, the additional demands on public finances cannot yet be determined either. This is indeed one of the major reasons why regular review will be needed, via the proposed High Level Forum on International Climate Finance (see Chapter 4).

The amount of public finance required for mitigation is likely to rise gradually and will, of course, be linked to the degree of ambition of actions in developing countries. Immediately after the agreement in Copenhagen, it should focus mainly on capacity building, particularly to strengthen institutional and regulatory capacities in developing countries, and selected pilot actions. As of 2013, demand for international public finance is likely to rise with the implementation of an increasing number of robust mitigation action plans. Significant public finance will also have to be provided to stimulate private sector investment into research, development and demonstration, largely through public-private partnerships and joint ventures between developed and developing countries.

For a more detailed breakdown of needs see Table 1:

- Additional costs for developing countries in the energy and industry sectors that cannot be covered by the carbon market have been estimated by the Commission at around €33 billion p.a. in 2020⁸. However, this predominantly represents long term low cost efficiency measures, most of which should be financed domestically, mainly from private sources in developing countries. Only a small part of these additional costs, 10 to 20%, would need to be funded by international public support by 2020 with a focus on the poorer developing countries (€3 to 6 billion).
- Additional costs for reducing non-CO₂ emissions from agriculture and reducing CO₂ emissions from deforestation and forest degradation (REDD) are estimated by the Commission at around €23 billion p.a.⁹. Public finance will be the predominant incentive for reducing emissions from deforestation and forest degradation until 2020. Especially as most of the mitigation potential can be found in poorer developing countries, international public finance can be expected to cover a larger part of the additional costs compared to the energy sector, i.e. 30 to 60% (€7 to 14 billion). To this end, the Commission has proposed in an earlier Communication the establishment of a Global Forest Carbon Mechanism¹⁰.
- Taking these sectors together, a first estimate of global public transfers for 2020 for mitigation could be in the range of €10 to 20 billion p.a. in 2020, with about one third of that amount in 2013. However, how much of these flows will actually materialise will crucially depend on the availability and quality of low-carbon growth plans of developing countries and, within that context, of elaborated proposals for mitigation actions.

⁸ See Chapter 3 of the Staff Working Document.

⁹ See Chapter 3 of the Staff Working Document.

¹⁰ COM(2008) 645.

- However, as outlined in the previous chapter, given the current emission reduction pledges of developed countries there is a real risk of much lower carbon finance flows. If developed countries fail to bridge the gap between their current pledges on mitigation and what science requires, they will come under pressure to finance additional reductions in developing countries. Further analysis indicates that compensating the reduction loss by reducing the target for developed countries from -30% to the current low end of pledges around -10% below 1990¹¹, would require an increase in the transfer of international public finance to developing countries of around €120 billion p.a. in 2020¹².
- International public funding for capacity building and cooperation for research and technology demonstration has been estimated at an additional €2 – 6 billion in 2020.
- Public funding, both domestic and international, will be an important source of finance for adaptation in the poorer developing countries. The UNFCCC Secretariat estimated that adaptation costs in all developing countries could range between €23-54 billion p.a. in 2030¹³. A first estimate of global public transfers for 2020 could be in the range of €10 - 24 billion p.a. in 2020.

Adaptation financing will probably originate primarily from the public sector as a combination of the following sources: (i) as direct budgetary outlays from contributing partners, and (ii) as a share of carbon market revenues (as already in the case of the Adaptation Fund). For adaptation funding to flow effectively, there is a need for a strategic integration of climate change adaptation concerns in all sectors of the national development strategies. Within the next few years, capacity building is likely to be required at sufficient scale to ensure this integration as well as to support already identified priorities in poorer and most vulnerable countries.

2.4. Fast-start international public funding for 2010-2012

In the event of an overall deal in Copenhagen which implies fast-start international public funding, initial contributions should concentrate on:

- (1) financing the processes and capacity building required, for instance to develop mitigation actions in the context of low-carbon growth plans, emission inventories, and carbon markets including the sectoral crediting mechanism;
- (2) estimating the likely impact of climate change, integrating adaptation into national development strategies and financing priority investments.

Moreover, the Commission considers that, taking into account identified needs and capacities, additional funding should be mobilised in the short term to respond to urgent and identified needs for the most vulnerable developing countries and in particular LDCs, small island developing states (SIDS) and African countries (as defined in the Bali Action Plan), including further strengthening disaster risk reduction capacity. This initial financial commitment should be progressively scaled up after 2012 as needs are quantified in the relevant national strategies, the capacity for implementation is built up and an agreement is reached in Copenhagen on an assessed scale of contributions.

¹¹ See Chapter 1 of the Staff Working Document.

¹² Based on additional analysis by POLES, JRC.

¹³ UNFCCC secretariat.

Based on estimates of the different funding needs at different stages, the amount of public finance needed for adaptation, mitigation and capacity building that should come from the developed world between 2010 and 2012 could be between €5-7 billion p.a.¹⁴.

2.5. Innovative financing from international aviation and maritime transport

With regard to potential sources of finance, the Economic and Financial Affairs Council¹⁵ highlighted that "global instruments addressing emissions in international aviation and maritime transport would be welcome". The use of market-based instruments to address emissions from these sectors worldwide has the potential to provide a significant source of finance in support of developing countries' mitigation and adaptation efforts. One such approach is cap-and-trade systems. An alternative is a levy on their emissions.

If, for example, both sectors were subject to a cap on their emissions, the revenue from auctioning could be collected at the international level and thus become a significant source of finance for supporting developing countries mitigation and adaptation efforts. Such a universal contribution would correspondingly reduce the reliance on national public budgets and respective annual appropriation processes.

However, one should recognise the challenges likely to be faced in establishing such a framework. Developing countries argue that there should be a differentiated approach to addressing emissions from these sectors while developed countries are concerned about carbon leakage due to strong competition should there be a difference in treatment between operators from developed and developing countries. But it is essential that a framework is developed at global level if these sectors are to make a meaningful contribution. A workable compromise could be found in making all subject to the same overall cap with full auctioning, while redistributing some auction revenue to developing countries' governments depending on their respective emissions and economic capabilities.

2.6. Determining contributions to international public finance

Public sources will need to be substantial and will come in different form and via different channels. To ensure that overall contributions add up to what is required, the Copenhagen agreement should include a common scale based on agreed principles to determine different countries' financial contributions. This will have to take into account the overall effort of each country including emission reduction commitments. As part of enforcement, countries that do not deliver on their financial commitments could for example receive fewer emission rights or be limited in their access to international public climate finance.

The European Council¹⁶ set out its preferred principles for financial contributions, namely 'ability to pay' (i.e. GDP) and 'responsibility for greenhouse gas emissions' (without prejudice to internal EU burden-sharing). This is similar to the approach suggested by Mexico to determine contributions to the "Green Fund" it has proposed. In addition, it was highlighted that any distribution key should be 'universal', i.e. not limited to developed countries as the responsibility for emissions today is shared¹⁷. A limited number of developed and economically more advanced developing countries account for the largest part of global emissions and GDP. Least Developed Countries should be exempted from any financial commitment.

¹⁴ See Chapter 5 of the Staff Working Document for further details on the scope of activities that would merit early support.

¹⁵ Luxembourg, 9 June 2009, 2948th Council meeting.

¹⁶ Brussels, 18-19 June 2009.

¹⁷ See Chapter 6 of the Staff Working Document.

With respect to these parameters, the EU's share could range from around 10% (if the only criterion used is emissions) to around 30% (if the only criterion used is GDP at market prices). The actual EU contribution will depend on the relative weight given to each of the two criteria in the Copenhagen agreement. Giving more weight to emissions as compared to GDP would provide an additional incentive to cut emissions, and acknowledge early action to reduce emissions. However, it would lead to relatively higher contributions from major emitting developing countries.

As regards fast-start funding, assuming that it is part of the overall agreement in Copenhagen, a share of between 10 - 30 % for the EU would lead to a range between €0.5 – 2.1 billion p.a. in 2010-2012. However, given the importance of early capacity building and adaptation, the EU should consider whether it should be ready to increase its contribution above this range, scaling-up its fast start funding over the period 2010-2012.

Between 2013 and 2020, the EU's share could rise from €0.9 – 3.9 billion p.a. to €2 – 15 billion p.a., respectively, provided that Copenhagen achieves an ambitious outcome, universal contributions are made by all developed and economically more advanced developing countries, and that the global carbon market fully plays its role.

Table 1: Estimated international annual public finance requirements over the period 2010-2020 (2 degrees scenario), in €billion (at constant 2005 prices)

	2010-2012 (fast start)	2013	2020
Mitigation	1	3-7	10-20
<i>Energy and industry</i>			3-6
<i>Agriculture and REDD</i>			7-14
Adaptation	2-3	3	10-24
Capacity building	1-2	2	1-3
Technology research, development and demonstration	1	1	1-3
Total	5 – 7	9 - 13	22 – 50

3. THE EU'S CONTRIBUTION TO PUBLIC CLIMATE CHANGE FINANCE

3.1. How the EU could contribute

If the EU succeeds in its goal of securing ambitious commitments on mitigation, international public finance will be an essential part of the agreement. On top of the significant funding already provided to climate change as part of EU development aid, the EU will need to be ready to provide additional finance for the fight against climate change, in particular as from 2013, and in accordance with the Bali Action Plan. The contribution should be ambitious and fair.

The EU negotiates as one. There are strong arguments for the EU's contribution to come as a **single, global offer**. It would ensure the coherence and visibility of the EU contribution,

allow for defining a fair and transparent distribution of this contribution between Member States, permit economies of scale in the management of disbursements, and strengthen the EU's voice in ensuring proper implementation of an agreement. It would allow good use to be made of the EU's experience and the near-global coverage of existing EU development assistance. There would be no difference in the total scale of EU funding between the sum of bilateral national contributions including any contribution from the EC budget and/or a joint EU contribution.

While ensuring an ambitious and fair global contribution, the EU will also need to ensure that this single, global offer is organized in an efficient and fair way. There are essentially three options, not mutually exclusive, for channelling EU funding:

- (1) Direct funding through the EU budget would be reliable and transparent. It would show one of the EU's key instruments giving particular priority to one of the key political challenges we face today. It could take advantage of well-established rules and procedures, offering rigorous financial control, as well as a standard key for the source of the funding, and would also allow the European Parliament to play its full role. Given the scale of the funding over the medium term, this approach would have clear consequences for the overall size of the budget and it would also have a major impact on the next Financial Framework. In this way the EU budget would adequately reflect the central challenge that climate change represents for the EU for decades to come.
- (2) Another approach would be to establish a new common Climate Fund outside the EU budget, funded by bilateral contributions from each Member State. This could also offer a clear profile for the EU, and flexibility to design an ad hoc internal distribution key to finance the overall EU contribution. However, such a fund would require an inter-governmental agreement/legal basis of its own, would be outside the Financial Framework and outside the Own Resources ceiling. It would share the downsides of funds outside the budget (low transparency, no respect of the principle of the unity of the budget, more difficult to ensure coherence with the other activities financed by the budget). Most importantly, it would deprive the EP from exercising parliamentary scrutiny.
- (3) A third option would be for Member States to make their own financial contributions directly. However, they should be clearly presented as part of the EU's single global offer.

The overall financial effort for the EU and its Member States would be the same regardless of the choice between the above options or a combination thereof.

Existing EU efforts should be properly taken into account, while ensuring that the principle of *additionality* is preserved as climate aspects will be mainstreamed into the next generation of multiannual indicative programmes, in particular under the geographical instruments in favour of developing countries.

3.2. Mobilising the EU budget up to 2012

While the main financial implications of an agreement in Copenhagen would come into effect as from 2013 at the earliest, a successful agreement should be accompanied by a swift increase in support to developing countries to prepare the transition through capacity building and technical assistance. This should be partly funded from the EU budget, subject to the availability of resources.

The Commission has already proposed an additional €50 million from the Community budget to be devoted to fast-start activities in 2010 in the event of a successful agreement in Copenhagen. Comparable sums would be needed for subsequent years. Identifying appropriate sources for these additional funds will not be easy: remaining margins are extremely limited and existing programs are already under pressure. Creative solutions may well be needed, and the optimal mix of sources of financing would need to be assessed in the light of both the outcome of the Copenhagen agreement and the budgetary availabilities.

3.3. An equitable EU contribution to a Copenhagen agreement beyond 2012

A second phase of funding will come into play when an agreement comes into force in 2013. The budgetary implications of an ambitious climate agreement in Copenhagen for the EU and its Member States are likely to be substantial as from 2013, i.e. in the order of several billion Euros per year. This would raise a particular issue for 2013, for which the financial framework of the EU budget has already been set. From 2014, this will be an issue for the new financial framework, yet to be agreed.

The responsibility for emissions today is a shared responsibility. Whereas ability to pay should be an important element in determining the contributions to the global effort, the responsibility for emissions should also constitute a central element of a fair and sustainable Copenhagen agreement.

The two obvious measures to use to determine the relative burden – already widely used in the UNFCCC negotiations – are emissions and ability to pay (GDP). The higher the weight of the GDP criterion, the higher the overall EU contribution will be. If for example the overall international public funding contribution is €10 billion in 2013, the total EU contribution would be around €1 billion if the only criterion used was emissions, and it would reach around €3 billion if the only criterion used was ability to pay.

Mechanisms might be used to adjust the burden on specific Member States.

It should be recalled that because of the climate change and energy package, EU Member States will have at their disposal significant revenues from auctioning. The legislation¹⁸ set out that at least 50 % of these resources should be re-cycled for domestic and international climate change purposes. Whilst it is difficult to be precise about the future carbon price and therefore the size of auctioning revenues, it is estimated that if the EU was required to finance €3 billion in 2013 – the upper end of the scale – this would account for between 7 and 20 % of total auction revenues. It would therefore be well covered by the revenues flowing into government treasuries from climate change policies.

4. A EUROPEAN BLUEPRINT FOR DECENTRALISED, BOTTOM-UP CLIMATE FINANCE GOVERNANCE

In order to achieve the ambitious global climate change policy goals, the provision and disbursement of climate finance, including public finance, will have to be increased significantly and swiftly between 2010 and 2020. This chapter provides for a European blueprint for a decentralised bottom-up governance structure which is the result of intensive discussions with many negotiating partners worldwide and builds also on the EU's extensive cooperation experience¹⁹.

¹⁸ Directive 2009/29/EC.

¹⁹ See Chapter 8 of the Staff Working Document.

For an overall governance structure to be efficient, effective, and equitable it needs to build on ownership, subsidiarity, coherence, transparency, accountability, rewarding performance, additionality and complementarity.

For mitigation, the European blueprint foresees as key tools country-driven low-carbon growth plans integrating all national appropriate mitigation actions, the ex-ante technical review of supported actions, up-to-date central registry of all actions and financial support, annual emission inventories, reporting via improved National Communications, and regular peer reviews. The process will be supported by an independent co-ordinating mechanism.

In addition long-term low-carbon growth plans should be presented by all countries by 2011. While there should be no obligation for LDCs, they should however be encouraged to move towards this objective in a more flexible time frame and with appropriate support. By 2011, the EU will also present its long-term strategy until 2050.

For adaptation, a simplified bottom-up approach is foreseen, which calls for the gradual integration of adaptation into national development strategies/poverty eradication plans, in-country regular coordination of support, regular reporting via the National Communications and exchange of good practice.

The key advantage of this decentralised bottom-up approach is that it would build on existing institutions – reformed and strengthened as appropriate - and developing countries' own structures (in line with the Paris Declaration on aid effectiveness) and avoid creating parallel structures. Already today, a significant number of bilateral or multilateral initiatives would be hampered by forcing them into a large centralised structure. A decentralised system based on country-driven proposals allows contributors a higher degree of discretion over the efficient use of their contributions and is thus likely to encourage larger contributions than could be expected in the case of only one major centrally managed multilateral fund. However, this does not exclude a complementary new fund, such as the proposed Mexican Green Fund, if it would add value.

Up-to-date registry information as well as regular reporting, i.e. through annual emission inventories and National Communications allows the UNFCCC to identify gaps and imbalances in financing mitigation and adaptation actions. Addressing these gaps should be facilitated through an international High-level Forum on International Climate Finance representing public and private expertise in this area. This forum, with a balanced representation of decision makers from developed and developing countries and international financial institutions, should oversee and give political guidance to the UNFCCC funds, multilateral funding agents and bilateral cooperation agencies to ensure an equitable distribution of funding across countries and spending priorities for mitigation and adaptation.