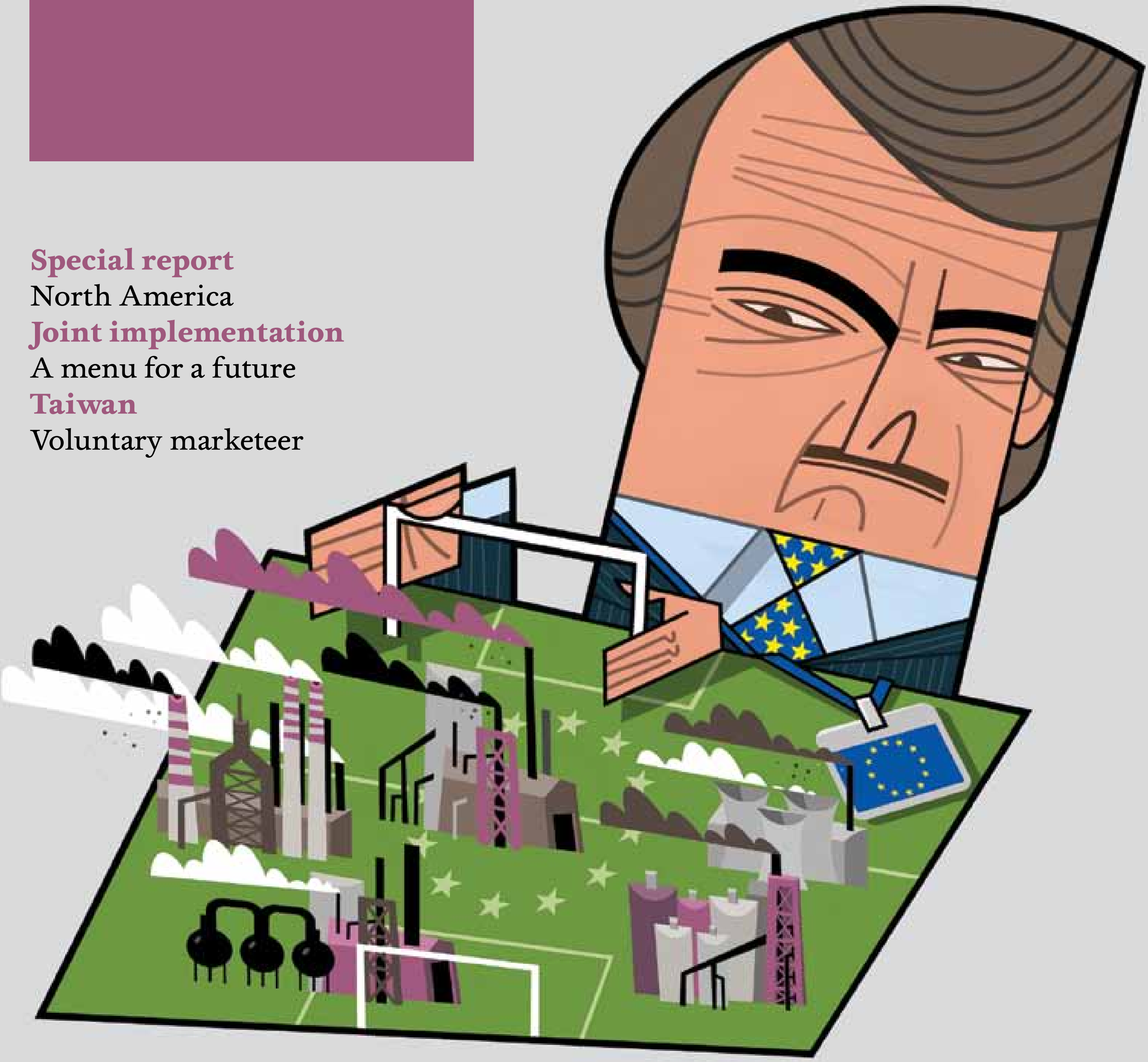
Vol 05 | Issue 02 | March 2011
www.pointcarbon.com

>TRADING CARBON

a Point Carbon News publication

Special report
North America
Joint implementation
A menu for a future
Taiwan
Voluntary marketeer



Moving the goalPosts

How will further carbon credit restrictions impact the EU ETS?

BENITO MULLER OFFERS A SOLUTION TO THE PROBLEM OF SOURCING START-UP FINANCE FOR THE PROPOSED GREEN CLIMATE FUND*

Roll up the sleeves even higher

The recent UN conference in Cancun may turn out to be a watershed in the international climate change regime. It has given the multilateral approach under the UN Framework Convention on Climate Change (UNFCCC) a new lease of life. Even the Kyoto protocol's obituaries remain as exaggerated as when it entered into force; it is still alive.

Concerning longer-term climate finance, the key outcome of Cancun was the agreement by the Conference of the Parties (COP) in the "long-term cooperative action" track of the negotiations:

- to establish a Green Climate Fund (GCF);
- that a significant share of new multilateral funding for adaptation should flow through this fund; and
- to establish a "standing committee" to assist it in exercising its functions with respect to the UNFCCC financial mechanism.

Everybody involved in bringing about this outcome deserved a good year-end holiday. But it is now time to roll up the sleeves even higher, in order to carry out the work needed to implement these decisions by the next COP in Durban, South Africa in December.

Identifying sources of funding for the GCF will be the toughest problem in the finance negotiations. It has to be resolved quickly, for it is clear that without some start-up funding, the GCF will arrive stillborn at Durban. So how could we secure adequate start-up funding by Durban, in the current context of record budget cuts in the developed world?

In the agreement, the COP reaffirms that climate funding in general may come from a variety of sources, public and private, bilateral and multilateral, including alternative sources. It also takes note of the report of the UN's High-level Advisory Group on Climate Change Financing (AGF), which released its findings ahead of the Cancun meeting.

Over two years ago, the least developed country (LDC) group within the UN put forward a proposal for a levy on international air travel to provide a significant core funding stream for adaptation. Although it was not actually evaluated in the AGF report, the proposal deserves some special attention. This is because it is probably the only innovative financing scheme that could fly in time, for the simple reason that it already exists, albeit under a different name.

The International Air Passenger Adaptation Levy (IAPAL), as conceived in the LDC proposal, is a mandatory global version of the French solidarity levy for HIV/AIDS and Malaria established in 2006. It was put under the aegis of the Leading Group on Innovative Financing for Development (see box) as the "international solidarity levy on air tickets". Under IAPAL, all international air travel would be charged a fee – $6 per economy trip and $62 per business/first class trip – which would currently raise an estimated $10 billion a year.

A 2009 policy brief by the European Capacity Building Initiative – "International Air Passenger Adaptation Levy: Thirteen questions and answers" – discusses a number of questions arising from that proposal. The most pertinent in the present context: Why not make the levy voluntary? The point is not to make the levy optional for passengers, but simply to follow the Leading Group solidarity levy and give countries the choice to opt-in, as it were, to a voluntary IAPAL start-up pilot. That is to say, have the choice to apply the levy on international air travel from their territory in order to raise adaptation funding for the GCF. While it stands to reason that such a move would reduce the above-mentioned revenue potential, this should not be a problem, as it is unlikely that the GCF would be able to process anything like the above figures at the outset.

The chief advantage of this would be the availability of a ready-made collection tool – no need for negotiations, be that under the International Civil Aviation Organization (Icao) or anywhere else. Indeed, over the last couple of years, the Leading Group has started to look at innovative financing for climate change. The 2008 Conakry Declaration, for example, stated under the heading "climate change control and innovative financing mechanisms" that "the first victims of global warming are the LDCs, namely the ones that are less accountable for carbon dioxide emissions". However, the focus was solely on "(carbon) market-based" instruments as innovative sources for climate change finance. And the same was true a year later at an informal Leading Group meeting on the same topic at the UN climate talks in Copenhagen.

Carbon credit auctioning will take time. Certainly longer than a year

There is nothing fundamentally wrong with looking for innovative adaptation financing through carbon credit auctioning. But any such system will take time to establish, certainly longer than a year, by which time the instrument of the GCF is meant to be approved.

Given the aversion among many UNFCCC parties to establishing yet another "placebo fund" – a "pot" to buy-in developing countries into an overaching deal that remains empty – it is difficult to see how the GCF could be adopted on the basis of funding that depends on ongoing Icao

ISTOCK

The Leading Group

The Leading Group on Innovative Financing for Development is a platform where countries, international organisations and representatives of civil society can engage in discussion, information sharing and promotion of innovative financing mechanisms. It was launched in Paris in 2006 with the aim of:

- contributing to the emergence and circulation of projects for innovative development financing mechanisms;
- promoting the idea of solidarity levies among our partners and international forums;
- developing the international air ticket solidarity levy which is being implemented by a first group of countries with a view to extending it to other countries according to their possibilities; and
- reviewing methods of using revenues generated by the international air ticket solidarity levy for coordinated and long-term action in the health and development sectors.

The Leading Group currently has 55 member countries and is led by a rotating, six-month presidency. Apart from the levy on air tickets, the Leading Group also covers "advance market commitments" to address shortcomings in the pharmaceutical market with regard to the poorest countries, and the International Finance Facility for Immunization, set up as a large-scale pre-financing mechanism based on a system of guaranteed bonds.

SOURCE: WWW.LEADINGGROUP.ORG

negotiations. And, given the current economic climate, it is not certain that sufficient start-up funding could be raised through sovereign contributions alone.

It is hence essential that the levy on air tickets be at least temporarily made available to countries to raise adaptation finance for the GCF for it to have a viable chance of being fully established in Durban.

Having said this, it is important not to misread this proposal: negotiations on how exactly the GCF is to be sourced predictably after the start-up phase need to be a top priority in the run-up to Durban. The point here is simply to identify an option for fast-start innovative financing as a potential stop-gap measure, which means that domestic fiscal problems cease to be a credible excuse for providing significant start-up funding for the new GCF. ●

** This article is an abridged version of a wider piece looking at climate financing following the Cancun UN meeting, written by Benito Muller for the Oxford Institute for Energy Studies (OIES) with the support of Climate Strategies. Climate Strategies is an international organisation that convenes networks of leading academic experts around specific climate policy challenges (www.climatestrategies.org). Original article available at www.oxfordenergy.org/pdfs/comment_10_01_11.pdf*

Benito Muller is director of energy and environment at the OIES in the UK
Email: benito.mueller@philosophy.ox.ac.uk


AVIATION
CO_2 DATA
MONITOR
> RTK and CO_2 forecasts, allowance shortfall *for each operator*
> Baseline and allocation
> Analysis of EUAA market dynamics
> Robust data, unique modelling framework
The 2011 edition of the essential report *Aviation CO_2 Data Monitor* includes updated fundamental data for the aviation emissions trading scheme, by two specialist consultancies Point Carbon Global Advisory and RDC Aviation.
For contents, method and price:
London@pointcarbon.com
POINT CARBON
THOMSON REUTERS
rdcaviation