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Climate Change: EU Environment and Finance Ministers Differ on Future International Climate Financing

Summary: The Environment Council and the Economic and Financial Affairs Council (ECOFIN), have both recently adopted conclusions containing a number of general statements to the effect that more assistance should be given to developing countries lacking the resources to effectively tackle climate change mitigation and adaptation needs. However, differences remain on the key modalities of any additional funding measures, with the ECOFIN Council emphasising sound financial management and private funding, while the Environment Council stresses further development of existing institutional mechanisms whilst highlighting the leading role of public policies and finances in a number of project areas.

Key words: Climate Change; Council

In both the Environment Council's contribution to the Spring European Council presented on 3 March¹, and the Economic and Financial Affairs (ECOFIN) Council conclusions on international financing of climate change presented on 10 March², it is common ground that the cost of inaction far outweighs the global costs of tackling climate change. Estimates vary widely³, but the Environment Council uses as an example the latest European Commission estimates in which it is stated that, in order to meet the objective of limiting global warming to no more than 2 degrees Celsius compared to average pre-industrial temperature levels, the net global incremental investment, both public and private, would need to rise to around €175 billion per year in 2020. It is also agreed that developing countries with limited resources which are unable to effectively take on the costs of adaptation and mitigation are to be assisted in their efforts (see IEEP Briefing Note: 6 March 2009). Additionally, enhancing an ambitious global carbon market through robust incentives is seen by both finance and environment ministers as a flexible, cost-effective and efficient way of tackling climate change.

Whereas both Council formations agree on such general principles a number of differences arise when it comes to the actual priorities and key modalities of a future international financial architecture on climate change.

For the ECOFIN Council, emphasis must be put on sound financial management, use of the lowest cost abatement opportunities and the leading role of private funding in the fight against climate change. In addition, finance ministers note that addressing the global economic crisis as well as the issues of climate change and energy security in a coordinated manner would bring 'substantial opportunities to achieve multiple benefits'. However, the ECOFIN Council's Conclusions notably fail to mention of the

scale of financing needed. No specific project areas are identified as potential beneficiaries of funding nor are there any specific references to the future development of existing financial mechanisms. The ECOFIN Council clearly reserves its position on these issues. Their main focus is on underlining the importance of the efficient use of any funds provided and of taking advantage of low-cost opportunities.

The Environment Council, instead, stresses the need to build upon and further develop existing mechanisms. It recognises that the future financial architecture should ensure strong coherence and effectiveness of the existing mechanisms under the United Framework Convention on Climate Change (UNFCCC). Furthermore, it also recognises that substantial support is needed from *both* the private *and* the public sector rather than relying heavily on private funding alone. Environment Ministers also call for an examination and, where necessary, a reform of the current international architecture of climate change governance and stress *inter alia* the importance of coordinating support for mitigation and adaptation; the need to provide specific financial support in particular for reducing emissions from deforestation and forest degradation; and the need for enhanced research, development, deployment and diffusion of low-carbon technologies to support adaptation and mitigation efforts. These differences aside, both Council formations eluded any specific mention of future EU financial commitments.

Spring European Council and future prospects

The EU Heads of State and Government meeting at the spring European Council of 19 - 20 March 2009 merely underlined the need to explore in more detail international financing mechanisms, stating that they would act on issues relating to the architecture of international climate change financing at their June meeting (see accompanying IEEP Briefing Note: 27 March 2009). Future discussions will be held on the EU's position regarding approaches for financing mitigation, adaptation, technology support and capacity building; the specifics of the EU's future contribution to international funding efforts; and on the principles of financial burden sharing among Member States. This will be done on the basis of concrete proposals which the Commission has been invited to put forward by the next European Council.

References

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