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JUMPSTARTING GLOBAL GREEN GROWTH

INTERNATIONAL CLIMATE STRATEGIES IN THE NEW
TRANSATLANTIC POLITICAL CONTEXT

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of the United States

STRENGTHENING TRANSATLANTIC COOPERATION

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INTRODUCTION

Recent political events have been deeply discouraging for those concerned about the adverse impacts of climate change. The messy and, to many, disappointing outcome of the December 2009 global climate summit in Copenhagen, Denmark, was followed in 2010 initially by the collapse of U.S. climate legislation and then by major gains in the U.S. midterm elections by opponents of ambitious action. With a faltering global economy, a new sense of realism about both the prospects for U.S. leadership, and the slow pace of global climate talks, the political tail winds that once appeared to fill the climate policy sails have dissipated.

Now, Europe appears stuck in the climate doldrums, unable to decide whether to change its 2020 emission reduction goal from 20 percent to 30 percent — even though the 30 percent target is now projected to be more affordable than the original 20 percent goal appeared at the time it was established, thanks to slower than expected economic growth and declining natural gas prices.

America seems to be drifting backward. Opposition to climate policy has become a core part of the new “tea party” identity, and the majority of Republican candidates for Congress openly questioned the science of climate change. With facts like these, it seems clear that employment, economic growth, and fiscal policy, not climate change, will be the central economic priorities for the transatlantic partners for the time being. Understandably, both U.S. and European climate champions are adjusting course and pining for more favorable conditions.

Despite these realities, significant forward momentum is still possible. Here I argue that the growing international consensus for “green growth” provides major opportunities for the transatlantic community to spur global climate action. Even though some nations are already pursuing green growth, I explain why success in capitalizing on the green growth paradigm will depend on the willing-

ness of the United States, European countries, and other developed nations to share the cost of new policies and practices in developing nations. I also offer concrete policy recommendations for U.S. and European leaders, taking into account the new political landscape. I intend to show that regardless of the likely inadequacy of U.S. domestic emissions mitigation, the transatlantic parties can pursue a common international agenda for mitigating emissions in developing nations.

The paper is divided into two parts. The first part presents a new theory of change for international climate action based on the concept of green growth. The second connects this new way of thinking to today’s global climate diplomacy and suggests a practical way forward. The focus is almost exclusively on the challenge of emissions mitigation in developing nations. Adapting to climate change is enormously important — as I have written elsewhere¹ — and the concept of green growth may prove important to that effort too, but those connections are not explored here.

¹ Brainard, L., Jones, A., and Purvis, N. (2009) *Climate Change and Global Poverty: A Billion Lives in the Balance?*, Washington, DC: Brookings Institution Press.

1 ACCELERATING GREEN GROWTH

Avoiding unacceptable risks of unmanageable climate change will require a fundamental transformation of the world's energy economy. Think of it as the next major chapter of the industrial revolution. While it's difficult to overstate the magnitude of the challenge, affordable and practical climate solutions are well within reach if nations start now and build progressively on proven successes.

The next few pages contain the building blocks for a potential transatlantic strategy to convince other nations, particularly major emerging economies, to pursue policies that yield major climate dividends. I begin by defining green growth and explaining its connection to climate policy. I next look at the cost of this approach, examine the willingness of major developing nations to self-finance a portion of the costs. From there I estimate the remaining unmet financial need that European countries, the United States, and other developed nations should help address. Finally, I highlight how any transatlantic effort with developing countries to close the financial gap should occur within a partnership that promotes mutual transparency and accountability.

Green Growth Paradigm

Looking at the broad arch of climate diplomacy, this is clearly a moment of major transition in global climate cooperation. For the past 20 years, climate diplomacy has been defined by a perception that climate solutions were costly and could ruin the economy. The diplomatic game for most countries has been to *shift responsibility* for action to others or, for a few real leaders in Europe and elsewhere, to create a system that *allocates burdens* equitably. In the past, nations talked about finding “win-win” policies that produced both local and global benefits, and about maximizing the development “co-benefits” of climate policies. But most policymakers considered such synergies few and far between. Many nations approached climate policies with the same lack of enthusiasm that

young children have for spinach and lima beans. The 1992 U.N. Framework Convention on Climate Change (UNFCCC) and its 1997 Kyoto Protocol are products of this period. Under these agreements, nations accounting for approximately 75 percent of global emissions have successfully avoided legally binding, measurable emission reduction obligations for almost two decades, even in the face of growing scientific consensus about the urgency of action.

A second phase of global climate cooperation is only just beginning and will overlap for some time with the first as it begins to wind down. In the second phase, the primary diplomatic goal for most major economies (with some exceptions in Europe perhaps) appears to be maintaining national control over the scale and pace of their own domestic mitigation actions. In other words, most nations are willing to take action but insisting that the international system be “bottom-up” (nationally determined), rather than “top-down” (driven by science, international negotiations, and external pressure).² Toward this end, most nations outside of Western Europe are adamant that international climate frameworks emphasize national authority and employ only noncoercive international procedures.

The 2009 Copenhagen Accord, at the risk of oversimplifying, can be seen as the beginning of this second phase. Under the Accord, every major nation has pledged to take concrete mitigation actions but at its own pace and within, at least at the moment, a weak international legal framework. The Accord speaks of “international consultation and analysis” rather than legally binding obligations and tough noncompliance consequences. Sovereignty is king, economic growth is royalty too, and science and international governance are banished to the kitchen.

² Purvis, N. and Stevenson, A. (2010) *Rethinking Climate Diplomacy: New Ideas for Transatlantic Cooperation Post-Copenhagen*, Washington, DC: The German Marshall Fund of the United States.

A growing number of developed and developing countries have come to understand that much of what needs to be done for climate change is desirable for other reasons.

Despite obvious limitations, however, this second phase offers major advantages compared to the initial period. A growing number of developed and developing countries have come to understand that much of what needs to be done for climate change is desirable for other reasons. Stricter energy efficiency standards for vehicles, for example, lessen dependence on imported oil. Replacing inefficient coal-fired power plants saves lives by improving local air quality. China, for example, has closed and replaced 54 GW of coal- and oil-fired power generation since 2007 to reduce pollution and improve efficiency.³ Public funding to catalyze innovation in clean energy technologies creates jobs and improves trade balances. South Korea will invest \$36 billion over the next five years in developing its renewable energy industries, creating an estimated 110,000 jobs from new exports.⁴ Reducing deforestation helps minimize natural disasters, empowers indigenous peoples, and reduces societal instability. The interest in these climate-friendly policies is not confined to Europe. Some of the global leaders are emerging economies.

We are witnessing nothing short of a global change in mindset and mentality. Energy efficiency, renewable energy, sustainable land-use, and other climate solutions are no longer viewed as international priorities inherently at odds with domestic interests. On the contrary, many nations are keenly interested in the domestic benefits of climate-friendly technologies, policies, and practices. While global climate negotiations remain highly contentious and ideologically driven, a growing number of nations are voluntarily embracing the notion that their preferred development path is “green growth” or “low-emissions development.” Mexico, for example, has also created an ambitious “low-carbon

development” plan and implementation is a top political priority for President Calderón.⁵

Some experts see this overall trend as proof that many of the initial climate policies the world needs to pursue through 2020 actually have zero or negative costs — the left side of the ubiquitous emissions mitigation cost curves. True enough. But this framing misses a fundamental point: in most nations with the green growth itch, national and local benefits are the real drivers, not concern about the climate. The top reasons China has imposed strict new vehicle fuel efficiency standards, for example, are energy security and public health. South Korea and China are investing in renewable energy technologies because they see it as a way of augmenting export-driven economic growth. Many nations are discovering, in other words, that green growth is good for them and happens to be good for the climate too. Call this the green growth climate dividend.

Climate change may not be the first rationale for nations adopting many green growth policies but the climate benefits are no less real. The World Bank projects that China will in the main meet its goal of reducing its energy intensity of its economy by 20 percent in 2020.⁶ Last year, China set an unconditional goal of reducing the carbon intensity of its economy by 40-45 percent by 2020.⁷ Brazil seems set to achieve its ambitious goal of reducing emissions 39 percent below business-as-usual levels by 2016 (instead of 2020 as it pledged only a year ago.) Deforestation in the Amazon is down over 75

We are witnessing nothing short of a global change in mindset and mentality.

³ Oster, S. (2010) “China Shuts Small Plants,” New York, NY: *The Wall Street Journal*.

⁴ Young, T. (2010) “South Korea kicks off \$36bn low-carbon investment drive,” London, UK: *BusinessGreen*.

⁵ Tuckma, J. (2009) “Can Felipe Calderón make Mexico a leader in combating climate change?,” London, UK: *The Guardian*.

⁶ World Bank Group (2010) *China Quarterly Update: November 2010*, Washington, DC.

⁷ Wei, S. (2010) *Letter Including Autonomous Domestic Mitigation Actions*, Beijing, China: National Development and Reform Commission.

We need to place less emphasis on international promises and more on domestic action.

percent from its 2005 high.⁸ India's National Solar Mission has a goal of building 20 gigawatts (GW) of solar generation capacity by 2020, and the country has already installed 6 GW of renewable energy capacity.⁹ Indonesia — the world's third largest emitter — is considering a 26 percent reduction from projected levels and has announced a moratorium on deforestation, by far its largest source of emissions.¹⁰ Costa Rica even has a plan to make the entire country carbon neutral.¹¹ Green growth policies are not confined to the developing world, of course. Greenhouse gas emissions in Europe and Japan are declining substantially as a result of policies that have many origins. Japan has pledged to reduce emissions 25 percent below 1990 levels by 2020.¹² Europe is debating between a 20 percent and 30 percent reduction, as noted above.¹³

But it is the speed of movement in major emerging nations that is most surprising. The idea that emerging economies are beginning to get a handle on their emissions is contrary to widely held public perceptions, particularly in the United States. When American politicians ask “what about China,” they intend it as a rhetorical question for which the answer is assumed to be that China is doing very little. While China should do more, it is showing impressive leadership in several areas.

⁸ Colitt, R. (2010) “Brazil cuts deforestation, wants US lead on climate,” Reuters.

⁹ Project Catalyst (2010) *From Climate Finance to Financing Green Growth*, San Francisco, CA: ClimateWorks Foundation (forthcoming).

¹⁰ Witoelar, R. (2010) *Voluntary mitigation actions*, Indonesia: National Council on Climate Change.; BBC News (2010) “Indonesia pledges two-year deforestation moratorium,” London, UK.

¹¹ Embassy of Costa Rica, Berlin (2010) “Nota de C-neutralidad,” Berlin, Germany.

¹² Embassy of Japan in Germany (2010) “Note Verbale.”

¹³ European Commission (2010) “Expression of willingness to be associated with the Copenhagen Accord and submission of the quantified economy-wide emissions reduction targets for 2020.”

Developing countries, furthermore, have not conditioned their emissions mitigation policies on mitigation action by other nations. Only a decade ago developing nations held that developed nations needed to make dramatic cuts in emissions before even the most advanced emerging economies should be expected to follow. Today, many major developing nations are leading even though the United States, Canada, and Australia arguably are not.

New Theory of Change

The shift in global mindset, importantly, suggests that Europe and the United States need to fundamentally rethink their climate diplomacy.¹⁴ The transatlantic partners need an entirely new theory of change for several reasons.

First, our conception of desirable outcomes must change. Traditionally, the main goal of diplomacy was to secure “international commitments” — formal promises of specific mitigation actions, ideally codified in legal agreements or treaties. The theory was that nations would do more if other nations were part of a global arrangement that avoided “free riders,” and that all nations would be more likely to keep their mitigation promises if those pledges were recorded in ways that made them “binding” under international law. Mutual commitments made sense under the burden-sharing mindset — the goal was to make sure that every country carried its weight. In the new approach economic policies adopted in Beijing or New Delhi become more important than what happens in diplomatic fora like Copenhagen and Cancun. The Copenhagen Accord put to rest for the time being the idea that nations would actually negotiate their mitigation pledges. While Europe was prepared to do so, China, India, and the United States were not.

¹⁴ Purvis, N. and Stevenson, A. (2010) *Rethinking Climate Diplomacy: New Ideas for Transatlantic Cooperation Post-Copenhagen*, Washington, DC: The German Marshall Fund of the United States.

They made take-it-or-leave-it final offers based on what they had worked out domestically.

Going forward, collaborative processes that help nations identify and implement opportunities for green growth and thereby maximize the climate dividend are more likely to yield tangible benefits than global climate negotiations. *In short, we need to place less emphasis on international promises and more on domestic action.*

Second, diplomacy needs to adjust in order to reflect the new “bottom-up” context in which climate cooperation will occur. Let me be clear: An ambitious and comprehensive global treaty that spells out the responsibilities of developed and developing nations for the next decade is highly desirable. Only a global forum like the United Nations can provide a just and lasting solution that has real legitimacy. Yet, we must also admit that global climate talks have been deeply flawed. While the ministries and officials who represent most nations are in many cases informed experts and gifted diplomats, they are not the key decision-makers in their own countries on economic policy. Unfortunately, not a small number of these officials are sent to the U.N. climate talks by their countries to make sure nothing is agreed upon that has not been agreed to previously.

At best, global climate negotiations have become a lagging indicator — ratifying understandings that have been negotiated first elsewhere, such as in the G20 or Major Economies Forum. Some experienced diplomats and scholars go so far as to view the global negotiations as an impediment to progress, crushing good new ideas by grinding them through old ideological mills. Regardless, climate policymakers can learn a thing or two from trade negotiators who understand the virtues of pushing

forward simultaneously in a number of forums, recognizing that progress in one place is likely to help spur progress elsewhere.¹⁵ A great deal can be done bilaterally, regionally, and in other flexible combinations of nations to promote international cooperation in ways that support and accelerate global climate talks. We will return to this insight toward the end of the paper when we look at concrete recommendations for action.

Third, we need to change how we use the diplomatic tools and incentives are our disposal. In the past, the United States and Europe have linked various carrots and sticks to the successful conclusion of new international climate agreements. This made sense when treaties were at the center of our theory of change. In the future, incentives like market access and foreign aid — as well as coercive trade measures when appropriate — should be tied to whether nations take ambitious action at home, not whether they make *international promises* in global negotiations. International finance must be understood primarily as a means to spur greater action by developing nations here and now, not as the prize that is offered in the context of a future treaty in which nations promise action in the even further future.

Increasing National Ambitions

While we should welcome the emergence of the green growth paradigm, the overall picture on climate change remains quite alarming, of course. The domestic mitigation programs nations have pledged thus far would place the world on a pathway toward 4°C of warming by 2100, whereas nations have accepted the scientific consensus that warming must be held to only 2°C in order to avoid unacceptable risks of climate catastrophes.¹⁶

¹⁵ Antholis, W. and Talbott, S. (2010) *Fast Forward: Ethics and Politics in the Age of Global Warming*, Washington, DC: Brookings Institution Press.

¹⁶ Climate Interactive (2010) *The Climate Scoreboard*.

Total global mitigation levels, in short, need to be roughly doubled compared to what nations have pledged so far.¹⁷

The reasons for this gap between rhetoric and action are straightforward. Since countries are motivated by self-interest, the sum of nationally determined actions bears little relationship to a globally optimal climate solution. In fact, basic economics tells us that when acting alone, nations will generally do less than they should to protect a global public good, such as the Earth's climate. The policy challenge now for transatlantic policymakers, therefore, is figuring out how to nurture the green growth ethic and maximize the climate dividend of green growth policies.

While we may not know the full answer, it should be clear that financing will be central to any solution. The meager success or utter failure of global climate takes (depending on one's perspective) stems from neither doubting the negative impacts of climate change nor disagreement about available solutions. Almost all nations understand that climate change is a serious threat. For more than 20 years, diplomatic disagreements on climate have been about "equity" and "responsibility," code words in the negotiations about which nations must shoulder the cost of climate action.

The UNFCCC sets forth basic principles for global cooperation that illustrate this point. One of its most cited provisions states that developed nations will provide the financial resources needed "to meet the agreed full incremental cost" of climate action in developing countries.¹⁸ Agreement on this principle was essential to reaching agreement because, to reference another critical principle in the UNFCCC, nations have "common but differ-

¹⁷ Project Catalyst (2010) (forthcoming).

¹⁸ United Nations Framework Convention on Climate Change, Article 4.

entiated responsibilities and capabilities." Historic responsibility for climate pollution and capability for action now point primarily to developed nations, whereas low-cost emissions reduction opportunities and vulnerability to the impacts of climate change lie disproportionately in developing nations. Financial flows between rich and poor nations, therefore, were widely seen as essential to make climate solutions both fair and cost-effective. Without adequate international finance to better match opportunities for action with the responsibility and capacity to take action, global efforts would be unnecessarily expensive and timid.

The International Energy Agency (IEA) expects that nearly all of the growth in greenhouse gas emissions over the next several decades will take place in developing countries.¹⁹ Most of this growth will come from new power plants, buildings, appliances, vehicles, and more energy-intensive agriculture and manufacturing. Based on IEA estimates of the carbon price needed in different regions to keep global warming to 2°C, greening energy investments in major emerging economies will be about 40 percent less expensive than in OECD countries in 2030.²⁰ Similarly, the cost of halting tropical deforestation in developing nations (about 15 percent of global climate pollution) is expected to be less than half the cost of reducing emissions in the industrialized world.²¹

These points are made plain by looking at the emissions mitigation numbers. To place the world on a pathway toward limiting global warming to 2°C,

¹⁹ International Energy Agency (2010) *World Energy Outlook 2010: Executive Summary*, Paris, France.

²⁰ International Energy Agency (2009) *World Energy Outlook 2009: Climate Change Excerpt*, Paris, France.

²¹ Based on the projected marginal cost of emissions reductions. Commission on Climate and Tropical Forests (2009) *Protecting the Climate Forests*, Washington, DC.; International Energy Agency (2009) *World Energy Outlook 2009: Climate Change Excerpt*, Paris, France.

nations need to abate 38 gigatons (billion tons) of CO₂ by 2030 below business-as-usual projections. Only 11 gigatons can be reduced in developed nations for less than \$114 per ton. In contrast, the developing world has 27 gigatons of abatement potential at less than that cost.²² Allocating responsibility based on cost would be efficient but not fair. Per capita emissions in developed and developing nations are 12 gigatons and 3 gigatons, respectively.²³ Average per capita incomes are \$36,472 and \$5,585.²⁴ Developed nations have been responsible for about 75 percent of global emissions since the beginning of the industrial revolution.²⁵

If European countries, the United States, and other nations force major emerging economies to choose between paying for globally optimal climate action, on one hand, and self-financing only policies that make sense for domestic reasons and thereby accepting higher risks of dangerous climate change, on the other hand, then the vast majority of the nations where emissions are growing fastest will choose the latter. So, we must work hard to avoid presenting this choice.

Financing Green Growth

Before examining precisely how to change the choices that developing nations face, let us try to quantify how much funding is really needed. Currently, the world spends \$5 trillion annually on fossil fuels — mainly petroleum, natural gas, and coal — including 4 percent of global gross domestic product or about \$2 trillion annually on oil

alone.²⁶ Over the next several decades, that figure is expected to increase substantially as hundreds of millions of people in developing nations climb out of poverty and adopt modern lifestyles. Merely building the *infrastructure* to create, find, extract, transport, store, and harness the world's energy will require annual investments of over \$1 trillion between now and 2030. About 87 percent of the global growth in primary energy demand through 2030 will occur in developing nations, particularly the world's leading emerging markets whose economies are growing rapidly. About 80 percent of this primary energy demand will still be directed toward fossil fuels, absent new policy interventions.²⁷ Continuing on the current energy trajectory, therefore, will lock-in an unprecedented increase in global temperature, and this must be avoided.

Smart policies and practices can get the job done of greening these investments at an affordable cost, provided we begin now. Shifting the world to 100 percent clean, climate-protecting energy would only increase energy infrastructure investment needs by \$500 billion annually through 2030, for example.²⁸ The amount required in developing countries is approximately \$315 billion annually in up-front capital expenditures to build the new green economy and \$130 billion per year in annual reoccurring incremental costs above business-as-usual levels.²⁹ Combined, this is less than 1 percent of global GDP. While these sums are large, they are substantially less than current annual expenditures on fossil fuels. They are also less than the

To succeed in forging a workable partnership with developing nations, the transatlantic partners need to pursue a dual strategy.

²² McKinsey & Company (2010) "Impact of the Financial Crisis on Carbon Economics: Version 2.1 of the Global Greenhouse Gas Abatement Cost Curve."

²³ World Bank Group (2010) *World Development Indicators*.

²⁴ World Bank Group (2010) *World Development Indicators*.

²⁵ Baumert, K., Herzog, T., and Pershing, J. (2005) *Navigating the Numbers: Greenhouse Gas Data and International Climate Policy*, Washington, DC: World Resources Institute.

²⁶ Project Catalyst (2010) (forthcoming); International Energy Agency (2008) *World Energy Outlook 2008*, Paris, France; Climate Advisers analysis.

²⁷ International Energy Agency (2008) *World Energy Outlook 2008*, Paris, France; Climate Advisers analysis.

²⁸ International Energy Agency (2009) *World Energy Outlook 2009: Climate Change Excerpt*, Paris, France. Several tens of billions of dollars per year in funding for reducing emissions from deforestation is also required.

²⁹ Project Catalyst (2010) (forthcoming).

When nations see that climate-friendly policies serve their broader development goals, they are far more willing to mobilize their own resources.

types of investments nations make in times of crisis to address major economic and security threats. Mobilizing these levels of investment should be challenging but feasible.³⁰

To succeed in forging a workable partnership with developing nations, the transatlantic partners need to pursue a dual strategy. Europe and the United States must work harder to help developing nations identify and implement green growth policies that make sense independent of climate change. This can be done, for example, at the national and provincial level by providing demand-driven technical assistance and analysis to developing country decision-makers to help them adapt proven smart policies and global “best practices” to local circumstances. When nations see that climate-friendly policies serve their broader development goals, they are far more willing to mobilize their own resources. This is exactly what we are seeing under the Copenhagen Accord, where many major emerging economies are voluntarily self-financing their low emissions development strategies. Interestingly, this willingness to self-finance domestic mitigation actions appears to extend not only to energy-efficiency interventions that pay for themselves in a few years but also to far more expensive actions that have significant unrecouped economic costs but yield valuable noneconomic local benefits, such as energy security. (Said differently, developing nations are paying for interventions that are on both the left and right side of the mitigation cost curve.) This is because policies that can be defended in strictly development and security terms are often worth pursuing even if they require new domestic investments.

Developing nations, in addition, are increasingly asking donor nations to focus existing international development assistance on green growth policies. A

³⁰ High-Level Advisory Group on Climate Change Financing (2010) *Report of the Secretary-General's High-level Advisory Group on Climate Change Financing*, New York, NY.

significant majority of national poverty reduction strategies prepared by developing nations for the World Bank, for example, now include at least a few climate-friendly investment priorities, and this was not the case a decade ago. “Mainstreaming” green growth ideas into traditional development policy, therefore, can also help cover part of the costs of action.

While developing nations can contribute to the cost of transitioning to green growth, as many already are, and existing development assistance can also pick up some slack, there’s no hiding the fact that developed nations will need to provide substantial additional financial resources. Presently, the surest and perhaps only way to accelerate the spread of green economic policies — to make sure that national policies are globally optimal — is to change the financial incentives that nations face when determining how forcefully to pursue green growth. No other approach is likely to prove both fair and effective.

Some may ask, but what about China? Much should be expected of China. Its emissions are the highest in the world, and its miraculous economic growth, enormous currency reserves, and never-ending trade surpluses can support ambitious climate policies. China also has well-developed capital markets to self-finance climate action at relatively low cost. Importantly, China is doing a lot to face up to its climate responsibilities, as noted above. To meet its new carbon intensity goal, China is taking bold steps domestically, such as closing inefficient coal power plants and investing unprecedented sums in renewable energy technologies. China has stated, moreover, that it does not need international financial support for these measures, i.e. it will self-finance its existing level of effort.

Yet, like any nation, China will only pursue policies that are in its national interest regardless of what it can afford. Even if China (and all other

nations) achieves its Copenhagen pledges, its emissions would be more than double the next closest country's (the United States) in 2020.³¹ If the world wants China and other developing nations to reduce emissions more than those nations feel are justified based on their own self-interest, some cost sharing with China is probably going to be necessary.

Global Compact for Green Growth

New resources should not be provided unconditionally, however. Developing nations need to understand that international climate finance is not blood money that they are free to invest as they please. Rather, new funds must be treated as investments in a partnership for green growth and low emissions development. That partnership, like any serious venture, must have well-defined goals, delineated roles and responsibilities, realistic strategies, clear measures for success, and genuine accountability. In policy terms that means the following:

- **Country ownership.** To be effective, green growth finance must be matched by strong national commitment to low-emissions development in recipient nations. Green growth must be central to their development strategies, not a boutique addition. This means that developing nations must show how their own national resources are aligned with climate goals. It also means that developing nations must accept green reforms for existing foreign aid, including at the World Bank and other multilateral development institutions. There would be little point mobilizing new donor resources for a renewable energy revolution in developing economies if those nations use existing development assistance to build coal plants and inefficient cities.

- **Governance reforms.** Developing nations will need to improve local and national governance to effectively manage international climate flows. In part, this means strengthening democracy, public participation in decision-making, and government transparency. Governance reforms are needed to both implement credible action plans and verify climate results. Carbon market investments depend on the rule of law, favorable investment conditions, and stable societies. Similarly, efforts to stop deforestation require clear land tenure and local community support.
- **Performance-based incentives.** New international climate finance should be performance-based. Funding provided to mitigate emissions, for example, should be linked to whether developing nations succeed. Some up-front financing will be necessary for new capital expenditures and to build global trust, but the bulk of resources should be reserved to create incentives for success. Performance measures may even have their place when it comes to financing climate adaptation. Continued international support should depend on using prior climate adaptation money wisely.
- **International transparency.** Both developed and developing nations will need to embrace international transparency as a core element of any new climate finance paradigm. Developing nations need to see that developed nations are keeping their finance commitments. Developed nations need to know that developing nations are achieving real results that withstand international scrutiny. High levels of transparency can help create a culture of political accountability, which for the moment should be a central objective.

New funds must be treated as investments in a partnership for green growth and low emissions development.

³¹ Project Catalyst (2010) *Taking stock — the emission levels implied by the pledges to the Copenhagen Accord*, San Francisco, CA: ClimateWorks Foundation.

2 TURNING IDEAS INTO REALITY

In the preceding pages, I have sought to sketch a new theory of change for Europe and the United States to promote international climate action — one that places traditional development concerns and national actions (rather than international commitments) at the heart of transatlantic climate diplomacy. This new strategy aligns political trends in developing countries (desire to pursue “green growth” as an economic development strategy), developed countries (lower political will on climate change necessitating a need for fresh thinking), and international climate negotiations (emphasis on a “bottom-up” rather than “top-down” regime). As the analysis has shown, the crux of this new strategy is mobilizing new financial resources to support climate-friendly green growth policies. Given this close link between green growth and climate policies, the remainder of the paper connects these ideas to ongoing global discussions about international climate finance and demonstrate that climate finance discussions (bilateral, regional, and global) provide an opportunity for making progress on the new green growth strategy.

Recent Progress on Finance

In 2010, climate finance moved to center stage in global climate talks. In last year’s Copenhagen Accord, developed countries pledged to assist developing nations to mitigate emissions and adapt to climate change by providing a collective \$10 billion a year in public funding from 2010-2012, and by mobilizing \$100 billion a year from public and private sources by 2020.

Many important questions about these significant financial pledges were left unresolved. Why are these specific sums appropriate, where will the funding come from, how will they be invested, and with what result? Are these pledges still relevant given the lingering global economic crisis, declining political interest in climate change in many nations, and the results of the U.S. midterm elections? Good

answers are needed soon to help accelerate progress in developing nations and build global support for the Copenhagen framework.

Since Copenhagen, nations have made modest progress on climate finance. There have been four significant developments.

1. **Fast Start.** Developed nations have taken important strides toward meeting their collective \$10 billion-a-year climate finance commitment for 2010-2012 — the so-called “fast start” funds. So far, donor governments have made concrete pledges totaling \$28 billion (\$25 in “grant-equivalent” terms).³² The European Union and the United States have promised \$10.3 and \$5.2 billion, respectively (more information on recent trends is provided later).³³ The Copenhagen Accord stipulates that these funds should be “new and additional resources.”³⁴ This may not have been realistic given the up-to-two-year wait for new political initiatives to move through cumbersome national budget cycles and the absence of much transparency about how much climate assistance was already being provided by donor nations. In reality, the “fast start” funds are a combination of new and existing programs, but overall the trend is firmly positive and the funds have been provided by nations generally in line with international burden sharing formulas (as shown in Figures 1 and 2). This evidences some real political will by developed nations to do more to support climate action in developing countries since Copenhagen.

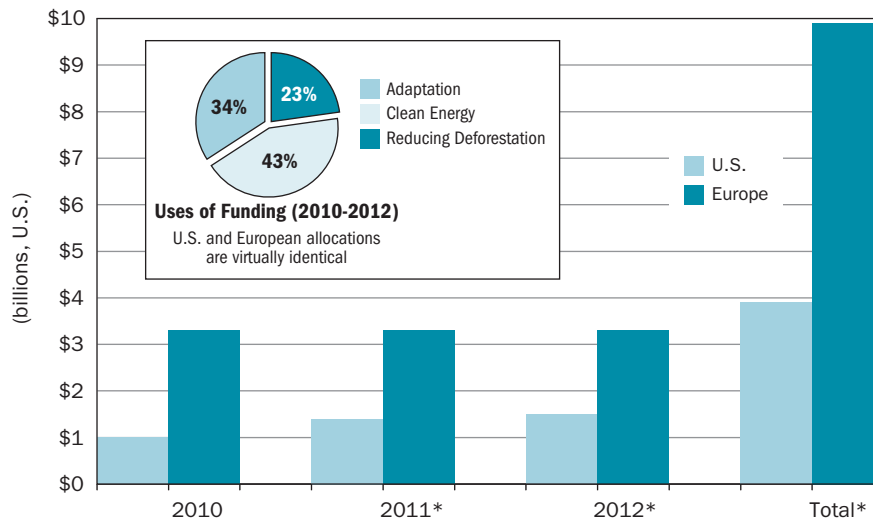
³² Project Catalyst (2010) *Making Fast Start Finance Work*, San Francisco, CA: ClimateWorks Foundation.

³³ Assuming a 7.5 percent increase in U.S. funding for fiscal year 2012.

³⁴ United Nations Framework Convention on Climate Change (2009) *Copenhagen Accord*.

FIGURE 1

U.S. and European “Fast Start” Funding†



†The graph only includes international funding where climate benefits are the primary objective.
*Projected
Sources: U.S. State Department, Project Catalyst, World Resources Institute, Climate Advisers

2. Norwegian Leadership.

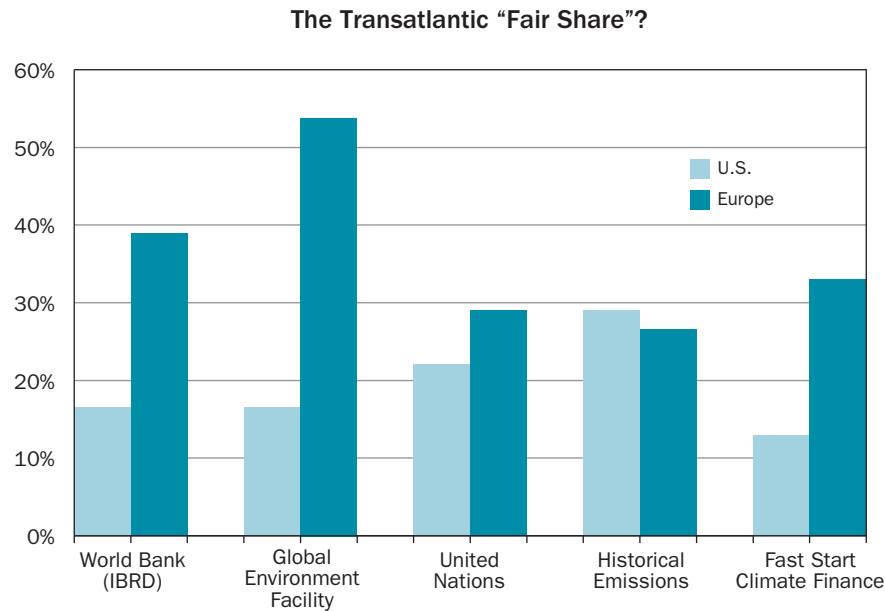
Norway has shown great leadership on climate finance by negotiating separate bilateral agreements with Indonesia and Brazil to help these two nations, two of the world’s largest emitters, and accounting for half of global deforestation, reduce their deforestation. Through each of these agreements, Norway is investing up to \$1 billion through a performance-based system — with the size of financial aid depending on the level of verified emission reductions. Few countries are blessed with Norway’s petroleum-aided budget surpluses and Scandinavian generosity with regard to foreign aid. Regardless, Norway’s focus on direct bilateral agreements with key nations and performance-based financing are models for other developed nations to emulate.

3. Advisory Group on Finance. Immediately after Copenhagen, U.N. Secretary General Ban Ki-moon empaneled a High-Level Advisory Group on Climate Change Financing (AGF) to help evaluate potential sources of funding to mobilize the \$100 billion a year in public and private resources endorsed by the Copenhagen Accord. Jens Stoltenberg and Meles Zenawi, the prime ministers of Norway and

Ethiopia, respectively, chaired the panel, and its members included former Obama administration economic advisor Larry Summers, American billionaire financier George Soros, and U.K. economist Lord Nicholas Stern, along with an equally distinguished list from other nations. The AGF’s final report, released in November 2010, described the \$100 billion a year Copenhagen goal as challenging but feasible, provided developed nations impose carbon prices and assemble a portfolio of other climate funding sources.

Neither carbon markets nor public funding alone would get the job done — there is no silver bullet solution on climate finance just as there is no single technological solution for clean energy. The AGF drew special attention to the importance of harnessing multilateral development bank lending for low emissions development, and the potential role of “innova-

FIGURE 2



Sources: World Bank, Global Environment Facility, United Nations, World Resources Institute, Climate Advisers

tive” sources of public funding (such as possible levies on international shipping and aviation fuels). A fuller discussion of the sources of climate finance appears later in this paper.

4. **Green Fund.** High-level global climate negotiations will pick up again in Cancun, Mexico, but expectations for the December 2010 annual session are low. The best-case scenario is that major elements of the Copenhagen Accord — which was crafted by dozens of world leaders but not accepted as a global consensus in 2009 — will be broken down into parts and turned into official U.N. consensus decisions in Cancun. These potential decisions are being described as building blocks toward a new global treaty.

On finance, this means likely agreement on a process to create the “Green Climate Fund” envisioned by the Copenhagen accord — a new

multilateral mechanism for financing green growth and climate adaptation in developing nations. Movement toward a Green Fund is significant and should be welcomed. Even the United States, which has generally had mixed views about global environmental funds, anticipates that the Green Fund would be capitalized at an order of magnitude larger than prior global environmental funding sources.³⁵

This would mean that annual contributions to the Green Fund would exceed \$10-20 billion, an important sum, but only 10-20 percent of the Copenhagen finance pledge for 2020. Donor nations in particular see a new multilateral climate fund as only one of several vehicles for channeling investment. Even so, it is likely to take years to turn the Green Fund into a reality — to actually start funding projects and programs in developing nations. Delay seems inevitable given the nature of the diplomatic process, and strong differences between developed and developing nations about how the fund should work and who should control it (donors or recipients). Indeed, since Copenhagen, nations have focused primarily on the architecture of the Green Fund. Where should

³⁵ Stern, T., informal remarks during the Geneva negotiating session (2010).

it be housed — the United Nations or the World Bank? What proportion of seats should developed and developing nations have on the fund's governing body? What types of nations should contribute to the fund and in what proportion? The focus on structure and governance has been a marriage of convenience for both developed and developing nations.

Donor nations have been eager to avoid the far harder questions about when and how they will capitalize the fund and from what sources of revenue. Developing countries seem obsessed with controlling the Green Fund rather than making it effective, but perhaps the two are one and the same in their eyes. Whatever happens in Cancun, governance issues are likely to dominate the formal climate talks for the next couple of years or more. Slow progress in climate negotiations could easily make the entire Copenhagen process appear misguided and unrealistic.

Challenges Ahead

Unfortunately, the issues discussed so far only begin to reveal the challenges that lie ahead. Efforts to increase international climate finance in the United States, European countries, and other developed nations face a strong political headwind because public interest in climate change is declining at the moment.

- Economic issues seem more pressing given high unemployment, rising deficits, weak economic growth, and unsustainable increases in the cost of health care, retirement, and other social programs.
- Acceptance of mainstream climate science and thus the severity of the climate problem have been eroded badly by regrettable missteps by climate scientists and disinformation campaigns by opponents of climate action.

While the global scientific consensus for urgent action has been vindicated by a number of impartial review panels, the damage to public confidence will take time to reverse.

- The international community has become far more cynical (some would say realistic) about the prospects for progress in U.N. climate negotiations. Any kind of binding international agreement seems far off and the U.N. negotiating process is increasingly viewed as an obstacle to progress rather than, as it once was considered, the primary vehicle for a global solution.
- The climate issue has become politically polarized in many nations, making policy compromises harder to achieve. In the United States, as noted above, gains by conservatives during the recent midterm elections render the passage of comprehensive climate legislation a near impossibility. Nearly all of the 37 Republican Party candidates for the U.S. Senate in the November 2010 elections questioned mainstream climate science, with many viewing it as an unjustified exaggeration of the liberal elite. Hostility to climate policy has become a defining principle of the influential, ultraconservative “Tea Party” movement in the United States.³⁶
- Europe, too, faces political and economic challenges. In the United Kingdom, Prime Minister Cameron faces strong opposition to climate policies from backbenchers from within his own party, austerity measures have led to substantial cuts in funding for domestic environmental programs, and climate change skepticism may be increasing in the general

³⁶ Samuelsohn, D. (2010) “Climate skeptics wanted for GOP primary,” Washington, DC: Politico.; Samuelsohn, D. (2010) “GOP candidates knock global warming,” Washington, DC: Politico.

public. In Germany, the cost of enacting ambitious energy and climate policies is becoming a growing concern, especially in politically important coal-dependent regions. In coal-dependent Eastern Europe, costs also continue to be a concern. Europe is not united about whether it can afford to reduce its emissions 30 percent below 1990 levels by 2020, as noted previously.

Sources of Finance

Figuring out how to mobilize public and private funding remains difficult. Deciding on the sources of climate finance is literally the \$100 billion question, of course. The AGF report addressed this question squarely and provided the following four options.

1. **Public funding.** Governments could increase resources for traditional development assistance or new channels through revenues raised from existing or new public sources, including general tax revenues or fees on greenhouse gas emissions.
2. **Carbon market offsets.** Governments could mobilize international climate funding by setting a domestic emissions cap and allowing regulated entities to comply with that cap by financing emissions reduction projects or programs in developing countries instead of reducing their own emissions.
3. **Development bank lending.** Governments could mobilize concessional lending for clean technology projects or programs in developing countries by increasing capital available to multilateral development banks.
4. **Private sector resources.** Governments could make targeted interventions such as loan guarantees or technical assistance to reduce the risks of private sector investment in low-

carbon growth in developing countries and help “crowd-in” additional private capital.

None of these options will suffice alone. Rather, nations must create a portfolio of climate financing sources. Official development assistance can play an important but limited role. Developed nations need to reorient existing foreign aid flows to make them climate-friendly, as noted above. World Bank lending for fossil fuels should not be increasing more rapidly than lending for renewable energy, as is the case now.³⁷ But greening existing funding will require additional capital to avoid detracting from other high priority development goals and to secure developing country agreement. Securing these increases in the current fiscal and economic climate will not be easy, but it must be done.

President Obama’s proposed budget for fiscal year 2011 envisions a 40 percent increase in U.S. climate-related foreign aid compared to fiscal year 2010 and this is on top of a 300 percent increase from the year before.³⁸ Europe seems likely to make comparable increases and some nations already are moving in that direction.³⁹ However, because these increases are from relatively low starting points, it is hard to see how foreign aid alone could mobilize funding on the scale envisioned by the Copenhagen Accord. U.S. funding for climate change in 2010 will be approximately \$1.2 billion and in 2012, about \$1.5 billion.⁴⁰ Even if U.S. development assistance for climate increases 500 percent by 2020 it would represent only 6-8 percent of the Copenhagen 2020

³⁷ Mainhardt-Gibbs, H. (2009) *World Bank Energy Sector Lending: Encouraging the World’s Addiction to Fossil Fuels*, Washington, DC: Bank Information Center.

³⁸ U.S. Department of State, Treasury, and Agency for International Development (2010) *FY 2011 Budget for International Climate Change Financing*, Washington, DC.

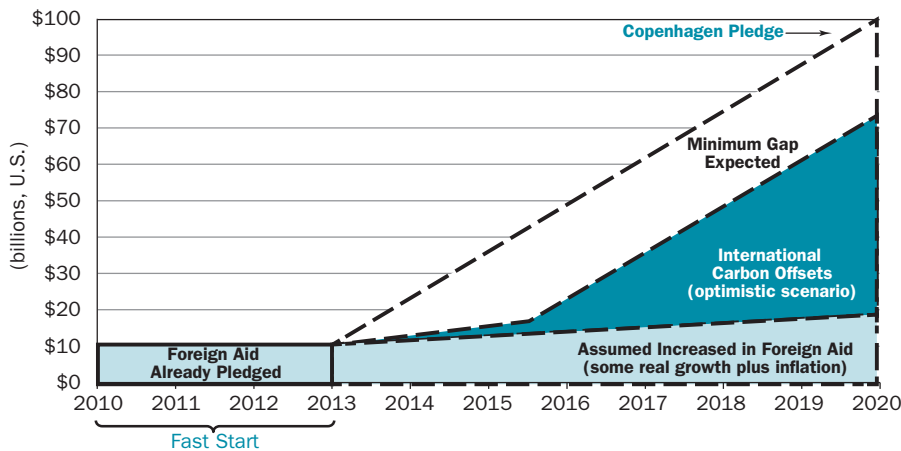
³⁹ Lew, J.L. (2010) *President’s Proposal for the FY 2011 State Department Budget*, Washington, DC.

⁴⁰ Based on reports from congressional committees for fiscal year 2011 and a projected 7.5 percent increase over the President’s fiscal year 2011 budget request in 2012.

Developed nations need to reorient existing foreign aid flows to make them climate-friendly.

FIGURE 3

The Climate Finance Funding Gap



pledge. Several European nations are starting from a higher base of public financing for international climate cooperation, but in a time of tight budgets, their potential for growth is also limited. (These U.S. and European fast-start funding trends were shown in Figure 1.) Foreign aid will be part of the solution but not the silver bullet. Even assuming a doubling in real terms, total public funding from traditional overseas development coffers seems unlikely to surpass \$25 billion in 2020.⁴¹

Emissions trading systems and carbon markets hold great promise for incentivizing investment by the private sector in nations that want to implement this approach. Under current rules, the European Emissions Trading System could direct \$3 billion annually by 2020 toward climate-compatible investments in developing nations.⁴² The cap-and-trade

⁴¹ Climate Advisers analysis.

⁴² Based on an allowance of 1.6 billion tons of offsets total from 2008-2020, assuming equal distribution per year and a \$25 per ton carbon price. If Europe raises its target to 30 percent below 1990 levels by 2020, it is expected to increase the allowable number of offsets and thus financing directed to developing nations. European Union (2008) *Questions and Answers on the revised EU Emissions Trading System*.

legislation approved by the House of Representatives in the United States last year would mobilize upwards of \$22.5 billion in private sector funding and \$7.5 billion in public funding for developing nations by 2020.⁴³ However, because the United States and other developed nations may not adopt cap-and-trade legislation anytime soon, in the short-term, carbon markets may not offer much additional benefit. If the United States and other major developed nations create strong carbon markets by 2020, total carbon market flows to developing countries could be around \$40-60 billion per year by that time.⁴⁴ As Figure 3 makes plain, even these optimistic assumptions reveal a large gap in funding needed to meet the Copenhagen 2020 financing commitment.

Path Forward

International green growth finance is vital and urgently needed, and will require a portfolio of old and new funding sources and strategies, including traditional overseas development assistance, carbon markets, and more innovative mechanisms. At the same time, the political environment has deteriorated for mobilizing public and private sources of funding, including from global carbon markets.

⁴³ Climate Advisers analysis based on data from the United States Environmental Protection Agency.

⁴⁴ Assuming a carbon price of \$20-25 per ton.

Reconciling these two realities will be very difficult, of course, but not trying would risk dangerous climate change. Importantly, the steps outlined below should not depend on progress in global climate negotiations only. Europe and the United States should advance these ideas in global climate talks but also through their own, potentially more flexible, bilateral, regional, and multi-country partnerships. Formalizing these ideas in some type of treaty matters far less than creating a broadly understood global political narrative that can guide future actions.

Step 1: Define a new three-year financing window from 2013-2015

As a next step towards reaching long-term climate protection objectives, policymakers should create an interim window from 2013-2015, possibly naming it the first ramp-up period for international climate action and finance (see Figure 4). The initial three-year fast start goals from 2010-2012 has succeeded in focusing attention, building momentum, and creating confidence. The goal was ambitious yet realistic. A new three-year funding goal commencing when the fast-start period ends would have similar benefits and set the stage for further progress later in the decade. 2013-2015 would also be on a more political relevant timeline than the 2020 Copenhagen pledge. Few of today's politicians will still be in office in 2020.

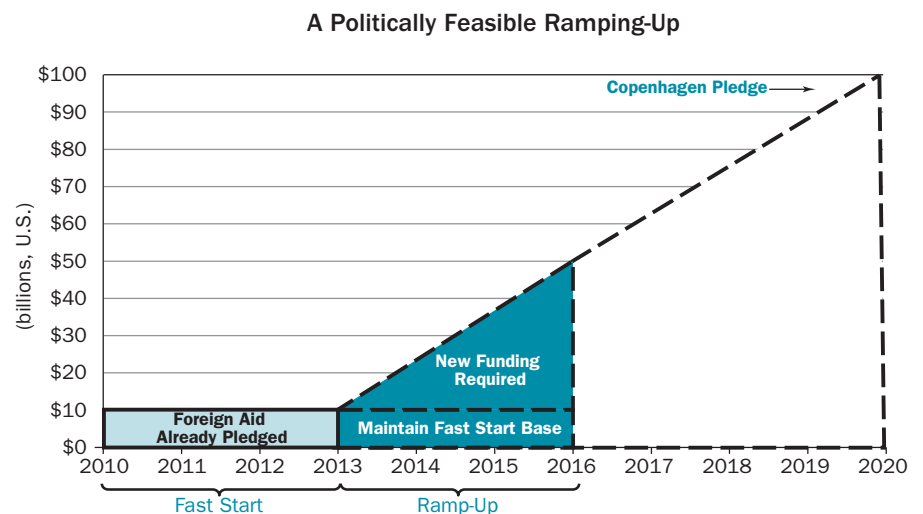
The 2013-2015 timeframe would also balance

idealism with realism. Environmentally, providing inadequate short-term financing would fail to curb high-carbon infrastructure investments and thereby lock in decades of climate pollution. Politically, agreeing to ramp-up funding starting in 2013 would help foster enthusiasm for the green growth paradigm. At the same time, looking immediately at how to reach \$100 billion a year in global climate assistance by 2020 seems disempowering and demoralizing in the current economic and political context. Increases in non-national defense spending in many countries are expected to freeze or decline over the next several years while economies recover from the financial crisis and pay down national debts. Policymakers and the general public will be more receptive to supporting feasible, but meaningful, short-term objectives rather than attempting now to reach the still important 2020 levels.

Step 2: Set concrete objectives for 2013-2015

Nations need to set compelling policy objectives for the new 2013-2015 ramp-up period. Mobilizing resources is a means to an end, not the end itself. Policymakers must find a way to communicate outcomes that the public can understand and

FIGURE 4



support. This is not happening in global climate negotiations, where nations seem incapable of agreeing on concrete objectives and priorities for international financial support. The overarching goals should be adapting to expected climate impacts and scaling-up emissions reductions by developing nations to help limit temperature increases to a maximum of 2°C. Toward those macro objectives, governments should articulate measurable goals in at least three key areas: climate adaptation, reducing deforestation, and deploying clean technology.

For adaptation, one goal could be to make sure that by 2015 every nation has achieved a clearly defined and measurable minimum level of climate readiness. Many developing nations still need comprehensive national adaptation strategies. Almost all least-developed nations need to strengthen their implementation capabilities and do more to mainstream climate change into their overall development plans. Adaptation funding should be used to get every vulnerable nation out of the starting gate and to invest in key demonstration activities for disaster risk reduction systems, insurance mechanisms, and sector-specific innovation, such as climate-resilient agriculture, sustainable natural resource management, and climate-friendly infrastructure. These investments will help build institutions and knowledge as a platform for future growth in adaptation assistance and effectiveness.

To curb deforestation, the ramp-up period objective should be to reduce net global deforestation 25 percent by 2015, which would reduce net emissions from deforestation 1.5 billion tons of CO₂ per year below recent levels. This goal is consistent with leading scientific recommendations for keeping the world on a 2°C pathway and is achievable with a feasible increase in resources. It is also in keeping with bipartisan policy recommendations in the United States and Europe from leaders in the foreign policy, national security, economic, and

environmental communities.⁴⁵ Achieving this goal will require developing robust pay-for-performance deforestation reduction programs in all major tropical forest nations. As noted previously, Brazil is already making great progress, and political will for action is building in Indonesia and other tropical forest nations. While forest-sector reform will be enormously difficult to achieve, especially in a way that benefits local communities, these early signs are most encouraging.

For clean technology, recent studies have found that to keep the world on a 2°C pathway, developing countries could aim to reduce their power-sector emissions 300 million tons below business-as-usual levels by 2015 and improve overall energy efficiency by 3 percent relative to business-as-usual.⁴⁶ Achieving these goals will require new global investments in technology research and development, increasing clean technology investments in developing nations, and shifting existing investment to climate-friendly projects.

Step 3: Set disaggregated financing goals for 2013-2015

Meeting the different types of concrete objectives for 2013-2015 described above will require varying types of international support. Adaptation goals will require traditional foreign aid (public grants) for the least developed nations that are too poor to take on additional development loans and have done little to cause climate change. Adaptation will also require innovative financing to cover the incremental cost of making private investment climate resilient. In contrast, reducing deforestation can be financed with a combination of public

⁴⁵ Commission on Climate and Tropical Forests (2009) *Protecting the Climate Forests: Why reducing tropical deforestation is in America's vital national interest*, Washington, DC.; European Commission (2008) *Addressing deforestation and forest degradation in the fight against climate change: The European Commission's position on REDD*, Brussels, Belgium.

⁴⁶ Project Catalyst (2010) (forthcoming).

grants or carbon markets. Both of those sources can create new incentives for landowners and forest communities to manage forests for their global carbon benefit. Scaling-up clean technology investments, however, requires additional development bank lending and private sector investment to cover enormous up-front capital costs and, in some cases, annual reoccurring incremental costs for more expensive climate-friendly technologies. The distinctions between grants and innovative financial instruments (such as risk-reducing guarantees), and between incremental cost financing and up-front capital expenditures admittedly are somewhat artificial. Carefully structured financial instruments could move costs from one category to another, but the point remains that financial needs will be at least as diverse as the goals to be achieved.

Because financial needs vary for each major use of funds (adaptation, forests, and technology) and because each of the four sources of funds (public funding, carbon markets, multilateral development banks, and innovative financial mechanisms) help meet those varying needs in different ways, nations should set *separate* funding goals for each category of sources for the 2013-2015 period. Taking this approach instead of choosing a single overall number will also eliminate the need to resolve intractable political or technical accounting issues.

Currently, there is no practical way for converting funding in each of these four categories into a common unit of measurement or currency. While economists can agree on how this could be done in theory, obtaining reliable data to do it in practice seems difficult. Plus, these types of decisions are inherently political (or easy to politicize), and policymakers have yet to agree on official methods for how to convert, for example, carbon market investments into official development assistance grant equivalents. They are apples and oranges. Setting separate financing goals for each of the four categories can bypass potentially endless debates

about equivalents. Separate funding goals would also help ensure that the funding provided through 2015 is closely aligned with the financial requirements for success in climate protection. Given the trillions of dollars in the global energy market, one could easily sum existing private sector investment and public funding for clean energy in ways that total \$100 billion a year without actually doing enough to reduce emissions.

What should the separate goals be? Here is what some experts believe would be needed from each of the four sources of climate finance to achieve the goals for 2013-2015 articulated above:

- **Public funding.** \$60 billion total in public funding, or \$30 billion above existing levels, is needed for mitigation, along with several billion per year in additional funding for adaptation.
- **Carbon market offsets.** \$20-40 billion total in funding for carbon market offsets is needed, directed towards reducing deforestation and clean energy.
- **Development bank lending.** \$30-50 billion total in funding for new development bank lending is needed, primarily directed towards energy efficiency and low-carbon infrastructure.
- **Private sector resources.** \$400 billion total in new private sector investment is needed, directed primarily towards energy efficiency and low-carbon infrastructure.⁴⁷

Step 4: Elaborate the terms of the “global compact”

Higher levels of funding need to be provided in the context of a new global compact that rests on certain key principles (country ownership, gover-

⁴⁷ Project Catalyst (2010) (forthcoming).

nance reforms, performance-based incentives and international transparency), as argued previously. In many respects, these principles lie within the Copenhagen Accord, and continued elaboration of the Accord within the United Nations presents an opportunity to build an adequate system for international transparency, analysis, and consultation. Europe and the United States share the same goals in this regard and are working together well. Yet, progress through formal negotiations may lag, and the world cannot wait to take action. The path blazed by Norway negotiating bilateral agreements with major economies that enshrine the core elements of the new global compact suggests another avenue for progress and experimentation. As is the case in trade agreements, bilateral and regional arrangements can produce meaningful results in the short-term while also achieving greater international alignment that can help global talks in the long-term. Brazil, Indonesia, and other nations working with Norway lend proof to the theory that if developed nations have the political will to mobilize resources for green growth then they will find willing partners in the global South.

Step 5: Focus on strategic countries

In these austere times, neither the United States nor Europe can afford or politically sustain a major increase in funding for green growth solely for global climate benefits. Just as many emerging economies are pursuing green growth for domestic reasons, donor nations need to rally around global green growth because it advances a broad range of their foreign policy objectives. Green growth policy interventions should be closely tied to transatlantic interests in energy security, national security, trade, migration, and international development.

As a practical matter, this means collaborating most closely with China, India, Brazil, and other major emerging superpowers. Supporting regional allies such as South Africa, Indonesia, Mexico, and South

Korea will also be vital. More generally, Europe must continue its special relationship with Africa just as the United States should engage heavily with Latin America. Working in this manner will help build support for green growth among policy-makers and stakeholders who care little about climate change but who care about major regional partners and interests.

Embedding green growth within national and regional foreign policy priorities will be particularly important in the United States in the new Congress. Many lawmakers might declare new climate initiatives dead on arrival. Even the green growth paradigm itself, if advanced for its own sake, could seem like an unappealing liberal concoction to the growing ranks of conservative lawmakers. In contrast, those same green growth policies could attract bipartisan support from liberals and conservatives alike if accurately described as the highest economic development priorities of key strategic allies and the key expanding markets for U.S. energy companies. Said differently, the objective should be to support core foreign policy interests. Facilitating green growth is merely a great strategy for doing that and, as a tertiary point, one that produces important climate dividends.

Step 6: Set a clear deadline for action

None of this will happen unless governments set clear deadlines for making decisions. Nations could do this in a number of ways. One option would be to reach agreement on the 2013-2015 goals and funding sources at the December 2011 annual high-level climate negotiating session, which will occur in South Africa. If that's not feasible, nations could agree in South Africa to reach agreement in 2012, possibly at the 20th anniversary of the Rio Earth Summit, at which world leaders are expected to commemorate in Rio once more. Alternatively, nations could take a more informal approach. Countries could outline a framework for climate

Green growth policy interventions should be closely tied to transatlantic interests in energy security, national security, trade, migration, and international development.

finance from 2013-2015 at the G20 and/or G8 summits during this same timeframe, or alternatively in the Major Economies Forum. While these fora have different claims to legitimacy, the process for reaching agreement may matter less than all the rest.

3 CONCLUSION

As most of the growth in emissions will occur in major developing nations, engaging these nations must become the center of transatlantic climate cooperation. Yes, Europe should continue to push the United States to do more at home to reduce its emissions; that goes without saying. Political conditions in the United States, however, may limit the effectiveness of direct appeals based on climate change. Just like in India and China, progress inside the United States may come in large part from the climate dividend in U.S. green growth strategies, rather than traditional climate policies. Regardless of what the United States does at home, however, significant global progress is possible by promoting green growth policies in the developing world. Fortunately, major emerging economies appear willing to self-finance a significant portion of the costs of green growth because those policies advance vital national and local interests. Helping these countries identify and implement opportunities for green growth must become a central objective of international climate cooperation.

As part of this effort, the United States, European countries, and other developed nations will need to lend a helping hand to make sure the level of climate ambition in developing nations is optimal. Mustering the political will to mobilize the resources needed to accelerate green growth, therefore, is the United States and Europe's common international climate agenda. This is the door that developing countries have opened and the transatlantic partners need to walk through it together, whether in the United Nations, through bilateral arrangements, or other flexible configurations. U.S. and European leadership on finance will be essential to make sure international actions are ambitious, cost-effective, and fair. If the 2020 Copenhagen financing levels seem too difficult in the current political and economic circumstances, defining concrete goals for 2013-2015 could provide a feasible path forward.

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