



The U.S. Role in International Climate Finance: Summary for Policymakers

Andrew Light December 6, 2010

The vital national interests of the United States require our nation to forge a global partnership with developing nations to accelerate their climate actions through new international investments in clean energy technologies, energy efficiency, tropical forest conservation and climate adaptation. This report by the Center for American Progress and the Alliance for Climate protection, based on analysis by Project Catalyst and Climate Advisers, identifies a plan for U.S. leadership on a global climate investment strategy in the near term, 2013-2015, and breaks down how much money will be needed from developed countries to achieve emission reductions in particular sectors in developing countries. We assess the difficult political climate in the United States and make the case for the feasibility of this effort.

New U.S. investments in financing international climate action will yield many benefits including:

- Increased competitiveness with China and other trading partners by U.S. firms, helping them capture a substantially larger share of global clean energy markets—worth \$2 trillion annually and rapidly growing
- Reduced risks of climate-related national security threats, including from severe floods or droughts in Pakistan and the Middle East
- Stronger relationships with key strategic allies and major emerging economies, such as Indonesia, India, and Brazil, that will enhance America's ability to build global coalitions on security and economic policy and advance democratic ideals
- Billions of dollars in reduced climate impacts in the United States, including on U.S. coastal infrastructure and farmers
- Improved energy security and lower energy prices for traditional fuels

The need for action

All major nations—including China, India, and other emerging economies—have agreed to limit global temperature increases to 2 degrees Celsius (3.6 degrees Fahrenheit) above pre-industrial levels. Scientists concur that this is the maximum level of warming allowable to stand a good chance of avoiding dangerous and potentially catastrophic climate change.

Spurred in part by the creation of the Copenhagen Accord, all these major carbon emitters have outlined and begun to implement emissions reduction policies through 2020 toward the global temperature objective. But more ambitious climate actions are needed worldwide—a gap of 6.5 billion tons of carbon dioxide per year exists between the low end of possible emissions reduction outcomes through 2020 from countries' unconditional pledges and existing policies, and the necessary emissions reductions by that date to place the world on a pathway to reaching the 2 degree objective. With the collapse of comprehensive climate legislation in the United States and significant gains by climate skeptics in U.S. midterm elections, domestic climate champions and the international climate community wonder whether the United States can still lead.

The United States can restore its international credibility and help to close more than half the gap in global climate ambition by leading a new international partnership to scale up emissions mitigation measures of developing nations.

The partnership must supplement, not become a substitute for, far stronger domestic policies to reduce U.S. emissions. This international partnership will require combining technical expertise, innovative thinking, political determination, and, importantly, new financial resources to help reduce the costs of green growth and low-emissions development in developing nations.

The need for climate finance

The Copenhagen Accord established a “fast start” financing goal of \$30 billion to flow from developed to developing countries by 2012. In turn it identified the need for the establishment of a climate fund with aim of mobilizing \$100 billion annually by 2020. We argue that an additional capital investment of incremental financing is needed of about \$60 billion per year by 2020. Billions more in additional financing also will be needed for climate adaptation. Compared to annual spending by major economies on fossil fuel subsidies (\$312 billion), energy (\$5 trillion), and infrastructure (\$7 trillion), these sums are small.

The world will need to draw on a variety of existing and new sources of finance to meet these investments, including public budget resources, carbon markets, development bank lending, and private financing. A recent high-level report commissioned by the United Nations secretary general described the task of mobilizing new international resources for climate finance as challenging but feasible in view of global economic and political conditions.

Efforts to mobilize new international climate financing could be delayed by differences among countries about the ideal mix of public and private investment. Thus, while working toward consensus for 2020, countries should set global funding goals for each of the following four sources: public funding, private investment, multilateral development bank lending, and carbon markets.

To develop a strategy for success, the world and the United States should focus on concrete objectives for near-term progress (2013–2015) while ensuring international climate goals are consistent with economic as well as political realities and aligned with broader economic, national security, and foreign policy priorities.

Policy recommendations

The United States should work collaboratively with other nations to ensure the following actions happen at the global level:

- Developed nations should deliver on their fast-start financing pledges for the period 2010–2012, as announced at the 15th U.N. climate summit in Copenhagen in 2009. More specifically, nations should provide a combined \$30 billion in total international climate financing from public sources over this period. Analysts estimate that current global pledges total about \$28 billion.
- To build on the fast-start period and make concrete progress toward longer-term goals, countries should create a new 2013–2015 ramp-up period for international climate finance. Countries could structure this period around helping developing nations achieve the following concrete objectives in line with the global 2 degree temperature goal:
 - Build an additional 125 gigawatts of low-carbon power above business as usual, reducing emissions by 400 million tons per year

- Improve energy efficiency by an amount equal to 4 percent of business-as-usual energy consumption, reducing emissions 1.4 billion tons per year
- Limit emissions from land use by reducing deforestation 20 percent below recent levels by 2015, planting new trees and improving agricultural processes, lowering net emissions by 2.0 billion tons per year
- Address adaptation needs by ensuring every country achieves at least a minimum level of climate resilience

While creating these new mitigation and adaptation goals for a 2013–2015 ramp-up period, countries should evaluate international financing needs, develop a process for identifying and agreeing on new sources of domestic and international financing, and set a deadline for countries to outline how they plan to contribute. Based on our analysis, the following resources are needed to achieve the interim goals listed above, constituting significant yet realistic increases in public and private investment compared to existing levels:

- Public financing: \$15 billion in 2013, increasing to \$25 billion in 2015
- Carbon markets: \$5 billion to \$10 billion in 2013, increasing to \$10–\$20 billion in 2015, primarily from nations with existing cap-and-trade systems
- Development bank lending: \$10 billion to \$15 billion in 2013, increasing to \$15 billion to \$20 billion in 2015
- Private financing: \$40 billion to \$120 billion in 2013, increasing to \$60 billion to \$160 billion in 2015

Countries should not only pursue this global partnership through international climate negotiations, but also with equal vigor through parallel and complementary vehicles, such as bilateral and regional partnerships as well as other flexible multi-country initiatives. The United States should give special attention to creating new mechanisms for international transparency to ensure accountability and verify results.

Financially, the United States should contribute to this vital global partnership in the following ways:

- Deliver its fair share of fast-start funding—approximately 20 percent of the global total, or a combined \$6 billion over three years. Doing so will require a substantial increase in international climate programs in 2012 over 2010 levels.
- During the interim 2013 to 2015 period, the United States also should assume responsibility for mobilizing an average of 20 percent of public and private resources needed to achieve the climate goals outlined above. For public funding this would amount to \$3 billion in 2013 and \$5 billion in 2015, compared to roughly \$1 billion in 2010.
- The United States should use some of this new funding to launch three to five new bilateral climate partnerships with key strategic allies, such as Indonesia and India, backed by U.S. financing of at least \$500 million each.
- The United States should also spearhead an effort to increase multilateral development bank lending for renewables and energy efficiency to \$15 billion to \$20 billion per year by 2015, subject to the World Bank and other institutions aligning existing lending with climate objectives.
- To advance these goals and safeguard the competitiveness of U.S. aviation and shipping carriers, the United States should work proactively with major trading partners to avoid unilateral taxes by other nations on U.S. carriers, including through new international agreements and sensible U.S. policies that mobilize international climate financing.

See also:

[Report: The U.S. Role in International Climate Finance](#)

[Foreword to The U.S. Role in International Climate Finance](#)

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