Innovative Sources for Multilateral Climate Finance

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UNFCCC Paris Committee on Capacity Building (PCCB)

European Capacity Building Initiative (ecbi)

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Introduction

From its inception, in 2005, the ecbi has been based on the understanding that enhancing the capacity of the multilateral climate change regime to produce ambitious outcomes requires significant building and enhancement of trust between negotiators. Over the past five years, the ecbi Director has consistently argued that the well-being of the Financial Mechanism of the UNFCCC/Paris Agreement is key in generating such trust.[i] This is why the PCCB (Paris Committee on Capacity Building) and ecbi joined forces to organize a joint Seminar at COP 24 in Katowice to showcase ideas aimed at generating innovative additional contributions to the funds of the Financial Mechanism to enhance their longer-term viability.

This Seminar took place, with the financial support of the World Bank, on 8 December in the PCCB COP 24 Capacity-building Hub. The event was opened by Marzena Chodor, PCCB Co-chair, and Tomasz Chruszczow, Polish Special Envoy for Climate Change and UNFCCC Climate Champion. Following a number of showcase presentations, there was a panel discussion with representatives from civil society, sub-national governments, and multilateral financial institutions and funds (all of the contributions are to be made available as on-demand webcasts on the PCCB website). Daniele Violetti, UNFCCC Director, Finance, Technology & Capacity building, gave the closing address of the Seminar.



Daniele Violetti *Tomasz Chruszczow* *Marzena Chodor*

Kelley Kizzier, Sean Kidney, Julie-Anne Richards, Benito Müller, Eric Theroux (Deputy Assistant Minister, Fight against Climate Change, Quebec), Liane Schalatek (Associate Director, Heinrich Böll Foundation North America), Mirza Shawkat Ali (Adaptation Fund Board member, Bangladesh), Yunus Arikan (Head of Global Policy and Advocacy, Global Services, ICLEI), Mark Sadler (Practice Manager, Climate Funds Management, World Bank)

Presentations

For the purposes of the Seminar, 'multilateral climate finance' was interpreted in terms of the Financial Mechanism of the Paris Agreement – that is the Green Climate Fund, the Adaptation Fund, and the Least Developed Countries and Special Climate Change funds, operated by the Global Environment Facility. 'Innovative', in turn, was used to refer to sources other than the traditional budgetary government contributions, be they on an ad hoc ('voluntary') or a multi-year replenishment basis. Sources were divided into 'top-down' or 'bottom-up', depending on government involvement (individually or collectively, and at whatever level, i.e. multilateral, national, sub-national):

- The International Air Passenger Adaptation Levy (IAPAL): top-down (multilateral);
- The Climate Damages Tax: top-down (multilateral);
- The International Maritime Fuel Carbon Tax: top-down (multilateral);
- The Western Climate Fund: top-down/bottom-up (sub-national);
- The Corporate Air Passenger Solidarity Programme: bottom-up.

The presentations can be downloaded from the ecbi website.

The International Air Passenger Adaptation Levy (IAPAL)

The first top-down innovative source established for multilateral climate finance was the share of proceeds of the Clean Development Mechanism which was intended to be the main source of income for the Adaptation Fund. In 2006, a Working Paper by Benito Müller and Cameron Hepburn[ii] put forward the idea of a solidarity levy on international air passengers for the benefit the Adaptation Fund. Two years later this was taken up by the UNFCCC Group of Least Developed Countries and submitted as a proposal at COP 14 (Poznan, Poland) to establish an International Air Passenger Adaptation Levy (IAPAL) for consideration under the Bali Action Plan.

The Proposal

Achala Abeysinghe, Senior Strategic Adviser to the LDC Group and Head of the ecbi Training and Support Programme, presented the LDC Group IAPAL proposal. Following the very successful example of the French 'Leading Group' solidarity levy to combat HIV/AIDS, the Group proposed an adaptation solidarity levy on international air passengers to provide more adequate funding for adaptation activities in the poorest and most vulnerable countries and communities.

The levy, collected by airlines at the point of ticket sale, was earmarked for the Kyoto Protocol Adaptation Fund. It was to be universal in the sense of covering all international air travel. Being international and dependent only on the evolution of air travel demand, the funds raised would truly be new and additional, as well as significantly more predictable than traditional funding mechanisms.

The proposed levy would have no significant impact on passenger numbers – its value representing less than a tenth of the expected annual growth rate – and hence minimal to no negative impact on tourism-dependent economies. In contrast, it would have significant positive impacts on the development of the poorest and most ·le countries and communities, by avoiding climate change impacts through the deployment of timely and adequate adaptation measures funded using the raised by the levy.

- **Responsibility for implementation**. Airlines would collect the levy from their passengers at the point of sale and transfer it to a dedicated account of the Adaptation Fund. The airlines are compensated for reasonable administrative costs incurred in the course of collection.
- **Revenue.** In line with the French levy, the LDC Group proposal involved a small passenger charge for international flights (USD6 per economy and USD62 per business/first class trip); it was estimated that this charge would raise between **USD8 billion and USD10 billion annually** in the first five years of operation, and considerably more in the longer term. By its very nature, this revenue is not only new and additional to the traditional flows of bilateral funding for adaptation, but also predictable due the stability of the airline sector.
- **Justice considerations.** According to the LDC proposal, the proposed levy conforms to the idea of Common but Differentiated Responsibilities and Respective Capabilities (CBDR/RC) with respect to: (i) the personal responsibilities of passengers due to the international emissions produced and (ii) their capability revealed by the ability to fly internationally.[iii]

To reflect CBDR/RC at the national level, the revenue raised in developing countries could be retained by them for their own adaptation activities, with only the revenue from developed countries going to the Adaptation Fund.

The Climate Damages Tax (CDT)

Julie-Anne Richards (Adviser, Climate Damages Tax Coalition) gave a preview of a report on The Climate Damages Tax (CDT), which she co-authored and launched at COP 24 two days after the Seminar. The chief purpose of the proposed CDT is to raise resources to pay for what has become known in the multilateral climate change regime as 'Loss & Damage' (L&D). The first time the UNFCCC negotiation texts referred to "unavoidable loss and damage from the adverse impact of climate change" was in 2008 (see "Loss and damage due to climate change An overview of the UNFCCC negotiations"). But it was in 2013, at COP 19, that the issue was fully acknowledged through the establishment of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (WIM) "to address loss and damage associated with impacts of climate change, including extreme events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change". Even though the WIM was given the mandate to enhance L&D finance, there have hitherto been practically no resources been allocated for that purpose. This was one of the main reasons for launching the Climate Damages Tax campaign in April 2018.

The Proposal

The Climate Damages Tax (CDT) is a charge on the extraction of each tonne of coal, barrel of oil, or cubic litre of gas, calculated at a consistent global rate based on how much climate pollution (CO2e) is embedded within the fossil fuel.

- **Responsibility for implementation**. The CDT proposal is to set up a solidarity facility for loss and damage, managed by the GCF. Working with existing systems of payment, fossil fuel companies will pay an extra amount on the volume they extract to the solidarity facility. International law and precedents embodying the Polluter Pays principle (such as the International Oil Pollution Compensation Fund) serve as a working example of similar facilities.
- **Revenue.** The proposal recommends that the CDT is introduced in 2021 at a low initial rate of USD5 per tonne of CO_2e, increasing by USD5 per tonne each year until 2030 to USD50 a tonne, with the expectation that it is increased at the rate of USD10 per tonne annually after that to reach USD250 a tonne by 2050. The increasing rate of tax will keep CDT revenue for loss and damage at roughly **USD300 billion** a year over this period.
- **Justice considerations.** The CDT would raise funds for an international loss and damage solidarity facility, and also raise revenue to support a just transition from fossil fuels to renewable energy. This would help low-income communities and workers shift to carbon-free jobs, energy, and transport, via a share of the CDT remitted back to the country where the oil, coal, or gas was extracted. The share remitted to the country of extraction varies between 50 per cent for rich countries, and 100 per cent for low-income countries, with a sliding scale between the two ensuring that rich countries take the responsibility for funding loss and damage.

The International Maritime Fuel Carbon Tax

Kelley Kizzier (Independent Consultant) presented an IMF Working Paper she co-authored on "Carbon Taxation for International Maritime Fuels".

The purpose of the paper is to promote dialogue about the possibility of a carbon tax as a key element of a GHG mitigation strategy for international maritime transport, in the context of the April 2018 International Maritime Organization (IMO) pledge to cut emissions by 50 per cent by 2050, relative to the 2008 level. The paper discusses the case for the tax over alternative mitigation instruments, together with options for practical design issues; it also presents estimates of the impacts of carbon taxation and other instruments.

The Proposal

- **Responsibility for implementation.** Maritime carbon taxes could be collected domestically (through extending administrative capacity for domestic fuel taxes), but the more immediately relevant option (given delegation of GHG mitigation strategy to the IMO) would be an international collection from ship operators (based on required reporting of their fuel consumption). This could be achieved through the establishment of an IMO-administered fund, following the precedent of the International Oil Pollution Compensation (IOPC) Funds, established and overseen by the IMO. Operators could pay the tax on either an annual or individual route basis, with denial of port access, or ship arrest, for non-compliant operators being the potential enforcement mechanisms. Under current practice, IMO members are mandated to enforce the IMO convention — the tax could be paid to the fund, but any non-payment would be enforced by states.
- **Revenue**. A tax rising to USD75 per tonne of CO_2 in 2030 (USD240 per tonne of bunker fuel), and to USD150 per tonne in 2040, is estimated to raise revenues of about **USD75 billion** in 2030 and **USD150 billion** in 2040, while increasing shipping costs by 0.075 per cent of global GDP in 2030.
- **Justice considerations**. Compensation mechanisms to reconcile the principle of CBDR/RC and the global application of the maritime carbon tax (preferred due to the high mobility of the tax base and the undesirability of introducing trade distortions), could be achieved by remitting the carbon tax revenues to the GCF.

The Western Climate Fund

In December 2015 at COP21 in Paris, Quebec's Premier Couillard announced that CAD6 million of the revenue from Quebec's auctions of emission allowances under the Western Climate Initiative (WCI) – the joint cap and trade scheme of Quebec and California – were to be contributed to the Least Developed Countries Fund (LDCF) of the UNFCCC/Paris Agreement. At the announcement, former US Vice President Al Gore expressed "deep gratitude, admiration and congratulations" for Quebec's initiative, which illustrates how the wealthy regions of the world can reach out in partnership to the least developed countries, enabling them to participate fully in solving the global climate crisis.

The Proposal

Benito Müller, ecbi Director, introduced a proposal to build on this example by establishing a Western Climate Fund (WCF) to receive contributions for the multilateral funds of the Paris Agreement from states and provinces in or around the WCI. The trans-national character of this 'catchment area' is important, as it would guarantee that the Fund is not perceived as competing with national support, but as being genuinely complementary to it. In order to assure predictability, the Fund's primary income is intended to come through innovative sources, in particular from shares of proceeds of carbon price instruments, such as emission trading schemes or carbon taxation, namely:

1. an earmarked share of cap and trade auction revenue (as in the case of Germany's Climate and Energy Fund[iv]);
2. an earmarked share of emission allowances to be monetized by an intermediary (as in the case of the share of CDM proceeds monetized by the Adaptation Fund, or the "Allowance Allocation to Electrical Distribution Utilities on Behalf of Ratepayers" under the California Cap and Trade Programme);
3. an earmarked share of a carbon tax.

By participating in this initiative, sub-nationals can contribute to the support needed by the globally poorest and most vulnerable to enable them to combat global climate change while reducing poverty. This is not just a moral imperative. Without such support, this fight cannot be won.

- **Responsibility for implementation**. This depends on the sub-national circumstances, and the source modality. Shares of government revenue would most likely be collected by the relevant government, while the monetization of shares of emission allowances might best be outsourced to a not-for-profit entity.
- **Revenue.** 2 per cent share of (expected) 2018 auction revenue: Quebec **USD10 million**; California **USD125 million**.
- **Justice considerations.** In sub-national contexts, 'climate justice' is often focused exclusively on domestic issues. The fact that, in the context of climate change, it is in the interest of everyone to acknowledge that justice knows no jurisdictional boundaries, will have to be explained to the domestic constituencies.

The Corporate Air Passenger Solidarity Programme

The Proposal

The ecbi Director also presented the Corporate Air Passenger Solidarity (CAPS) Programme, launched in 2017 as part of the "Oxford Crowdfunding for Adaptation Initiative". The aim of the Programme is to encourage corporate entities to contribute 1 per cent of their annual air travel expenses to the Adaptation Fund of the Paris Agreement, in social solidarity with the plight of the globally poorest communities which are most vulnerable to the adverse impacts of climate change. With the financial support of the Luxemburg government, the Programme aims to establish a web-based platform for a 'CAPS Partnership' to be used in a campaign to market the idea of contributing 'Corporate Passenger Solidarity Donations' to the Adaptation Fund.

Müller argued that, in the context of socially responsible (corporate) air travel, the narrative on 'climate neutrality' needs to be augmented. It can no longer only be a matter of carbon neutrality, that is of purchasing voluntary carbon offset credits to mitigate ones flight emissions – particularly given that, as of 2020, the industry will have its own emissions reductions program. 'Climate neutrality', he maintained, must also address the need to support the most vulnerable in dealing with the adverse impact of climate change. In short, Müller suggested, the narrative in question has to be re-defined as:

Climate Neutrality = Carbon Neutrality (mitigation) + Impact Solidarity (adaptation),

with CAPS contribution to the Adaptation Fund as an effective and efficient solution to providing the latter.

- **Responsibility for implementation**. The CAPS Programme, with the support of the Adaptation Fund.
- **Revenue.** A contribution of 1 per cent of corporate air travel expenses – which corresponds roughly to the cost of offsetting – by 1 per cent of corporate travellers would amount to over **USD100 million per year**, and match the Adaptation Fund's current annual income.
- **Justice considerations.** Voluntary contributions.

Conclusions

There is an abundance of possible innovative sources for multilateral climate finance, each with different characteristics regarding potential scale, predictability, and political feasibility.

Unsurprisingly, multilateral top-down sources – namely global taxes, levies, or 'shares of proceeds' – have a much larger revenue potential than sub-national or bottom-up sources. As earmarked revenue streams, they would also generally be more predictable than traditional budgetary contributions.[v] The 'only' drawback, ssed by the fate of the LDC Group IAPAL proposal, is that in the past they did not command sufficient political buy-in to materialize.[vi]

Sub-national sources, such as the ones presented at the PCCB/ecbi Seminar, have a much smaller revenue potential – which is why they should probably be directed at the smaller funds of the Financial Mechanism, to enable them to serve as multilateral 'retail outlets', with the GCF as the 'wholesale' fund (see "On the Virtues of Strategic Divisions of Labour"). Their advantage is that they depend less on political will because fewer, if any (as in the case of the CAPS programme), governments are involved.

The one thing that all of these innovative options have in common is that, in providing support to the Financial Mechanism of the Paris Agreement, they help build trust among the Parties of the Paris Agreement. Trust – albeit intangible – is the key ingredient in enhancing the Agreement's overall ambition.

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[i] See, for example, B. Müller, 'The Time is Ripe! Support from US sub-nationals for the Least Developed Countries Fund of the Paris Agreement', Oxford Climate Policy, June 2017.

[ii] 'IATAL — an outline proposal for an International Air Travel Adaptation Levy', Benito Müller and Cameron Hepburn, Oxford Institute for Energy Studies Paper EV36, October 2006.

[iii] Indeed, given the international character of the activities in question and of the resulting emissions, the only equitable way to deal with the non-national responsibilities for these activities is at the personal level, which – given the price levels of international flights – also respects the idea of respective personal capabilities.

[iv] 'Two Unconventional Options to Enhance Multilateral Climate Finance Shares of Proceeds and Crowdfunding', Benito Müller et al., ecbi.

[v] For more on this, see "To Earmark or Not to Earmark?" or "Finance for the Paris Climate Compact"

[vi] The one exception is, of course, the 'share of proceeds' of the CDM, and subsequently of the Art. 6.4 mechanism of the Paris Agreement. It is still extraordinary that this concept was adopted, and it stands to reason that this only happened because it was not called a 'tax' or 'levy' but was presented as a charge to cover the administrative costs of the scheme.

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