Comments on Case study 6: The German Special Fund for Energy and Climate

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Expanding Green, Low-Emissions Finance

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How does the German Special Fund for Energy and Climate fit into the overall climate finance landscape?

- Welcome initiative
- Link to Emission Trading Scheme
- Double edged sword:
  - correcting for a market failure
  - and using revenues to finance climate action in developing countries/combat climate change – best practice

German Special Fund for Energy and Climate
Is it scalable and replicable?

Scalable:

- The extent of the revenues will depend on the development of the carbon market: one more reason to secure a strong carbon market
- Important model to bridge gap between fast start and long-term: clearly new and additional

Replicable:

- Yes, by other EU Member States, political will to use funds in a similar way like Germany
- Outside of EU: significant potential of carbon markets as a source of climate finance; initiatives that scale up development of emission trading schemes and other carbon market mechanisms e.g. Preparedness for Market Readiness (PMR)

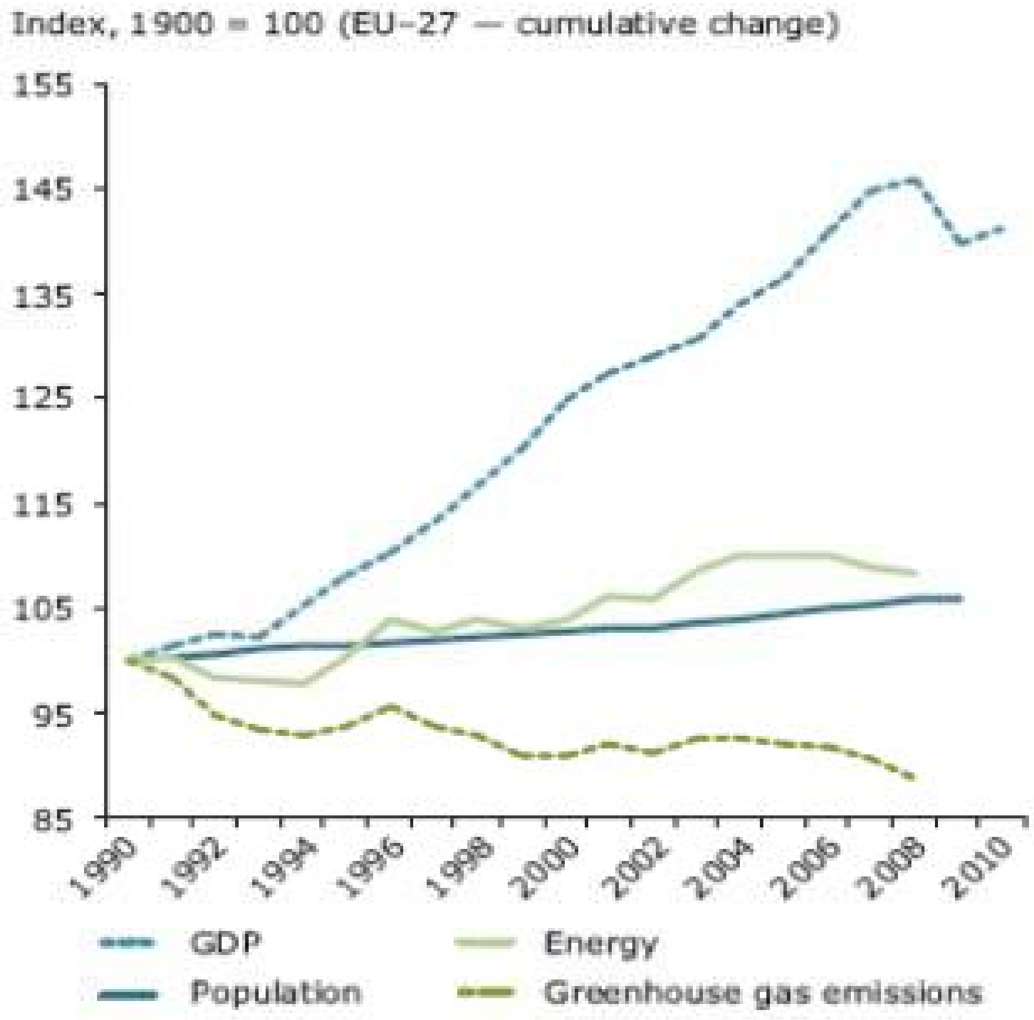
How does this fund fit into a broader financing strategy in Europe?

- Funds like this one extremely important, but only one element in a broader debate
- How can public budgets be used to incentivize?
  - retirement of „bad“ technology and
  - Demonstration, adoption, and deployment of „good“ i.e. innovative, climate-friendly and resilient technology
  - Needed: in developing and in developed countries

How does this fund fit into a broader financing strategy in Europe?

- What about public funds in EU?
- Context: EU budget for 2014–20
  Substantial needs for low carbon finance: Roadmap 2050
- EU has subscribed to long-term climate objectives (< 2° C)
- Roadmap 2050: analysis of the milestones to reduce emissions in 2050 by 85%

GHG emissions: Where is the EU now?



- EU emissions reduced by 16% between 1990 - 2009
- EU GDP grew 40%
- EU manufacturing grew by 34%
- EU on track towards the - 20% emission reduction target by 2020
- However, current policies would only lead to ca. - 40% GHG emissions by 2050

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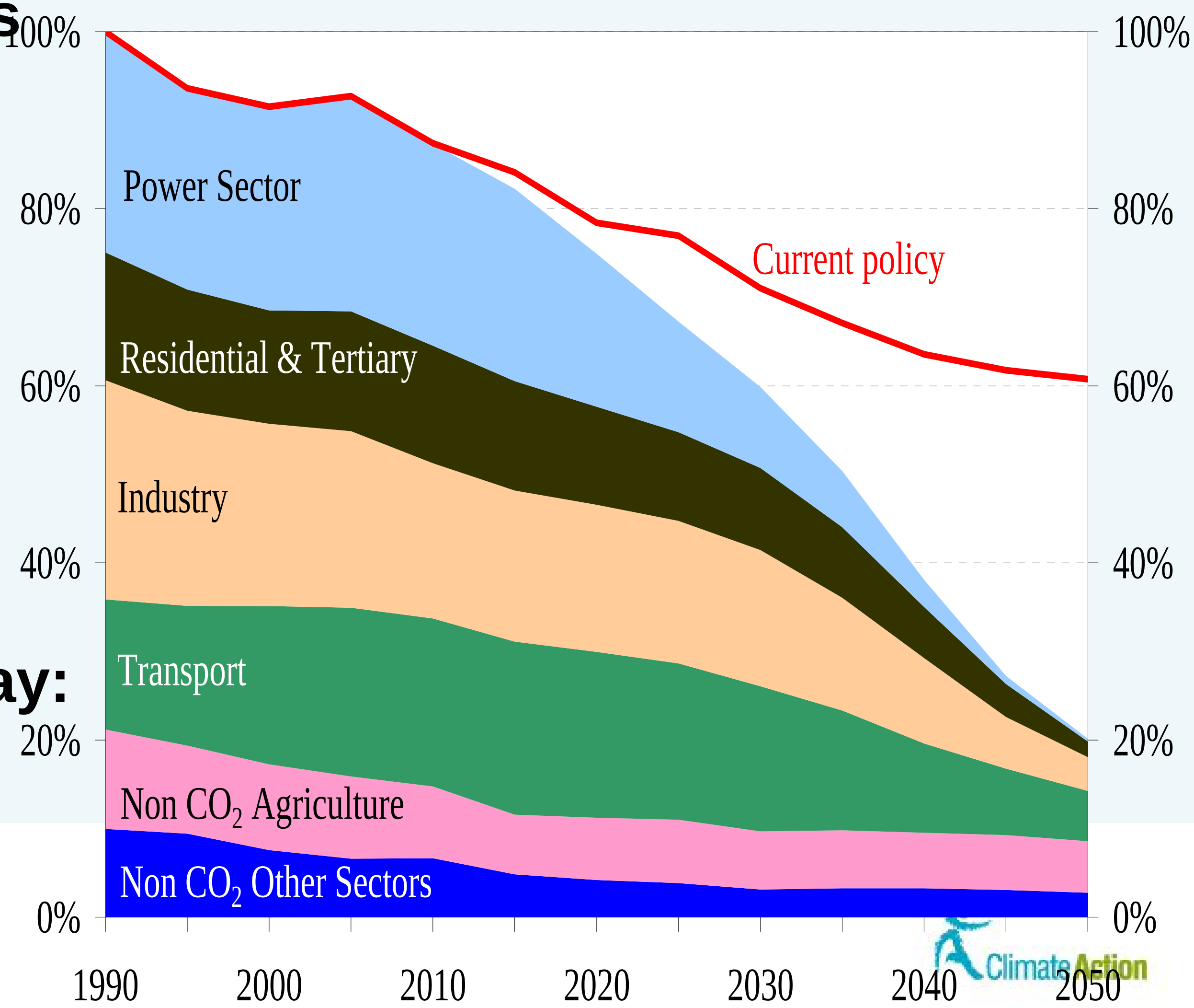
A cost-efficient pathway towards 2050

80% domestic reduction in 2050 is feasible

- with currently available technologies,
- with behavioural change only induced through prices
- If all economic sectors contribute to a varying degree & pace.

Efficient pathway:

-25% in 2020
-40% in 2030
-60% in 2040



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Roadmap 2050: Investing in the EU economy

- Additional domestic investment: € 270 billion annually during 2010-2050, equivalent to 1.5% of GDP **(Total investment = 19% of GDP in 2009)**, of which
  - environment (buildings and appliances): € 75 bn
  - transport (vehicles and infrastructure): € 150 bn
  - power (electricity generation, grid): € 30 bn

<u>Question:</u>

- How can EU budget support the transition to low carbon growth with scarce public resources?

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Context: EU budget for 2014–20
Should EU also set up a CLIMATE FUND?

- EU‘s budget always in 7 year framework
- In July 2011: Communication on post 2013 budget
- A new simpler and more transparent framework
- **Support in priority areas:** research, innovation, pan-European infrastructure, securing external borders, external action
- Policy areas with **cross-border/global public goods**: environment and climate action
- Deliver EU 2020 for **smart, sustainable and inclusive growth**

How can increased importance of climate change be reflected in EU budget for 2014 – 20?

- **Specific climate fund post 2013:** risks being limited in size, compartmentalise climate action, risks overlapping with existing policy instruments such as the Cohesion Policy
- **Alternative instrument: Mainstreaming climate action into public budgets**
  - Mainstream climate mitigation and adaptation actions into all the major EU programmes.
  - Support 'harder'/bigger investments through the 'sectoral' funds
  - Bigger **scale and complexity of the climate challenges**
  - But, effective integration remains a challenge, mainstreaming approach needs to be reinforced.

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How can increased importance of climate change be reflected in EU budget for 2014 – 20?

- **Reinforced Mainstreaming**
  - **Promote synergies and acknowledge that one Euro can serve multiple objectives (e.g. resource efficiency)**
  - Increase the proportion of the budget to **at least 20%, with contributions from different policies (cohesion, research, agriculture)**
  - Necessity: **tracking of climate related expenditure** across the EU budget instruments based on Rio-markers

Conclusions

- **German Climate Technology Initiative** is a best practice example!
- In context of **future EU budget:** separate EU fund for climate change would have created parallel structures.
- Instead **EU approach to providing low carbon finance** will be/is based on
  - **Reinforced mainstreaming** of climate action into all EU instruments after 2014
  - Including **mainstreaming of climate into all external cooperation**: tracking but also ensure that external cooperation is overall carbon-proove and fostering climate resilience

Thank you for your attention!

Pls visit our internet site:

http://ec.europa.eu/clima/

How can increased importance of climate change be reflected in EU budget for 2014 – 20?

- **What are the instruments to up-scale low carbon finance through the EU budget?**

  Instrument 1:

  - Create a **large-scale, dedicated fund** (similar to the German one) devoted to the delivery of investment towards climate objectives.
  - **European Economic Recovery Plan 2008:** key strategic energy projects

Instrument 4: Climate Change Windows

- **The EU Regional Investment Facilities: leveraging loans and partner countries' own contributions**
- **Creation of Climate Change Windows (2010) to mainstream climate change into existing development cooperation**
- **Under the Climate Change Windows transparent tracking** of all climate change related projects using the **Rio Marker** system

Climate Change Windows under the EU Regional Investment Facilities

Progress so far

- **Joint European response**: Member States, European Commission, European financial institutions (EIB, EBRD, NIB) and development banks (KfW, AFD, …) working with third countries and regional banks
- **Efficient identification and assessment process:** By 2011 190 projects have been approved under
  - the Western Balkans Investment Framework (WBIF),
  - the Neighborhood Investment Facility (NIF),
  - the EU-Africa Infrastructure Trust Fund (EUAITF),
  - the Latin America Investment Facility (LAIF) and
  - the Investment Facility for Central Asia (IFCA)

Climate Change Windows under the EU Regional Investment Facilities

Progress so far

- **Leverage effect:** €870 million in grants to infrastructure and private sector investments,
- leveraging a total project volume of more than € 20 billions, around 50% covered by loans from the financial institutions involved.
- Broad set of **innovative financial instruments**: investment grants, interest rate subsidies, loan guarantees, equity contribution.
- The investment to combat climate change in all regional EU investment facilities **already** amounts to more than **€7 billion.**