

# A fragile symmetry: climate finance in the Paris Agreement



by Robin Davies

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The product of the COP 21 climate conference, the [Paris Agreement](#) [pdf], is usefully seen as a double-faced, precisely balanced coin. On one side are climate change mitigation commitments; on the other side are commitments of international public finance. On both sides, as it turns out, we find undertakings that are unexpectedly demanding. These undertakings will at best be difficult to implement, but will nevertheless function as spurs to action. At the very least, they will provide a great deal of purchase to [those](#) looking to exact accountability.

A [previous](#) post, written prior to the home stretch of the negotiations, focused on several notable climate finance failures—on the part of the OECD, which overhyped the quantity of climate finance that is already flowing; Australia, which pledged nothing more than business-as-usual for the 2016-2020 period and made no specific adaptation commitments; and the Conference of the Parties (COP) itself, which had neglected up to that point the importance of market mechanisms from a development perspective. Now that it's all over, the present post takes a broader look at the finance-related aspects of the negotiated outcome, and, in passing, revisits the failures earlier identified. It finds that desirable processes have been set in motion, but suggests that inertia and bickering might well break the symmetry.

## *International public finance*

The Paris Agreement is not actually striking for the amount of future climate finance it specifies. The agreement text itself contains no figures and is notable mainly for the idea, in Article 9, that developed countries should henceforth “continue to take the lead” in mobilising finance (the same phrase is used in relation to mitigation commitments) to assist developing countries. This is obviously to say that some developing countries should in due course join the caravan. The preceding decision text (excerpt below) is more specific, indicating that the existing mobilisation goal of US\$100 billion per annum by 2020 will be considered a floor until 2025, and that a higher collective goal will be adopted before 2025.

*... developed countries intend to continue their existing collective mobilization goal through 2025 in the context of meaningful mitigation actions and transparency on implementation; prior to 2025 the Conference of the Parties ... shall set a new collective quantified goal from a floor of USD 100 billion per year.*

The post-2025 goal will be set by the Conference of the Parties (COP) rather than by developed countries, which sets the stage for broader participation in the financing club, or for a fight, or both.

The Agreement is more remarkable for its very demanding provisions, also under Article 9, on the monitoring and reporting of financial flows and the setting of related standards.

*Developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines to be adopted by the Conference of the Parties.*

Developed countries will not only be required to provide transparent and consistent information to the COP every two years, but will be directed by the COP on what information is considered relevant and admissible. In addition, though the agreement has almost nothing to say about the Green Climate Fund and other multilateral channels for climate finance, it can be expected that the COP will be imposing the same reporting standards upon them.

This is a far cry from the approach taken to the **reporting** of fast-start climate finance flows for the 2010-12 period, which saw individual donors reporting what they themselves considered to be relevant flows, in whatever format and level of detail they saw fit, and without regard for consistency of approach across donors. In fact, amusingly, the final agreement still contains what looks to be an alternative, superseded version of the above paragraph, which describes something more akin to the fast-start approach:

*Developed country Parties shall biennially communicate indicative quantitative and qualitative information related to ... this Article, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties.*

This was presumably the preferred text of at least some OECD countries. The terms “indicative”, “as applicable”, “as available” and “projected” would have made the effective reporting obligations all but non-existent, and the COP would have been allowed no role in determining what is reportable. At some point, though, this piece of Whitehall prose was sat upon by the stronger text quoted further above. If there were any doubt about that, Article 14 provides for a “global stocktake” of progress toward commitments, including finance commitments, in 2023 (in practice the first one will take place in 2018, before the agreement comes into effect) and every five years thereafter, and Article 13 stipulates that the COP, in one year’s time, will “adopt common modalities, procedures and guidelines, as appropriate, for the transparency of action and support”.

In short, climate finance is now, for the first time, subject to definitional oversight and monitoring by the COP in the same way that mitigation commitments have been previously. This is a new and desirable symmetry. No longer will donor countries, or the **OECD** as their proxy, get to decide unilaterally what counts as climate finance and how and when to report it. Obviously that doesn’t mean developed countries have no say in the matter; they are part of the COP and will be engaged in setting the rules. But it does mean that either the rules will be constructed to all parties’ satisfaction, or else some developed countries will have to block or delay agreement in a year’s time. Given a choice between rapid consensus and drawn-out controversy, the COP will usually take the latter. So the symmetry is a fragile one.

If life just got a little harder for developed countries on the accountability front, there is one consolation. While the importance of climate finance from public sources is heavily emphasised throughout the Paris Agreement, there is not a single instance of the ritual recitation that such finance will be “new and additional” relative to Official Development Assistance (ODA). The agreement says only that climate finance should represent “a progression beyond previous efforts”. In other words, the debate about whether climate finance and ODA should be mutually exclusive just disappeared in the blink of an eye. That’s not to say there is no issue about displacement; of course there is—but the sensible response henceforth will be “more ODA” rather than “no ODA for climate”.

## Market-based finance

Some countries have long said that they will wish to purchase emission reductions offshore to help discharge their post-2020 national commitments in a way that balances ambition and economic impact. A group of such countries, led by New Zealand and including some prospective vendor countries, issued a **joint declaration** on the role of market mechanisms in the second week of the COP.

*We warmly welcome the Paris Agreement and particularly its recognition of voluntary cooperation between parties in delivering their nationally determined mitigation contributions.*

*We highlight the important role international market mechanisms will play in enhancing mitigation ambition and facilitating the delivery of mitigation contributions under the Paris Agreement.*

Other countries associated with this declaration included Indonesia, Papua New Guinea and, in rather a sudden but **inevitable** development, Australia. Happily casting aside the Abbott government's distaste for "**dodgy carbon farms**" in foreign lands, Australia's foreign minister, Julie Bishop, has now been **quoted** as saying that "international carbon markets are also a key part of the global effort"—just as Malcolm Turnbull regularly said circa 2007.

What the above countries were welcoming, in the end, was the Paris Agreement's "voluntary cooperation" mechanism that will allow countries to make use of "internationally transferred mitigation outcomes". This will "incentivize and facilitate participation in the mitigation of greenhouse gas emissions by public and private entities authorized by a Party". Despite the complete absence of terms such as "market", "trade" and "credit" from the relevant text—which was **reportedly** developed at high speed by the EU and Brazilian delegations—this is of course a framework market mechanism. Nothing is remotely clear about how it will look and operate at this point, particularly vis-à-vis past mechanisms like the Kyoto Protocol's **Clean Development Mechanism** (CDM) and semi-conceived ones such as the global mechanism for reducing emissions from deforestation and forest degradation (**REDD+**). For example, the Agreement devotes a separate article, Article 5, to "positive incentives" including "results-based payments", for REDD+. However, because articles 5 and 6 are not linked, such payments might be assumed to come from donors rather than markets.

About all that is stated in the agreement is that, as in the case of the CDM, a small share of the proceeds (that is, the carbon credits) generated by eligible international investments would be retained by the mechanism and monetised to fund both its administration and adaptation action in developing countries. Moreover, the mechanism will be doubly taxed in that it is expected to make a contribution in its own right to global mitigation, beyond the contributions already pledged by the countries purchasing mitigation outcomes. That is, some proportion of any credits acquired would need to be cancelled or else used to increase national mitigation commitments.

Though it clearly struggled to be born—which accounts for its oddly featureless appearance—and though the taxes mentioned above will act as slight disincentives to potential buyers, this mechanism carries the potential to deliver significant international investment in climate change mitigation efforts in at least some developing countries, with attendant environmental and economic benefits. Unfortunately, the default COP behaviour now would be to spend five years quibbling about the rules that confer legitimacy on various types of tradable credit. Indeed, the heavy emphasis on a central mechanism with taxing rights over all transactions points in that direction.

This will be a very important question for the COP over the year ahead. Should it pursue its habitual top-down approach to the regulation of trade in “ITMOs” or, consistent with the character of the bottom-up, universal mitigation agreement that we now have, should it opt for a less prescriptive, more suck-it-and-see approach? Under the latter, a minimalist mechanism might limit itself to registering transactions so as to track ownership of mitigation outcomes and ensure parties stay within any consumption limits that might be established. The robustness of emission reductions allegedly achieved under bilateral or regional trading agreements might be evaluated casewise, at the point where the overall emission reduction claims of the relevant parties are evaluated. Of course, the parties might be sorely disappointed if the credits in question are judged to be unsound. On the other hand, the particular production techniques used might in some cases be judged solid, innovative and replicable by other parties. A flexible approach appears more likely to result in broad developing country participation in international trading arrangements, including those for forest carbon.

There will also be questions to consider in connection with the use of ODA in support of market activity. While climate finance, where concessional, will in most cases be ODA, there are obviously circumstances where we should want to say that ODA cannot be climate finance—namely, circumstances where ODA is used somehow to reduce the cost of carbon credits to the donor concerned. It is unequivocally the case that ODA cannot be used to purchase carbon credits

outright for a donor's benefit. However, it might be in a certain case that ODA is used to help a developing country produce carbon credits. If the ODA provider is then offered some of the resultant credits at a below-market rate, it should be considered that ODA subsidised the purchase. The details could get quite murky in individual cases, but the solution seems clear enough: primary trade in credits should always be conducted on the open market. This would render the use of ODA in their production irrelevant.

### *Australia's role in climate finance*

What does the final COP 21 outcome mean for Australia as a provider of climate finance? For one thing, Australia's very **modest** finance pledge will be the more visibly modest under regular, biennial reporting to the UN Framework Convention on Climate Change (UNFCCC). More importantly, what Australia actually does with the money will be more under the spotlight than it would have been under the softer, fast-start-style accountability arrangements. It is hard to believe that Australia will not sooner or later respond to pressure to do more overall, and to be more specific about where and on what it will spend its money—especially its adaptation money. Until that happens, though, Australia will be quite prominent for the wrong reasons, thanks to the accountability arrangements built into the agreement.

Most interestingly, Australia's rediscovered respect for the potential contribution of international carbon markets, combined with Malcolm Turnbull and Greg Hunt's past and quite fervent interest in regional forest carbon partnerships, could conceivably lead back in the direction of the "burning island": Kalimantan. It is highly unlikely either the Australian or the Indonesian governments would wish to reactivate the Kalimantan Forests and Climate Partnership. Both governments have probably taken to heart their **lessons** from that experience, and, anyway, the money is not there. However, there are less complex and extravagant ways in which Australia could, if it wished, revive its support for Indonesia's efforts to reduce emissions from the decomposition and burning of its vast areas of degraded peatland. For one thing, Australia could re-engage in support for Indonesia's **national carbon accounting system**, and start to provide much more determined and stable support, both technical and material, for Indonesia's efforts to prevent, monitor and suppress peatland fires. Helping Indonesia to become a global-scale contributor to climate change mitigation, and to profit from its contribution in both financial and environmental terms, is certainly a legitimate use of aid.

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