June 2010

Backgrounder

A Chance too Good to Waste

The Case for Climate Action at Canada's G8 and G20 Summits

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At a Glance

At the June G8 and G20 summits, the Government of Canada could help to bolster global climate action by:

- providing financial support for climate action in poorer countries
- making climate change a priority agenda item for its summits
- taking stronger action to reduce emissions

The Government of Canada will host two high-profile meetings of world leaders later this month. The G8 Leaders' Summit is scheduled for June 25–26 in Muskoka, Ontario, while the broader group of G20 leaders meet in Toronto on June 26 and 27.[1]

Meanwhile, countries are into "overtime" in the negotiations to reach the next global climate agreement. Despite two years of intense talks, and the unprecedented direct involvement of world leaders, last December's Copenhagen negotiations failed to reach a binding agreement. Instead, the meeting's most prominent outcome, the Copenhagen Accord, is little more than an outline of initial commitments that most (but not all) countries have opted to support.[2] The next ministerial-level global talks under the UN Framework Convention on Climate Change (UNFCCC) take place in early December in Cancun, Mexico.

Making rapid progress towards a fair, ambitious and binding global climate agreement is essential for several reasons. They include:

- The science of climate change shows that global greenhouse gas (GHG) emissions need to peak before 2020 if the world is to have a chance of avoiding dangerous climate change, which many countries have defined as being a temperature increase of 2°C above the pre-industrial temperature level.[3]

[1] See http://g8.gc.ca/g8-summit/ and http://g20.gc.ca/toronto-summit/. While Canada is President of the G8 for 2010, it is South Korea that chairs the G20 for 2010, so Canada's role in June is as "host" of the meeting. South Korea will host a second G20 meeting in November 2010 in Seoul.

[2] "Copenhagen Accord," http://unfccc.int/home/items/5262.php.

[3] For example, the Copenhagen Accord recognizes "the scientific view that the increase in global temperature

- The first commitment period of the Kyoto Protocol, the current global climate agreement, ends in 2012. Because it takes time for countries to ratify an international treaty once they agree to it, the next deal must be finalized well before 2012 to avoid a gap.
- New power plants, factories and other facilities are being built all the time. Without clear signals from governments that the world is moving to a cleaner future, that construction will "lock in" polluting infrastructure that will be very expensive to retrofit or close down.

As the first meetings of world leaders since Copenhagen, Canada's G8 and G20 meetings represent an opportunity for climate progress far too important to waste. The leaders of the EU's governments reached the same conclusion at their March meeting, which resulted in a statement that the EU will "strengthen its outreach to third countries" by "addressing climate change at all regional and bilateral meetings, including at summit level, as well as other fora such as the G20."[4]

This backgrounder outlines some of the key areas where Canada's summits could help to bolster the global climate negotiations, particularly by providing financial support for climate action in poorer countries. It also describes the Government of Canada's approach to central G8/G20 climate issues, including the role that it sees for climate change at the G8 and G20 summits.

Climate Financing

The starting point for a breakthrough on climate change this summer is climate financing, which means providing support for developing countries as they reduce their own emissions ("mitigation," in climate change jargon), and for their efforts to adapt to the impacts of climate change. For example, financing could be used to provide malaria treatment to more people as the disease spreads to new areas, or to cover the cost difference between a high-emissions source of electricity and a renewable, low-emissions alternative.

Developed countries first accepted an obligation to provide climate financing under the 1992 UN Framework Convention on Climate Change. The urgent need for this financing, coupled with a history of inadequate support from developed countries to date, has made financing a critical trust-building issue at the UN talks. Support for mitigation in developing countries is also an essential element in closing the gap between countries' current emission-reduction plans and the far higher level of ambition needed to achieve the Copenhagen Accord's environmental goal, which is to stay below 2°C of global warming.

A range of estimates show that a very significant amount of new funding — likely in the hundreds of billions of dollars per year[5]

should be below 2 degrees Celsius." The Accord also calls for an assessment to be completed by 2015 that includes "consideration of strengthening the long-term goal referencing various matters presented by the science, including in relation to temperature rises of 1.5 degrees Celsius."

[4] *European Council Conclusions from March 25/26 2010*, 9 (paragraph 14), http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/113591.pdf.

[5] For example, a summary of 15 recent mitigation cost estimates is provided in A. Behrens, "Financial Impacts of Climate Change Mitigation: Global Resource Requirements and Proposals for International Burden Sharing," *Carbon & Climate Law Review* 3, no. 2 (2009) 179–187. The paper finds that the average global cost estimate of limiting climate change to 2°C

— will ultimately be needed to protect people, livelihoods and ecosystems in developing countries from the impacts of global warming, and to make the transition to low-emission clean energy in developing country economies.

The G8's Role in Providing "Fast Start" Financing

As a starting point, the Copenhagen Accord contains a "collective commitment" by developed countries to provide "new and additional resources… approaching USD 30 billion for the period 2010–2012."[6] This is usually referred to as "fast start" financing. Because it is needed so urgently, fast start funding is expected to come primarily from national budgetary allocations and to flow through existing channels.

Countries can choose from several options as the destination for their fast start funding, including:

- **The Least Developed Countries Fund (LDCF) —** Governed by the UNFCCC, this fund was designed to identify and then support top-priority climate adaptation needs in the world's poorest countries. While most of the target countries have prepared adaptation plans with the support of the fund, there is very little funding left to implement those plans.[7]
- **The Adaptation Fund (AF) —** In 2008, countries agreed to operationalize a new fund under the Kyoto Protocol. The fund is designed to allow developing countries "direct access" to its resources, provided that they meet standards that the fund has set. The AF is currently funded through a levy on emissions trading transactions under Kyoto's Clean Development Mechanism (CDM).[8]
- **The Climate Investment Funds (CIFs) —** The World Bank, together with other multilateral development banks, created a pair of climate funds in 2008 that are known together as the Climate Investment Funds. The Clean Technology Fund is designed to finance scaled-up clean technology deployment, demonstration and transfer, while the Strategic Climate Fund has three programs: one for reducing deforestation, one for renewable energy, and one for including climate adaptation ("resilience") as part of development planning.[9]

In the months since Copenhagen, developed countries have announced "fast start" pledges that add up to about US$10 billion a year. However, many of the key details — such as pledges from Canada and some EU member states, or the destination of some funds that have been pledged — are still to come. As well, it appears that much of the support pledged to date fails to pass the Copenhagen Accord's test of being "new and additional."[10]

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could be around €299 billion/year. This estimate does not include the costs of adaptation to climate impacts.

[6] See Paragraph 8 of the Copenhagen Accord, http://unfccc.int/home/items/5262.php.

[7] Global Environment Facility, "Least Developed Countries Fund," http://www.gefweb.org/interior_right.aspx?id=194.

[8] The Adaptation Fund, "About the AF," http://www.adaptation-fund.org/About.

[9] The Climate Investment Funds, http://www.climateinvestmentfunds.org/cif/. Many non-governmental organizations raise questions about the World Bank's suitability as a "climate bank," partly due to its track record of support for fossil fuel development.

[10] A list of "fast start" financing pledges (current as of June 5, 2010) has been compiled by the World Resources Institute, http://www.wri.org/stories/2010/02/summary-climate-finance-pledges-put-forward-developed-countries.

Climate change has not made tackling poverty any easier, or any less important. In fact, the impacts of climate change are an additional obstacle that some of the world's poorest people must now confront. Thus, support for climate action must not come at the expense of countries' aid commitments. Instead, increased financing for climate action must be over and above the resources developed countries have committed for other urgent development priorities.

In Canada, G8 countries could use their summit meeting to affirm their intention to meet or exceed the US$30 billion commitment agreed in Copenhagen. A strong G8 communiqué would include a commitment to ensuring that "fast start" funding that developed countries provide will truly be "new and additional," both relative to past pledges of climate finance and to international aid commitments.

Supporting Innovative Financing at the G20

The Copenhagen Accord — which most G20 countries have chosen to support — also commits developed countries to a goal of "mobilizing jointly USD 100 billion dollars a year by 2020... from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."[11]

That final item, "alternative" finance, is likely to be a key ingredient in the successful implementation of the Copenhagen Accord's 2020 commitment — or of any more ambitious financing effort that countries choose to adopt. "Alternative" or "innovative" financing means tapping into sources of financing outside of existing government budgets. Although the term is flexible, it frequently refers to sources that are international and, ideally, non-discretionary (i.e., not dependent on annual budgets or other cyclical political decision-making).

One example would be a global levy on GHG emissions from international shipping and aviation. This measure alone could raise tens of billions of dollars a year. Because no such global levy exists now, it would generate new funding for climate change. And because it would be charged in proportion to pollution from ships and airplanes, it would have the benefit of encouraging cleaner transportation at the same time as generating funds for climate financing.

Similarly, countries with domestic "carbon pricing" systems that put a price on GHG emissions (whether through taxes or through regulatory systems like "cap-and-trade") could set aside a fraction of the revenues generated for climate action in poorer countries. Policymakers in both the U.S. and the EU are already considering this approach.

Another way to link reducing emissions with fundraising is to cut subsidies to fossil fuels and use the money saved to support for climate action. Like the two options mentioned above, this one offers a double benefit: it can simultaneously help reduce emissions (by ending the practice of subsidizing pollution) while raising funds for climate action.

The good news is that reducing fossil fuel subsidies is already part of the G20's mandate this year: the 2009 Pittsburgh G20 Leaders' Summit agreed to phase out "inefficient fossil fuel subsidies" "over the medium term," and mandated energy and finance ministers to "develop implementation strategies and timeframes" and report back

[11] See Paragraph 8 of the Copenhagen Accord.

to leaders at this June's Toronto summit.[12] In a June press release, the Organization for Economic Cooperation and Development (OECD) stated that "ending fossil fuel subsidies could cut global greenhouse gas emissions by 10% from the levels they would otherwise reach in 2050 under 'business as usual,'" and called the ongoing subsidization of fossil fuels "a wasteful use of scarce budget resources." The OECD also noted that annual global subsidies to the companies producing fossil fuels could be as high as US$100 billion.[13] (These are the kind of fossil fuel subsidies most common in rich countries like Canada; subsidies to fossil fuel consumers, as opposed to producers, are more common in the developing world.)

International financing could also come from sources not related to GHG emissions, including an allocation of reserve currency held by the International Monetary Fund (as was recently proposed by IMF staff in a "position note")[14] or through a tax on financial transactions.

Innovative financing offers two main advantages over relying solely on developed countries' budget allocations. First, developed countries face many other pressures on their national budgets, and history shows that they have often failed to reach the international assistance targets they set for themselves. Secondly, relying on current government budgets creates a serious temptation for governments to divert (or double-count) aid dollars to "meet" their new climate finance obligations. Creating a brand-new stream of revenue altogether is one of the best ways to ensure that climate finance is truly "new and additional," as required by the Copenhagen Accord.

Officials from the UN climate secretariat and from the Government of Mexico have already signalled that financing will be a priority item at the Cancun climate summit, which is scheduled to run from November 29 to December 10, 2010.[15] G20 countries can help reach a successful outcome in Mexico by making a strong commitment this summer to support innovative options for climate financing.

Climate change is a global problem, and all countries — including those who stand to suffer the most — have a role to play in deciding how to tackle it. That's why the UN, not the G8 or G20, is the right home for the next global agreement. But it's the leaders of the richest countries who bear the greatest responsibility for the emissions now in the atmosphere, and it's to them that the rest of the world is looking for leadership — which includes both funding climate action in poorer countries and raising the level of their ambition in taking action at home.

Stronger Emission Reduction Commitments

As noted above, the Copenhagen Accord sets a goal of holding "the increase in global temperature below 2 degrees Celsius," and states that countries will "take action to meet this objective consistent with science and on

[12] "Leaders' Statement: The Pittsburgh Summit," http://www.pittsburghsummit.gov/mediacenter/129639.htm ("Energy Security and Climate Change" section, paragraph 29.)

[13] http://www.imf.org/external/pubs/ft/spn/2010/spn1006.pdf.

[14] See http://www.imf.org/external/pubs/ft/spn/2010/spn1006.pdf.

[15] "Climate Finance Key for UN Talks: Climate Chief," *Reuters*, May 3, 2010, http://www.reuters.com/article/idUSTRE6221BZ20100303. The reference to the Mexican government's plans for Cancun came from personal communication to the author in April 2010.

the basis of equity.” However, several analyses of countries’ mitigation pledges to date have found that countries’ overall level of ambition is too low to reach the Accord’s goal.[16] For example, a recent paper in the scientific journal *Nature* presented modelling results demonstrating that, if nations proceed on the basis of the current pledges they have made for 2050, the world faces “a greater than 50% chance that warming will exceed 3°C by 2100.”[17]

The G8 and G20 summits give countries an opportunity to improve on that weak performance. Leaders at both summits, but particularly heads of G8 governments, need to commit together to strengthen their domestic policies and targets in order for the world to have a real chance of staying below the 2°C limit.

Canada’s Positions

Unfortunately, any G8 leader who arrives in Muskoka with high expectations of climate progress risks going home disappointed. To date, it’s been difficult to find any evidence that the host country plans to demonstrate leadership in the global effort to tackle climate change. This section describes Canada’s approach to three central G8/G20 climate issues: fast-start financing, fossil fuel subsidies, and the prominence of climate change on the summits’ agendas.

[16] See, for example, Project Catalyst’s analysis (from February 2010) at http://www.project-catalyst.info/images/publications/project_catalyst_taking_stock_february_2010.pdf.

[17] Joeri Rogelj et al, “Copenhagen Accord pledges are paltry” *Nature* 464, (22 April 2010), http://www.nature.com/nature/journal/v464/ n7292/ full/4641126a.html (subscription required).

Fast Start Financing

The Government of Canada’s Speech from the Throne, delivered in March, contained a commitment to provide climate financing: “Together with other industrialized countries, Canada will provide funding to help developing economies reduce their emissions and adapt to climate change.”[18] Minister Prentice went a step further in a TV interview two days later, stating that “we’ve made it very clear that we will live up to Canada’s responsibility to pay its fair share” of the financing promised in the Copenhagen Accord.[19]

As of mid-June, however, Canada is still the only G7 country that has yet to announce its full “fast start” financing contribution.[20] The Government of Canada has announced an annual commitment of C$18.5 million to the Global Environment Facility, but the press release accompanying this commitment described it as a “first instalment… as part of our commitment under the Copenhagen Accord.”[21]

[18] http://www.discours.gc.ca/eng/media.asp?id=1388.

[19] Interview on “Power and Politics” on March 5, 2010, with host Evan Solomon; http://www.cbc.ca/video/#/News/Politics/Power_&_Politics/ID=1432891281.

[20] Under the UNFCCC, Russia is an “industrialized” country but not a “developed” one, so the Copenhagen Accord’s “fast start” financing commitment does not technically include Russia. In December 2010, the EU announced a collective contribution of €2.4 billion/year for climate financing; however, some EU member state governments have yet to announce their share of this regional commitment.

[21] See http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/NAD-52716129-RPP. The “first instalment” comment was attributed to Environment Minister Jim Prentice in CIDA’s May 28, 2010 press release.

The Pembina Institute's analysis of Canada's "fair share" finds that Canada would be responsible for at least three to four per cent of the global total. The Copenhagen Accord identifies US$30 billion in "fast start" financing, which means that Canada's fair share would be at least US$300–400 million a year from 2010 to 2012.[22] If Canada fails to announce a far more substantial "second instalment" before the G8 summit, the host country will find itself in the position of making by far the smallest contribution to date to this critical climate priority.

Phasing out Fossil Fuel Subsidies

The communiqué from the final preparatory meeting of G20 finance ministers (held in Busan, South Korea on June 5) noted that "[w]e welcome the strategies and timetables provided by many G20 members for rationalizing and phasing out inefficient fossil fuel subsidies that encourage wasteful consumption."[23]

Despite the action of some of its G20 peers, Canada has so far failed to publish a timeline to phase out subsidies and preferential tax treatment for fossil fuel producers. This failure is all the more notable when a leaked Department of Finance memorandum makes clear that Finance Minister Jim Flaherty was advised by his own deputy minister to "lead by example" by phasing out Canadian tax breaks to fossil fuel producers. The memo lists a number of advantages of phasing out such subsidies, including:

- alignment with the U.S., as President Obama's budget request to Congress asked for the phase out of 12 producer subsidies (however, the memo also explains that phasing out subsidies in Canada could be beneficial even if it were done unilaterally);
- Environment Minister Jim Prentice supports a phase out of fossil fuel subsidies;
- the historical reasons for subsidizing these sectors have changed, and "it is not clear that these factors are unique to the sector or merit preferential treatment" in today's economy;
- moving to a more neutral tax system aligns with the government's own tax reform policies.[24]

The memo presents Minister Flaherty with two choices. The department recommends that he lead by example, which means starting to phase out some of Canada's tax breaks to fossil fuel producers. But they also note that he can "seek to minimize the [G20] commitment" and keep the current tax breaks in place.

The evidence to date suggests that Minister Flaherty chose the latter option, deciding to downplay the G20 commitment instead of moving forward to reduce tax subsidies to Canada's oil and gas producers that the Pembina Institute estimates to total about

[22] A more detailed explanation of Canada's fast start obligations can be found in a letter to the Minister of Finance and the Minister of the Environment concerning climate financing from the Canadian Council for International Cooperation, Oxfam Canada, the Pembina Institute and WWF-Canada (http://climate.pembina.org/pub/1995). The Pembina Institute has undertaken an analysis of Canada's fair share (http://climate.pembina.org/pub/1815).

[23] See Paragraph 9 of the Busan (June 5) communiqué, available at http://www.g20.org/pub_communiques.aspx.

[24] The full memo is available at http://communities.canada.com/shareit/blogs/politics/archive/2010/05/28/prentice-and-flaherty-behind-closed-doors-with-pm.aspx.

C$2 billion.[25] But we won't have the final verdict until we see the G20's communiqué.

A phase out of fossil fuel subsidies is just one means of generating innovative financing for climate action. But with the possible exception of emissions from aviation and shipping, the Government of Canada has shown virtually no interest in international means of generating innovative financing.[26] And because Canada has opted to wait for the U.S. instead of adopting its own carbon pricing system, the federal government does not yet have the option of raising funds through a cap-and-trade or carbon tax.

Putting Climate Change on the Agenda

When he announced his G8 and G20 agendas in Davos this winter, Prime Minister Stephen Harper reserved just one sentence for climate change — and used those few words to describe climate change as a "non-economic" matter that falls outside the G20's agenda.[27] (We would argue that few things are more economically relevant than transforming the world's energy systems and creating the associated clean energy jobs — or the hugely costly impacts of climate change.) Prime Minister Harper re-iterated his narrow view of the G20's agenda at a May discussion with students, stating that "the economy is what matters" and that everything else "is sideshows."[28]

Breaking a tradition established by its predecessors as G8 hosts, Canada has also chosen not to convene a meeting of environment ministers to prepare for the leaders' summit.

The decision to downplay climate change at Canada's summits has drawn international criticism:

- Ahead of a May meeting with Prime Minister Harper, the President of the European Commission, Jose Manuel Barroso, stated that the EU would like to see climate change discussed at the G8 and G20 meetings for both environmental and economic reasons. Barroso stated that "the transition to a lower carbon economy is an important element of the economic strategy" for the EU.[29]
- In an address to Parliament, Mexican President Felipe Calderon called for determination and leadership from Canada in protecting the climate, noting in media interviews that Mexico considers climate change too important an issue to wait for the U.S. before acting.[30]
- At a speech in Ottawa in May, UN Secretary-General Ban Ki-Moon stated that

[25] For a short explanation of the analysis behind the $2 billion estimate, see http://climate.pembina.org/blog/92.

[26] Minister of Finance Jim Flaherty has repeatedly stated that he does not support a new tax on financial transactions. (See, for example, "Flaherty says European proposal to tax banks, financial transactions a 'mistake'" at http://ca.news.finance.yahoo.com/s/15032010/2/biz-finance-flaherty-says-european-proposal-tax-banks-financial-transactions.html.)

[27] http://www.pm.gc.ca/eng/media.asp?category=2&id=3101.

[28] "It's the economy that counts and the rest is just noise, Harper tells students," *Globe and Mail*, May 17, 2010, http://www.theglobeandmail.com/news/politics/its-the-economy-that-counts-and-the-rest-is-just-noise-harper-tells-students/article1572341/.

[29] "EU chief presses Harper on bank tax, climate," *Toronto Star*, May 5, 2010, http://www.thestar.com/news/canada/article/804731--eu-chief-presses-harper-on-bank-tax-climate.

[30] "Mexico's President pushes Ottawa to act on climate change," *Globe and Mail*, May 27, 2010, http://www.theglobeandmail.com/news/politics/mexico-cannot-wait-to-follow-us-lead-on-climate-change-president-says/article1583574/.

climate change "is also something we cannot neglect because of this financial crisis." The Secretary-General stated that Canada's G8 and G20 meetings should provide "fast track climate financing to meet immediate needs in developing countries and maintain negotiating momentum" ahead of Mexico's climate talks, which get underway in late November.[31]

- In a letter to Prime Minister Harper in June, six female Nobel laureates called on Canada to put climate change back on the summits' agendas. The laureates wrote that a failure to address climate change "will put the global economy at further risk, and plunge millions who are already living on the economic margins into deeper poverty."[32]

In response to questions about these critiques in the House of Commons, Prime Minister Harper stated that "the G20 is the primary forum for international economic talks, but at the same time, we will discuss other things related to the economy, like climate change. I expect there will be discussions to help Mexico prepare for its summit on that subject in November."[33] An official spokesperson has confirmed that Canada expects to discuss climate change at both the G8 and G20 summits.[34] What remains to be seen is whether the discussion is serious enough to move the issue forward. A communiqué that contains merely vague "motherhood" statements will not provide new momentum to the global effort to tackle climate change.

Conclusion

A country's credibility in leading others internationally depends on its own efforts to tackle climate change at home. In Canada's case, the government's failure to put in place meaningful policies and targets to cut our own GHG emissions severely limits our ability to persuade others to do more:

- The Government of Canada has yet to propose a carbon pricing system that could cut emissions and raise revenues in Canada, preferring to wait and see what the U.S. proposes before moving ahead.
- In January, the federal government revised Canada's national GHG emission target downwards in order to adopt the same target level (17% below the 2005 level by 2020) that the U.S. is expected to adopt. This decision drew criticism from the authors of the *Nature* article cited above:

  > "By aligning itself with the US target, Canada is the only country that both weakened its ambitions in the course of the negotiations, and effectively argued for an increase of 2020 emission allowances above its current Kyoto Protocol target: 3% above instead of 6% below 1990 levels."[35]

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[31] "UN chief urges Canada to act on climate change," *CanWest News Service,* May 13, 2010, http://www.canada.com/chief+urges+canada+climate+change/3022418/story.html.

[32] See http://www.nobelwomensinitiative.org/news/article/nobel-laureates-to-g8g20-leaders-put-climate-change-on-the-agenda.

[33] From the House of Commons debate on Thursday June 10, in response to a question from Michael Ignatieff. The Hansard record of the Question Period debate on June 10, 2010 is available at http://www2.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&Parl=40&Ses=3&DocId=4613107#SOB-3224294.

[34] "Tories put climate change on G8 agenda after pressure from world leaders," *The Canadian Press,* June 14, 2010, http://www.cp24.com/servlet/an/local/CTVNews/20100614/100614_climate/20100614/?hub=CP24Home.

[35] Rogelj et al.

If Canada hopes to brighten its tarnished reputation on climate change this June, the government has a very long way to go in the short few days that remain.

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