October 8, 2010

His Excellency Mr. Jens Stoltenberg
Prime Minister of Norway (Co-Chair)

His Excellency Mr. Meles Zenawi
Prime Minister of the Federal Democratic Republic of Ethiopia (Co-Chair)

Dear Prime Ministers Stoltenberg and Zenawi:

Identifying new and additional sources of finance to support adaptation and the transition to low-carbon development in developing countries is a crucial component of addressing global climate change. However, we are gravely concerned that the work of the UN High-Level Advisory Group on Climate Change Finance (AGF) is not going to support the type of solutions that will truly benefit developing countries and communities living in poverty. In your role as co-chairs of the AGF, we urge you to address the following civil society concerns in the AGF's final report:

- The AGF report must not prejudge the outcome of ongoing UNFCCC negotiations. The Copenhagen Accord has not been adopted by the UNFCCC's COP. The $100 billion pledge contained in the Accord falls far short of all reasonable estimates of financing required by 2020 (e.g. impacts of climate-related extreme weather events in Pakistan in 2010 alone now approach $50 billion).[1] We urge the AGF to frame its report in the context of scaling-up climate finance to meet the adaptation and mitigation needs as decided by the UNFCCC process.
- The AGF must focus its report on public finance. Public finance is critical for supporting adaptation activities and the development and transfer of clean, renewable technologies that are not yet competitive with dirty options. The AGF report must keep all public options on the table, including SDRs and financial transaction taxes, and identify their maximum potential. The report must not privilege private finance over public sources, particularly when effective regulation of the financial services industry has not yet been accomplished.

1 Notably the United Nations Department of Economic and Social Affairs 2009 UN World Economic and Social Survey estimates $500-$600 billion per year will be required for adaptation and mitigation in developing countries; and over 100 countries have called for over $600 billion needed each year in climate finance.

- AGF report must not cite multilateral development banks (MDBs) as a "channel" for climate finance, as this is clearly outside of its mandate. MDBs in and of themselves are not a "source" of finance. MDB monies are raised from assessed budgetary contributions of countries and interest payments on loans from developing countries. They are not new and additional. All sources – not merely MDBs – leverage private finance. And only sources that generate new and additional money directly, and do not add to the debt burden of developing countries, should be considered. MDBs are among the largest supporters of polluting fossil fuel investments and are unaccountable to the UNFCCC and its Parties. They suffer from major conflicts of interest when serving as a trustee, secretariat, project implementer and/or co-financier of climate projects – leading to decisions that may not be in recipient countries' interests. Developing countries have called for climate financing to be under the authority of the UNFCCC and not other multilateral channels. Promoting the MDBs as a principal channel for climate finance is inconsistent with these views, and risks prejudging issues in the negotiations. We also have serious concerns that one of the principal authors of the final report is also a Managing Director of the World Bank. We believe that this alone risks the credibility and independence of the report.

- The AGF must carefully examine the reliability of carbon markets and refrain from citing them as a valid source of finance for mitigation and adaptation. Treating carbon markets as a source of new and additional finance creates a new loophole for developed countries. As a matter of law, carbon markets *have no role* in the provision of financial resources by developed countries to developing countries to meet their commitments under the Convention. Rather, they are means by which the developed countries *fund their own efforts to meet their own mitigation commitments* under the Kyoto Protocol (with the assistance of the developing countries). Using carbon markets as a source would allow developed countries to double-count market-based financing as part of their financial commitments to developing countries and also their efforts to meet their mitigation targets. This not only delays a shift onto a low-carbon pathway for developed countries, but also allows them to continue high-carbon lifestyles while shifting the burden of mitigation onto developing countries.

Secondly, carbon markets are uniquely vulnerable to price volatility, fraud and other deceptive marketing and accounting practices. Carbon derivatives are currently traded in advance of GHG reductions resulting from the issuing of offset credits (i.e. trading on the value of a non-existent asset). There is a serious risk of fraud when such offsets do not result in permanent and additional GHG reductions. Financial derivatives based on the value of offset credits and emission permits are traded among developed country investors who retain all trade revenues. The AGF must examine derivatives trading (including the Over the Counter derivatives that were a major source of the global financial crisis) in terms of their actual contribution to climate change finance for developing countries. Carbon when combined with other commodities in index funds can also destabilize global agriculture prices through increased price volatility, thereby contributing to greater food insecurity, particularly for net-food importing countries.

Currently, several G20 governments are in the process of reforming financial instruments such as derivatives which are an essential feature of carbon markets. AGF promotion of carbon markets in the absence of well-documented evaluation of their environmental performance and generation of sustainable climate finance for developing countries will undermine any contribution the AGF may make to a UNFCCC agreement on commitments to climate finance.

Undermining the UNFCCC and its Kyoto Protocol

The UNFCCC clearly requires the provision of "full incremental costs" to developing countries and requires Conference of Parties and the entity or entities entrusted with the operations of the UNFCCC financial mechanism to determine "in a predictable and identifiable manner of the amount of funding necessary and available for the implementation". If the AGF intends to submit its study "with a view to contributing to an appropriate decision of the UNFCCC Conference of Parties at its 16th session in Mexico" then it should ensure its analysis is in strict conformity with the requirements of the Convention.

Given what is known to date about the AGF's approach, it is difficult to imagine how civil society will reflect positively on the outcome of the AGF. We hope you will consider these important concerns which will help enable civil society to support the outcomes of the Advisory Group's deliberations.

Sincerely,

ActionAid
Centre for Civil Society Environmental Justice Project, University of KwaZulu-Natal, Durban, South Africa
DanChurchAid, Denmark
Econexus, UK
FERN, Belgium
Finn Church Aid
Focus on the Global South
Friends of the Earth Canada
Friends of the Earth El Salvador
Friends of the Earth England Wales and Northern Ireland
Friends of the Earth USA
Global Alliance for Incinerator Alternatives (GAIA)
Global Exchange, USA
IBON Foundation, Philippines
ICCO Netherlands
Institute for Agriculture and Trade Policy, USA
Sustainable Energy & Economy Network, Institute for Policy Studies, USA
Jubilee South – Asia/Pacific Movement on Debt and Development
Les Amis de la Terre France
Les Amis de la Terre Togo
Movement Generation: Justice and Ecology Project, USA
Norwegian Church Aid
Pan African Climate Justice Alliance
Peoples' Movement on Climate Change
Solidarity Workshop, Bangladesh
World Council of Churches

CC:

Ambassador Pedro Luiz Carneiro de Mendonça, Under-Secretary General for Economic and Technological Affairs, Ministry of External Relations, Federal Republic of Brazil

Soumaïla Cissé, President, Commission of the West African Monetary Union

Ernesto Cordero Arroyo, Minister of Finance, Mexico

Chris Huhne, Secretary of State for Energy and Climate Change, United Kingdom

Sri Mulyani Indrawati, Managing Director, World Bank Group

Donald Kaberuka, President, African Development Bank

Caio Koch-Weser, Vice-Chairman, Deutsche Bank Group

Christine Lagarde, Minister of the Economy, Industry and Employment, France

Trevor Manuel, Minister in the Presidency for National Planning, Republic of South Africa

Bob McMullan, Member of Parliament and Parliamentary Secretary for International Development Assistance, Australia

Mutsuyoshi Nishimura, Special Advisor to the Cabinet Office, Japan

Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade & Development (UNCTAD)

Tharman Shanmugaratnam, Minister for Finance, Republic of Singapore

Lawrence H. Summers, Director of the National Economic Council and Assistant to the President for Economic Policy, United States of America

Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, Republic of India

George Soros, Chairman, Soros Fund Management

Nicholas Stern, Professor of Economics and Government, London School of Economics

Zhu Guangyao, Vice-Minister, Ministry of Finance, People's Republic of China