



## **AUSTRALIA**

### **Enhanced Action on Financial Resources and Investment**

#### **Submission to the AWG-LCA and the AWG-KP**

This submission outlines the Australian Government's position on the development of appropriate financial architecture to support action on mitigation and adaptation under the Bali Road Map.

Comprehensive discussions on future financial arrangements will be a key issue in Poznan and beyond. It will be important that consideration of any Convention-based financing options are consistent with relevant discussions under the AWG-KP.

#### **The Impact of the Global Financial Crisis**

Australia considers that the current global financial crisis should not delay or undermine the provision of new and additional financing as part of the post-2012 outcome.

The current economic environment does underline the interdependent character of the global economy. According to the IMF, many of the major advanced economies are already in, or close to recession. While several major emerging economies are expected to register continuing strong growth, many are expected to experience slower growth.

The depth and duration of the global financial crisis is uncertain. Heightened economic uncertainty may reduce private and public tolerance for risk and uncertainty regarding the short-term costs and benefits of climate change policy. In spite of this, it is clear that financing will be an important foundation of the post-2012 outcome, and will in the long-term support business confidence in clean and low emissions solutions.

## **The Role of the Private Sector**

Existing public financial resources are not sufficient to address the global challenge of climate change. The main source of funding for future mitigation activity will be the private sector.

The estimated additional investment and financial flows needed in 2030 to address climate change is a relatively small per cent in relation to estimated global GDP. The cost of not addressing climate change will be much greater. Australia anticipates that the private sector – which is currently responsible for 86 per cent of international finance and investment flows – will contribute the largest share.

The global financial crisis highlights the utility of targeted public funding that maximises the efficiency and effectiveness of all available and potential financial flows and leverages further private sector investment, particularly with respect to emissions reductions.

While recognising that public investment flows will have an important role in financing adaptation needs in the most vulnerable developing countries, consideration of this issue in the AWG-LCA must distinguish between the separate roles of public sector and private sector resources to support the different needs of mitigation and adaptation.

All Parties – developed and developing - will need to dedicate national resources to improve enabling environments, particularly in relation to robust and transparent governance arrangements. This will be essential to drive not only domestic investment, but critically, foreign investment and support from the public and private sectors.

Furthermore, Parties will need to work cooperatively to ensure public policies and resources are tailored to leverage private sector investment and innovation across their economies. In addition to allowing Parties to meet their targets in a flexible and cost effective manner carbon markets are an important means of securing private sector investment.

Australia will introduce a comprehensive emissions trading scheme (the Carbon Pollution Reduction Scheme) in 2010. In line with paragraphs 1(d) and 1(e) of the Bali Action Plan it will provide businesses and consumers with a market incentive to adjust their behaviour, invest in low-emission technologies and help Australia reduce emissions .

The AWG-LCA will need to consider how Parties can best utilise the full range of innovative financial instruments, to attract and leverage private investment flows. Where, for example, the private sector has a competitive advantage in developing and deploying innovative technology-

based mitigation solutions, inappropriate financial instruments such as grants and subsidies have the potential to distort free-market approaches and to crowd-out private sector investors.

Encouraging private sector participation in climate change response measures will significantly increase the value of available financial flows, accelerate the development of necessary new technologies, ensure commercial viability and promote the achievement of the Convention's ultimate objective.

Public financial assistance should be tailored to address specific market failures that act as barriers to private sector investment. Lessons can be drawn from approaches currently being trialed, for example, through the Climate Investment Funds and the Prototype Carbon Fund.

The International Finance Corporation has also proposed several innovative instruments to enhance the participation of the private sector in low-carbon projects in developing countries, including:

- First loss or risk sharing instruments that support investors entering new and untested markets;
- Credit enhancement facilities used to guarantee future cash flows; and
- Highly concessional loans.

### **New International Financial Architecture**

Australia has previously submitted views to the AWG-LCA on enhanced action on financial resources and investment to support an effective global climate change response. We welcome the views put forward by other Parties on possible measures to scale up finance for mitigation and adaptation activities and particularly note the submission from the G77 on a new multilateral financial mechanism.

Several elements of the G77 outline are central to the effective operation of any current or future financial mechanisms. In particular:

- increased international finance and investment should be equitable and sustainable;
- governance mechanisms should be transparent and efficient in the way they allow countries in need to access financial assistance; and

- equitable representation of relevant stakeholders in decision-making roles will be important to ensure support and ownership from both donors and partner countries.

Australia looks forward to considering further detail from the G77 on objective mechanisms to determine eligibility for financial assistance based on criteria that are fair, give priority to the most vulnerable developing countries, and can appropriately respond to future scientific, technological and economic developments.

Objective criteria measuring actual national capabilities should determine what financial resources Parties can reasonably be expected to contribute based on current economic realities. This will ensure future financial and investment flows remain adequate, sustainable, efficient and give priority to the most vulnerable developing countries.

Furthermore, any projection of required global financial flows will need to be backed by robust, transparent data based on internationally agreed methodologies. It is not appropriate to propose required funding levels, including specific levels of contributions from certain Parties, in advance of comprehensive examination of these elements.

In line with 1(e)(i) of the Bali Action Plan, the AWG-LCA must recognise that Parties do, and will continue to, provide financing for mitigation and adaptation through a variety of means. Consistent with Article 11.5 of the Convention, post-2012 support for mitigation and adaptation will not solely be governed by the decisions and priorities of the COP but may be provided and accessed through bilateral, regional and other multilateral channels. For example, Australia's A\$150 million International Climate Change Adaptation Initiative provides financial support to vulnerable Pacific islands and Timor Leste to take actions to adapt to climate change.

Donors will continue to utilise the full range of public financial instruments and purpose-built funds to target support, for example through the World Bank Climate Investment Funds. Any future multilateral financial architecture must take account of and facilitate linkages between the various funding sources. In this respect, Australia reminds Parties that if international climate change support can be classified as ODA, then it will be reported as such and expects the AWG-LCA to apply the principles of aid effectiveness set out in the *Paris Declaration on Aid Effectiveness* of March 2005.