**Climate Action Network**

**Submission: Just and Equitable approach to 2.1c**

**June 2023**

Climate Action Network (CAN) is a global network of more than 1,900 civil society organisations in over 130 countries driving collective and sustainable action to fight the climate crisis and to achieve social and racial justice.

## Key Points of Context

- *All countries agreed 2.1c as part of the Paris Agreement, and calls for "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". It, therefore, applies to mitigation, adaptation, and loss and damage and should not be interpreted narrowly.*
- *2.1c should be approached in a just and equitable manner, in line with Common But Differentiated Responsibility and Respective Capabilities (CBDR-RC), based on science, in a gender-responsive approach, with respect for human rights. For mitigation, this implies a just and equitable phase-out of all fossil fuels (coal, oil and gas) before 2050, with significant reductions to be achieved in line with the need to reduce emissions by at least 43% by 2030 compared to 2019 to reach the 1.5°C target and rapidly scaling up and prioritizing finance for renewables and energy investment, targeting particular countries and regions with lower investment; likewise, for adaptation and loss and damage, this implies providing new and additional, predictable and adequate support to developing countries to deal with the increasing severity and frequency of climate disasters, address and adapt to current and future climate impacts and build the resilience of people, communities and ecosystems.*
- *Making finance flows consistent means consistency both in terms of direction as well as scale and quality of provision — urgently orienting finance away from fossil fuels and other harmful activities as well as urgently scaling up additional finance for climate action in a form that does not undermine the ability of recipient countries to address climate impacts as part of a broader focus on low-carbon and climate-resilient development.*
- *2.1c does not replace or override requirements under Article 9 of the Paris Agreement, specifically, the mandate to developed countries under Article 9.1 to "provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention." Article 9.1 is the cornerstone of equitable climate finance provision based on CBDR-RC within the UNFCCC. However, alongside dedicated climate finance for a just and equitable transition, to adapt to climate change, and to address loss and damage, all global finance must align with global climate action. Progress on 2.1c cannot be pursued as a standalone goal but is required alongside and complementary to significant progress on Article 9.1, and must not be used to divert attention away from the much needed core public finance provision responsibilities of developed countries.*

- *Developed countries say there is not enough public finance and, therefore private finance is required, but in many developing countries, there is not enough public finance to afford the debt servicing costs associated with increased private finance involvement and indebtedness.*
- *A just and equitable approach to 2.1c must assert a wide and ambitious agenda of scaling public climate finance from developed countries and transforming the wider global financial system to make it more just and equitable for developing countries.*
- *Currently, achievement of 2.1c is undermined by the flow of wealth out of developing countries into higher-income countries, which is estimated in the trillions per year and thus many times greater than what is provided through ODA and climate finance; but efforts to reform the global financial system are hampered as developing countries continue to be structurally under-represented in financial and economic decision-making outside the UN, which maintain uneven global power relations that are rooted in colonial legacies.*

## Essential Elements of a just and equitable approach to 2.1c

1. **Article 9.1 is an essential prerequisite for/ complement to/ counterpart to 2.1c. To drive consistency in overall finance flows, public grants and concessional finance accounted for in grant-equivalent terms from developed countries are essential.** Developed countries have a responsibility to provide grants and concessional finance for developing countries accounted in grant-equivalent terms. Developing countries should not be incurring high costs for adapting to climate change and addressing the costs of loss and damage from impacts, i.e. costs of the climate crisis, which they have done little to cause. Development and climate action should not be creating an unsustainable debt burden for developing countries.
2. **Just and equitable phaseout of finance for fossils and other activities damaging to the climate, based on reorientation of finance to sustainable development areas.**
    a. **Subsidies:** Already in 2009, the G20 agreed to end "inefficient"fossil fuel subsidies over the medium-term, and in 2016 the G7 committed to do so by 2025. COP26 called on parties to phase-out 'inefficient fossil fuel subsidies, while providing targeted support to the poorest and most vulnerable'. Despite these commitments limited progress has been made with ending fossil fuel subsidies. Preliminary estimates from the IEA suggest that global subsidies for fossil fuel consumption reached USD 1.1 trillion in 2022. In contrast, the most recent published analysis from the International Renewable Energy Agency estimated that subsidies for renewables constituted close to USD 167 billion in 2017.

       As an outcome of the Global Stocktake, it should be agreed to expedite equitable phase-out of fossil fuel subsidies, including implicit subsidies. Developed countries should live up to the G7 decision to do so by 2025, and developing countries should do so as soon as possible. The qualifier 'inefficient' should be dropped or defined to only include exceptional cases in which support is clearly benefiting the poorest households (such as support for cleaner cooking).

    b. **International Public Finance:** At COP26 in 2021, 34 countries and five public finance institutions signed the 'Clean Energy Transition Partnership' to 'end new direct public support for the international unabated fossil fuel energy sector' within one year of signing the statement. Out of 16 high-income signatories that provide significant international public finance for energy, eight have new or existing policies that broadly meet the promise they made in Glasgow. As of May 2023, this is shifting $5.7 billion USD per year out of fossil fuels and into clean energy. Parties, multilateral development banks, IFI's and export credit agencies that have not yet excluded coal, oil or gas projects from international public finance should do so based on principles of equity.

c. **Energy sector state-owned enterprises (SOEs):** SOEs wholly or majority-owned by governments make large capital investments every year into energy sector projects. As of the last available international study, SOE investment for G20 countries amounted to an average of $257 billion per year (2017-2019 average). Shifting SOE investments to clean energy is critical to ensure finance flows are aligned with climate goals.

d. **Regulation of private finance:** Since the Paris Agreement the world's 60 largest private banks financed fossil fuels with USD 5.5 trillion. Even though a number of pension funds and big banks have made commitments to stop financing fossil fuel expansion companies, it is clear that we cannot rely on voluntary action alone. The UK has committed to become the first net-zero-aligned financial center. To reach this aim, the UK will enforce mandatory climate plans for financial institutions. Such plans can be an important regulatory tool, if it entails absolute short-, mid- and long-term reduction targets aligned with the net-zero pathway, a commitment to reach climate safe energy investment ratios and annual reports tracking progress. However, climate plans are not the only regulatory tool available. Governments already ban finance and investments in certain assets due to ethical reasons. For instance, several governments ban finance of cluster munitions. This legislation can serve as inspiration for regulating fossil fuel finance. Parties to move beyond mandatory disclosure requirements and adequately regulate the private financial sector to align with the goals of the Paris Agreement.

3. **International economic and financial system transformation is required to make finance more available and affordable for developing countries to undertake climate action, including on debt, tax, and technology transfer.**

   a. **Debt:** Achieving Article 2.1c requires finance system transformation regarding debt, as debt distress is limiting the fiscal space in developing countries and preventing scaling of finance flows consistent with the goals of the Paris Agreement. Without debt restructuring and cancellation, new finance (even if at concessional rates) will have to be used to repay existing debts owed, largely to private creditors (effectively bailing out these private creditors), and cannot be used to address the climate crisis. An independent debt work-out mechanism is needed, overcoming the shortcomings of the current structures. Moreover, system transformation entails going beyond debt restructuring and cancellation, to addressing the root causes of debt distress, including the unjustly high costs of borrowing for lower-income countries, and the lack of grant-based assistance.

   b. **Tax reform:** Within the framework of the process towards a UN Tax Convention, a range of measures could prevent tax avoidance, tax evasion and illicit financial flows that limit developing countries's ability to collect revenue and make finance flows consistent with climate and development goals. Financial transparency and the establishment of a UN tax convention to create fair global tax rules as demanded by Southern Governments is essential to deliver that. In 2022, a resolution to strengthen the inclusiveness and effectiveness of international tax cooperation calling for the creation of a United Nations Convention on International Tax Cooperation was approved by the UN as proposed by African countries. At the same time, a system of international taxes and levies based on the polluter-pays principle is needed (such as on shipping, air transport or fossil fuel extraction) that disincentivizes economic activities harmful to the climate while providing an alternative source of finance for climate action, in particular for urgently needed public grant funding for adaptation and to address loss and damage. Take for example a ‘bunkers tax’ on shipping emissions that are a massive contributor to global emissions, yet are barely regulated. The IMF has calculated that a carbon tax of US$75 per tonne of $CO_2$ in 2030 (US$240 per tonne of bunker fuel), rising to US$150 per tonne in 2040, reduces maritime $CO_2$ emissions below business-as-usual (BAU) levels by nearly 15% in 2030 and 25% in 2040, raises revenues of about US$75 billion in 2030 and US$150 billion in 2040, while increasing shipping costs by 0.075% of global GDP in 2030.

c. **Trade and technology transfer:** Global economic inequalities are reflected in unfair trade systems and unfair inequitable access to technologies. Trade systems channel finance from poor countries and communities to rich countries and communities while not respecting planetary boundaries, and should therefore be addressed in the context of 2.1c, which requires deep system change. This should include protection of fair salaries and supply chain controls preserving production that is sustainable and human-rights based. Access to technology is another pillar to making finance flows consistent with the Paris Agreement goals. Developing and developed countries have been clearly divided over the treatment of intellectual property rights (IPRs) over climate-friendly technologies at negotiations under the United Nations Framework Convention on Climate Change. Exclusion of patents over such technologies are needed for a systemic response to address the global challenge of climate change. Existing flexibilities to overcome patent barriers under the World Trade Organization’s regime on trade-related intellectual property rights (TRIPs) are inadequate, as these required a case by case national response that was still fraught with obstacles and difficulties in using the flexibilities. Technology transfer, including for the urgent shift to renewable energy is essential. There is a legally binding commitment of developed countries under the Convention to enable technology transfer. The private sector can play a complementary role but cannot be a substitute for public sector action.