

German Climate Finance: The Energy and Climate Fund

Using ETS revenues for international climate finance
through the “Energie- und Klimafonds” (EKF)

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- ¶ EKF Essentials
- ¶ Climate finance within the EKF
- ¶ Critique of the EKF
- ¶ Concluding remarks

EKF Essentials

History of the “Energie- und Klimafonds”

- ¶ **Origins & purpose:** Envisaged to accompany the 2010 energy strategy, as a support scheme for measures fostering an “environmentally sound, reliable and affordable energy supply” – and to sell the life-time extension for nuclear power stations to the public.
- ¶ **Funding base:** Originally meant to be financed from a levy on the nuclear energy industry, plus ETS auctioning revenues above a fixed threshold. Expected to have more than 3bn€ a year.
- ¶ **Legislative frame:** Established as a Federal Special Fund („Sondervermögen“) through legislation adopted in parliament in 2010, amended in 2011 (in the context of the “Energiewende” after the Fukushima disaster).

EKF Essentials

General, current features

- ¶ **Purpose (unchanged):** Meant to finance activities in the context of the “Energiewende” (triggered by the Fukushima disaster) and contribute to **international climate finance**. Additional to regular federal budget.
- ¶ **Funding base revisited:** Since 2012, nearly all revenues from ETS auctioning flow into the EKF (except funds needed to run the German Emissions Trading Authority). No more levies from nuclear energy industry (agreement on levy was based on life-time extension).
- ¶ **Separate budget structure:** Annual spending plan (largely) independent of German federal budget. Implementation through relevant ministries (in addition to their own budgets within the federal budget) as & when finance ministry releases funds early in the year.

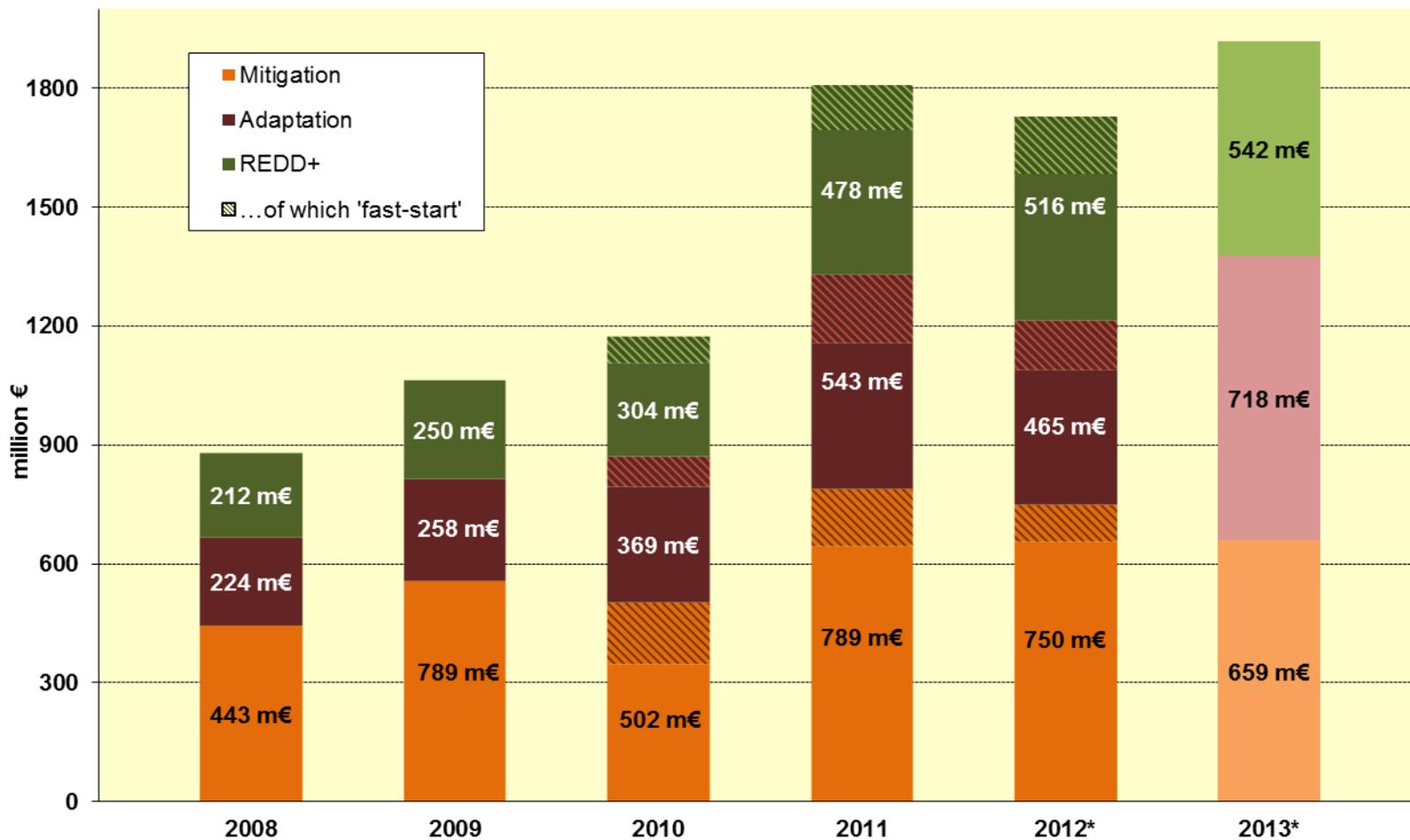
Climate finance within the EKF

International climate finance within the EKF

- ¶ **Separate budget line:** “International Climate and Environment Protection” to finance action in the fields of mitigation, adaptation and REDD+, but also biodiversity.
- ¶ **Implementation:** Jointly by Development Ministry (BMZ, 55%) and Environment Ministry (BMU, 45%). Budget line has cash amounts and forward budget authorisations.
- ¶ **Volume:** Originally, ~14-18% of total EKF volume 2013-2015 meant for international budget line.
- ¶ **Role within overall climate finance:** About 25% of German contribution to international climate finance 2011-2013.

Climate finance within the EKF (*=plans, cuts in 2013)		
Year	Cash amounts	Budget authorisation
2011	25m€	495m€
2012*	42m€	430m€
2013*	372m€	1.23bn€

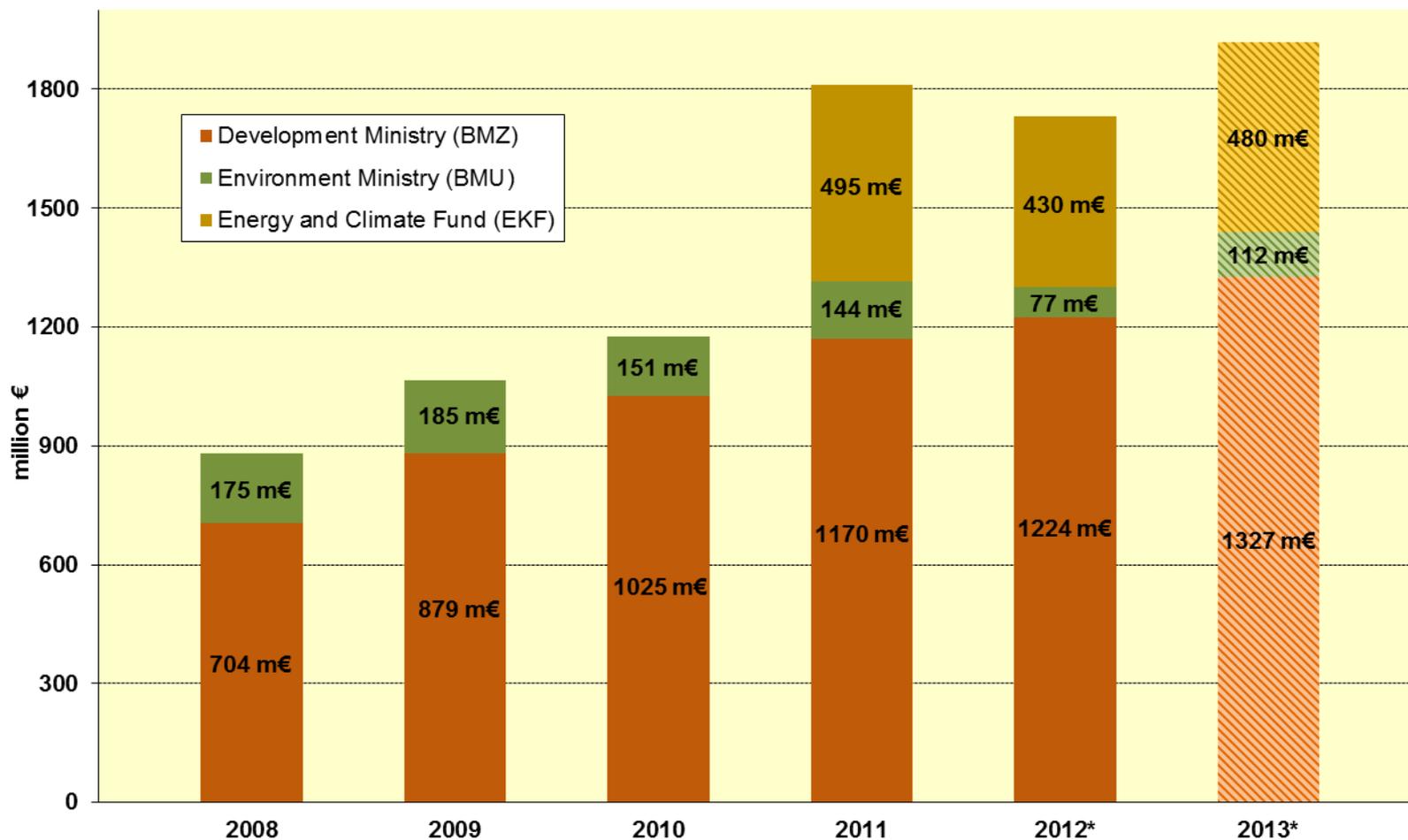
German climate finance 2008-2013 by sector



Source: German Federal Government

* 2012 and 2013 data are planning figures.

German climate finance 2008-2013 by budget source



Source: German Federal Government

* 2012 and 2013 data are planning figures.

German climate finance 2008-2013 by budget source

1800

Usage (amounts are 2011-2013 totals)

¶ **German Climate Technology Initiative:**

Joint initiative by BMZ and BMU, fostering deployment of climate-friendly technologies (especially renewable energy). **433m€**

¶ **Strengthening BMZ activities:**

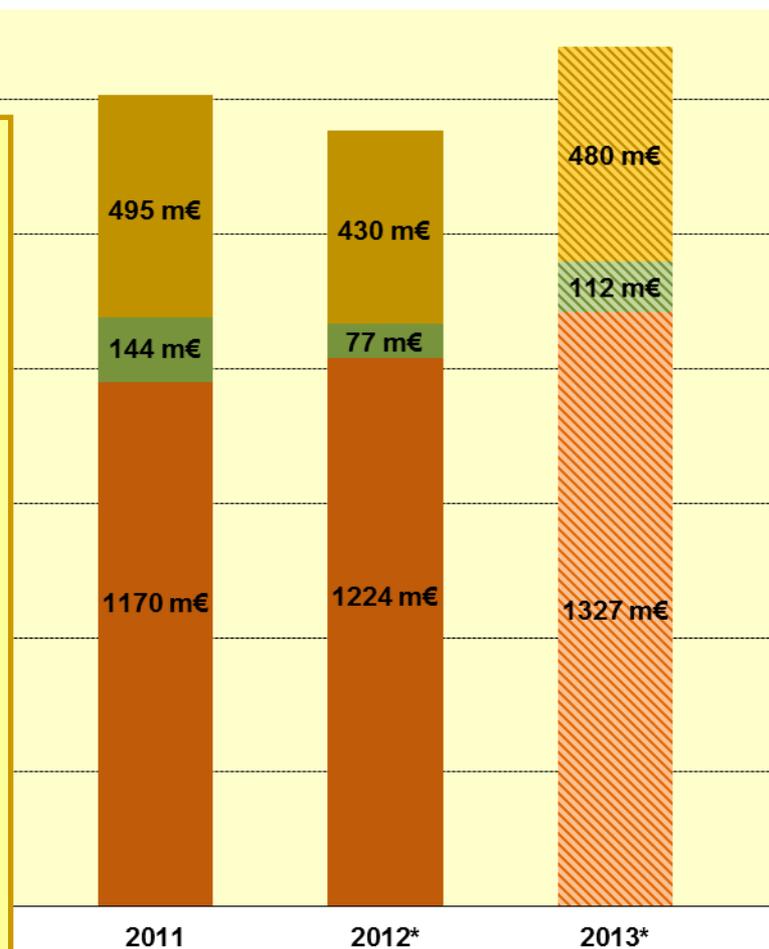
Climate-related development finance, mainly through GIZ, mainly adaptation. **~540m€**

¶ **Expanding the ICI:**

Adding to BMU's role-model International Climate Initiative (ICI). **~442m€**

¶ **Contribution to the GCF:**

Future German pledges to the Green Climate Fund are to be met from the EKF. **0m€**



Source: German Federal Government



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Critique of the EKF

Positive aspects

- ¶ **Earmarking:** Germany first country to adhere to ETS directive (at least 50% ETS revenues for climate/energy action) by legislation. Model example of “innovative source”, additional revenues!
- ¶ **Ringfencing:** Separate budget structure protects revenues against other demands. Politically very costly to dismantle.
- ¶ **Scale-up:** So far international budget line adds to, not replaces, existing flows.
- ¶ **Implementation:** By ministries/agencies that already have experience with development finance; source for German pledges to GCF (750m€ pledge possible in 2013!).
- ¶ **Transparency:** Distinguish (parts of) climate finance from other development finance.

But: all of the above have their footnotes!

Critique of the EKF

Problematic aspects

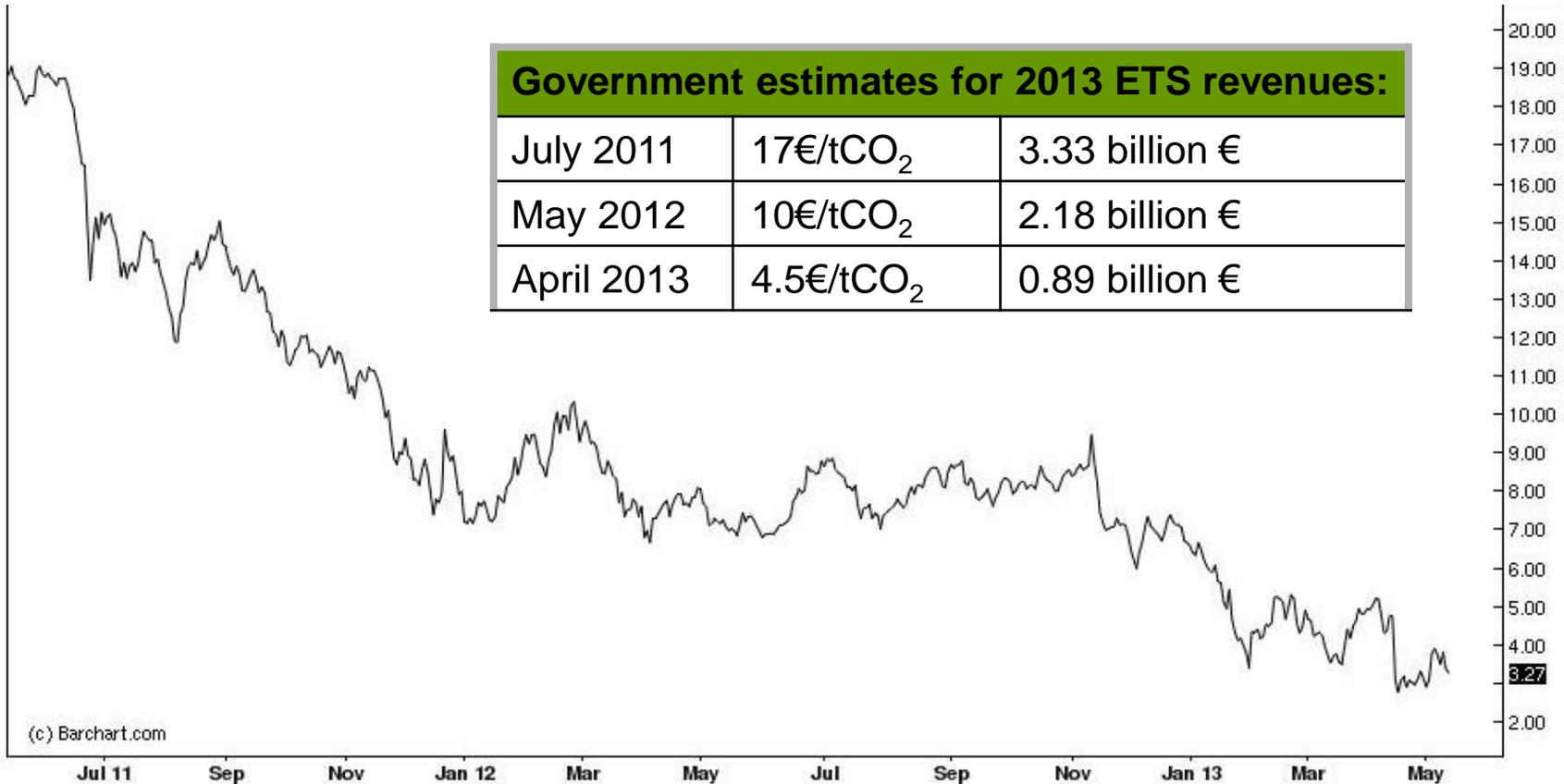
- ¶ **Additional measures?** Spending areas other than international climate finance saw corresponding cuts in federal budget, international budget line may see the same in the future.
- ¶ **Additional climate finance?** Revenues are additional to regular budget, but spending still counted towards 0.7% GNI ODA target.
- ¶ **Counter-productive measures:** Compensating high-energy industry for increases in electricity prices (originally planned 500m€ a year, then 350m€; cut to zero for 2013), subsidising efficient coal plants, electric cars.
- ¶ **Much lower revenues:** Massive oversupply of ETS (generous allocation, CER influx, economic slow-down) and failure to fix ETS (backloading) meant constant decrease of EUA price.

Critique of the EKF

EUA Futures prices 2011-2013

Government estimates for 2013 ETS revenues:

July 2011	17€/tCO ₂	3.33 billion €
May 2012	10€/tCO ₂	2.18 billion €
April 2013	4.5€/tCO ₂	0.89 billion €



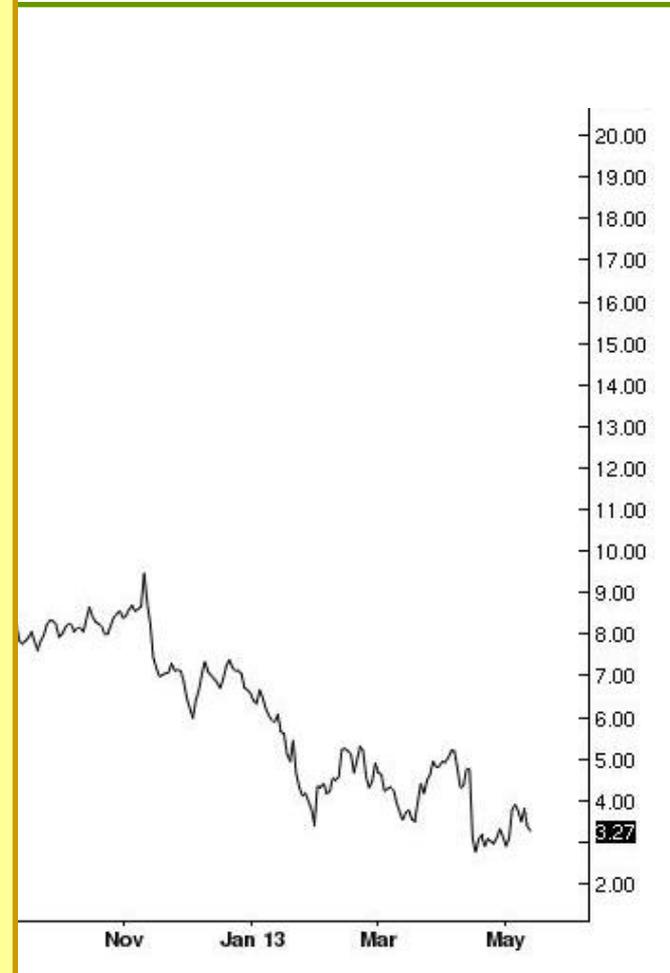
Source: IntercontinentalExchange ICE 2013



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The revenue problem

- ¶ **Ringfencing works both ways:** Lower revenues aren't to be compensated through federal budget.
- ¶ **Implementation problems:** Revenue insecurity leads to stop-and-go implementation of international budget line. New bilateral commitments not before late spring (as & when finance ministry assigns %s of budget lines to be spent, later updates possible).
- ¶ **Cuts in 2013:** KfW to step in; 277m€ instead of 372m€ in cash payments via international budget line. Budget authorisations remain unscathed (including for potential 750m€ GCF pledge).
- ¶ **Shifts in 2014:** BMZ and BMU regular budgets to cover most of 2014 planned EKF cash payments (partly leading to aid cannibalisation!). Budget authorisations unclear – likely to be in high danger.



Source: IntercontinentalExchange ICE 2013



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Concluding remarks

General

- ¶ **EKF remains a role-model:** Earmarking ETS revenues taps into an innovative source for climate finance, implements polluter-pays principle, gives positive signal to outside world; separate budget structure can help dedication and transparency.
- ¶ **Long-term climate finance:** ETS revenues can contribute a sizeable portion to a country's fair share in reaching the \$100 billion promise – but other sources, and funds from regular budgets will be needed, too.
- ¶ **Pathway to 2020:** Credible pathway to 2020, including demonstrable progress on year-on-year increases, essential for getting a 2015 global climate deal.

Concluding remarks

Thanks!

EKF specific (and/or ETS earmarking)

- ¶ **Revenue estimates:** More honesty about expected revenues is essential for planning security.
- ¶ **One-way ringfencing:** Establish revenues as floor, not ceiling, for climate action. Ringfence ETS revenues against other demands, but top-up from regular budget if needed.
- ¶ **Broaden funding base for EKF:** German air-passenger tax, financial transaction tax etc. could see (some of) their revenues flow into the EKF.
- ¶ **Fixing the ETS essential:** German government will have to come out in favour of backloading, fundamental ETS reform, increasing linear reduction factor and upping EU 2020 target from 20% to 30% reductions.
- ¶ **Throw out anti-climate measures:** Subsidies to coal power, electric cars and compensation for energy-intensive industry.



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