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President. Ministers for the Economic and Financial Affairs Council (ECOFIN) Ms Margrethe Vestager, Danish Minister for Economic Affairs and the Interior.

In-coming President. Ministers for the Economic and Financial Affairs Council (ECOFIN) Mr. Vassos Shiarly, Cypriot Minister of Finance

Copy to Ministers for the Economic and Financial Affairs Council (ECOFIN) and Ministers for Environment (ENVI) and the Commission

29 June 2012

Dear colleague,

During the Environment Council meeting on 11 June 2012 there was an informal Ministerial lunch discussion on how to take climate finance forward after 2012. Ministers engaged with great enthusiasm in the fruitful debate which brought many interesting ideas to the table. With this letter I would like to take the opportunity to convey some key messages from the discussion with special emphasis on the elements where involvement from Ministers of the Economic and Financial Affairs Council (ECOFIN) would be needed to ensure necessary progress.

Climate finance is one of the corner stones of the international climate change negotiations within the UNFCCC. The Fast Start Finance period was the beginning of a longer term commitment culminating in 2020 where the EU together with other developed countries are to mobilise jointly 100 billion USD from private, public and innovative sources every year. With the Fast Start period coming to an end and in order to achieve our global climate change objectives, the EU and its Member States need answers with regards to climate finance post 2012.

Climate finance is required in order to ensure the necessary paradigm shift towards low-emission and climate-resilient development pathways in developing countries. It is reassuring that a consistently growing number of mitigation projects are now being planned and launched in developing countries, a fact recognised in the ECOFIN Council Conclusions of May 2012. It is vital that the EU has a corresponding answer regarding climate finance. In this regard the challenge is two-fold: On the one hand climate finance must continue to play a crucial role to ensure enhanced action on mitigation and adaptation in developing countries on the ground. After all, action on the ground ultimately is what counts in bringing about the transformative shift globally. On the other hand raising ambition on climate finance in the context of the UNFCCC negotiations is inseparable from raising the level of mitigation ambition within these negotiations, an effort the EU has spearheaded along with many other countries.

The ECOFIN Council Conclusions of May 2012 provide a solid basis for the continued engagement of the EU and its Member States in the area of climate finance but more progress is needed in order to achieve the objectives mentioned above. Ministers for Environment found it of great importance to keep a continued focus on this issue and will return to the matter in the autumn under the Cypriot Presidency. In the meantime Ministers for the Economic and Financial Affairs Council (ECOFIN) could continue their work to ensure progress on a number of issues as outlined below, while recognising that some of these issues have already been considered in previous Council Conclusions:

- common ground on climate finance after the Fast Start period ends, ideally by confirming before Doha that the EU and its Member States will continue to deliver support individually at least at Fast Start Finance levels.

- immediately initiate the work to identify a path or a roadmap for scaling up climate finance from 2013 towards 2020 considering indicative milestones and mapping out the potential of the different sources. This is “the other side of the coin” of asking developing countries to raise their level of ambition.

- analyse how innovative sources, such as a contribution from the carbon pricing of international transport (bunkers), could contribute as a possible source of climate finance, including to the GCF. There is merit in the continued dialogue involving all relevant policy areas to address crosscutting issues e.g. ways to address the concerns of the poorest and most vulnerable developing countries.

- consider how finance from the auctioning of aviation allowances in the EU ETS could help support climate action in developing countries, while stressing that it will be up to each Member State to determine the use of such revenues as outlined in the Directive on the inclusion of aviation in the ETS (2008/101/EC).

- ensure that experiences from initiatives on mobilising private finance could be used to showcase examples or feed into the private sector facility of the GCF.

- continue work on defining or conceptualizing what is meant by the term “mobilised private finance” and how this should count towards the USD 100 billion commitment. One parameter in this regard could be to recognise that private finance is characterised by its mobilisation by public means, instruments or incentives.

Ministers for Environment (ENVI) look forward to collaborating closely with Ministers for the Economic and Financial Affairs Council (ECOFIN) during the upcoming Cypriot Presidency to ensure progress on the important matter of climate finance in order to achieve the climate objectives of the EU and its Member States.

Yours sincerely,

Mr. Martin Lidegaard,
Danish Minister for Climate, Energy and Building