USCIB
UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS

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President & CEO

December 7, 2009

The Honorable Timothy F. Geithner
Secretary of the United States Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Geithner:

As the negotiations of a post-2012 U.N. framework on climate change unfold in Copenhagen, we are optimistic that progress can be made. The United States Council for International Business (USCIB) strongly supports the UNFCCC process and seeks a post-2012 framework agreement which will provide the private sector a clear and predictable framework to contribute solutions, especially by stimulating investment and deployment of existing and advanced technology to enable a transition towards a lower greenhouse gas emissions economy.

Finance is a critical element of the negotiations. Whether the issue is adaptation or technology transfer, finance is essential. From a business perspective, the available funding mechanisms relevant to climate change have been slow, narrow in scope and difficult to access. In this connection, we are pleased to offer a USCIB paper on "Effective Public and Private Sector Finance for International Cooperation on Climate Change" which provides recommendations on how public funding options could be shaped to increase their effectiveness, and to leverage and synergize with private finance in international markets.

The paper discusses the most effective roles for public financing, and offers principles to shape new funding for climate change mitigation and adaptation. In USCIB's view, the role of public finance should, in most cases, be to leverage private sector investment in the developing world. In general, this should be achieved, with appropriate modification, by utilizing existing mechanisms and institutions to make them more effective at attracting private capital and private technology for projects that reduce GHG emissions.

The paper highlights policy approaches that can improve the mutual reinforcement of public funding with private sources. Finally, it suggests attributes for new global funds that might emerge. Throughout, the USCIB paper emphasizes:

- International cooperative activities supported by public international finance should be based on frameworks for awards that assure a playing field that is neutral with respect to the selection of technologies and companies to provide services.
- The fundamental role of markets and enabling frameworks for private sector investment
- The institutional structures and frameworks to govern the envisioned large financial flows will require sound governance and transparency.

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The private sector responds to specific signals - and these signals should mobilize both financial and technological resources *in* developed and *to* developing nations. The recent global economic crisis has highlighted the need to work efficiently and cooperatively to develop the policy and financial drivers needed to delink environmental impacts from economic growth, and to motivate innovation and broad deployment of technologies.

Business, governments and society are intrinsically linked through economies – climate change solutions will need all three to work and support each other within markets. We believe that the post-Copenhagen negotiations and process should engage business as much as possible, and far more than in the past. Going forward, USCIB hopes to see the creation of more effective ways for the UNFCCC to benefit from U.S. business expertise and actions through opportunities to collaboratively define mitigation and adaptation to climate change, and effective policies to promote them.

USCIB promotes open markets, competitiveness and innovation, sustainable development and corporate responsibility, supported by international engagement and prudent regulation. Its members include top U.S.-based global companies and professional services firms from every sector of our economy, with operations in every region of the world. Our members understand the critical connections across these issue areas, and their synergies with climate change progress. With a unique global network encompassing leading international business organizations like the International Chamber of Commerce, the International Organization of Employers and the Business and Industry Advisory Committee to the OECD, USCIB provides business views to policy makers and regulatory authorities worldwide, and works to facilitate international trade and investment.

The innovative and collaborative approaches of the U.S.A. have emphasized public-private sector partnership and synergy, and we are convinced that this is the way forward in climate finance. We look forward to working with the Administration to attain a post-2012 climate change agreement with clear and predictable framework to contribute solutions, especially by stimulating investment, research, innovation and deployment of existing and advanced technology on the necessary scale, in the context of a return to economic growth, greenhouse gas emissions reductions, and capacity building and adaptation.

Respectfully,

Peter M. Robinson

USCIB

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Effective public and private finance for international cooperative action on climate change

The mandate for the Bali Action Plan specifies finance as one of the four elements to be agreed as part of the post-2012 framework in Copenhagen. Many of the post-2012 actions that developing countries will take on mitigation, adaptation and technology will depend upon financial resources that can be accessed and deployed to support agreed actions. Significant finance will be required: The UN and others typically cite a minimum of $100 billion a year in funding from developed to developing countries within the next decade. Other estimates are far higher.

The institutional structures and frameworks to govern such large financial flows will be critical. They will require sound governance and transparency. Without careful attention to governance and effectiveness, the size of these transfers is likely to raise political concerns in donor countries and focus attention on the effectiveness of the funding to achieve global greenhouse gas reduction goals. One high profile scandal or evidence of corruption could weaken support for the entire process. Procedures will also be needed to assure that:

- Firms from all nations can compete for resources that promote actions in any nation;
- Available resources are used effectively;
- Operating companies and suppliers from firms in donor countries are not penalized; and
- Countries respect contractual commitments.

There is increasing recognition in developed countries that the amount of public sector funds available is unlikely to be adequate to meet expectations and that private sector resources will be needed. This leads to the question of the respective roles of public and private finance. For example, funds may be sourced domestically (such as from foreign aid), through public finance from developed nations, and through private or public finance, including via carbon/GHG markets.

While this paper will not discuss carbon markets in detail, we realize that challenges remain in the design and procedures for existing and future carbon markets. There are also critical questions on how different national programs could be linked. To deliver their contribution to the overall financing required, established mechanisms, such as the Clean Development Mechanism (CDM) need to be substantially improved from the standpoint of coverage, baselines, bureaucracy, timeliness and governance. Sectoral crediting and trading are also under consideration to speed up the process.

Despite the potential for the carbon markets, we believe the vast majority of daily commercial transactions and investments that impact climate change will continue to happen outside the carbon markets. These occur through established market channels outside of the UNFCCC, via private sector commercial transactions and investments. As both carbon obligations and carbon markets grow, the enabling frameworks that support private sector investment are key to success. In many cases, the most effective use of public finance will be to leverage and enable action by the private sector and to lower some of the risks associated with these activities.

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To do this, business requires a clear, predictable framework for long term planning and investment. When shaping post-2012 climate actions, governments need to take a long view, as precedents set now could aid or hamper long-term progress. This applies not just to the shape, elaboration and implementation of finance to support post-2012 cooperative action, but also to national policies and national and international markets relating to it.

In this paper, we address key questions governments must address to ensure appropriate long term financing of post-2012 actions under the UNFCCC. Any funding mechanisms that are set up should address:

- Eligibility criteria for financing and linkage to the Nationally Appropriate Mitigation Actions (NAMAs) and other national commitments
- The important criteria and processes for selection of projects and distribution of funds.
- Political sustainability, which will depend upon appropriate control procedures in the receiving countries to ensure effective use of the revenue.

Discussion

USCIB believes that international cooperative activities supported by public international finance should be based on frameworks for awards that assure a playing field that is neutral with respect to the selection of technologies and companies to provide services. The role of public finance should, in most cases, be to leverage private sector investment in the developing world. In many cases, this might be achieved, with appropriate modification, by utilizing existing mechanisms and institutions to make them more effective at attracting private capital and private technology for projects that reduce GHG emissions.

Our experience has been that public financing mechanisms should focus on:

- Reducing political risks and economic uncertainties that can act as a barrier to private financing of projects;
- Financing high risk technologies through their demonstration phase;
- Closing the financial gap between business-as-usual projects and higher cost options based on advanced technology that lower emissions;
- Overcoming difficulties in raising up front capital, which is a major barrier to execution of capital-intense energy projects;
- Improving the predictability of awards by providing objective criteria for approvals, information required in filing applications, and timelines and process for decision-making;
- Establishing transparent and objective frameworks for approvals that may be required for permitting, e.g. site selection, operations and ultimately decommissioning; and
- Supporting the development of essential public infrastructure, including human and institutional capacity.

Principles to Shape Funding for New Programs for Emissions Mitigation and Adaptation

In our experience, the processes used to award public funds are as important as the types of support offered. The approaches noted above have succeeded when they:

- Have transparent, predictable rules that allow timely and efficient access by the private sector;
- Are technology neutral based on objective criteria, e.g. GHG emissions per unit of activity without favoring one producer's technology
- Prioritize and provide mitigation funding to those projects that are most economically efficient in reducing GHG emissions;

- Adopt equality of competitive opportunity and other norms set forth in the Arrangement on Officially Supported Export Credit of the OECD;[1] (and WTO government procurement agreements);
- Have sufficient levels of funding to close the gap in available private financing; and
- Embody a predictable, results-oriented approach that minimizes transaction costs, avoids constraints on utilization (such as price controls, ownership or state control percentages, etc.) and rewards performance;
- Build confidence among donor and recipient nation through disciplined financial controls, including audits to learn from problems, establish best practices and prevent corrupt behavior;
- Employ effective oversight and stewarding to verify performance, assure accountability for results, and embody a process of continuous improvement.

Tools for Stimulating Investment in more efficient and low emitting technologies

Public funds can be used to reduce private sector risks and close financing gaps in a number of different ways. Public funds should be used with care and in a way that does not violate the key principle of technology neutrality. We have had successful experiences with the following approaches:

- Tax Credits: Easy to use and can specifically target each phase of technological maturity, whether R&D, demonstration, deployment or commercialization, but should seek to avoid targeting specific technologies or solutions over others that may be more economically efficient.
- Loan guarantees: Can efficiently reduce risks highlighted as impediments to private sector investment.
- Public concessionary loans or equity: Can provide long-term leverage at low costs; especially helpful to large infrastructure projects.
- Grants: Reduce high start-up costs and stimulate supply to underserved markets.
- "Green" procurement: Incentivize deployment and commercialization of cleaner tech by employing it in a variety of public projects, from road signs to energy efficient buildings to power plants.

While some or all of the tools above may be useful, each can also be abused. Inappropriate or narrow targeting can erode confidence in the long-term integrity of public investment. Inefficient use of public funds increases the costs to all and weakens confidence in public institutions.

Lessons Learned from Existing Programs

Existing public institutions at the national and international level have developed capacity and expertise in managing climate change financing programs that target private sector involvement. To the greatest extent possible, we believe that programs should utilize and leverage existing efficient institutions rather than spend time and resources creating new ones. In any event new programs should incorporate key lessons learned from past successes and shortcomings:

- Existing Capacity: U.S. programs should rely on the expertise of the US Export-Import Bank, OPIC, and the Department of Energy to provide competitive financing for projects and leveraging private investment
- Long-Term Financing Options: OPIC facilities are available for up to twenty years, although some cleaner tech, such as solar energy, requires a longer timeframe. Any funds should have flexibility for the length of their funding period. US Export-Import Bank can offer 15 years for cleaner technology exports and, in step with OECD guidelines, is contemplating an increase to 20 years.
- Timely and Efficient On-demand Access: the US Export-Import Bank has been very successful in providing a source of liquidity for targeted sectors with terms and process that reflect commercial reality.

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[1] OECD Arrangement on Officially Supported Export Credit (Feb. 16, 2009), *available at: http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT00000BE6/$FILE/JT03259737.PDF*

- Equal access: the Tied Aid Credit Fund (known as the "War Chest") of the US Export-Import Bank, when used, can restore a level playing field [2]. The US Export-Import Bank, in conjunction with the US Department of Treasury, should more aggressively use the War Chest to offset increased concessional financing by non-OECD countries.

Implications for New Global Funds

To achieve maximum effectiveness, funding mechanisms should meet the following conditions:

- The process for application should be as simple and speedy as possible. Applicants should have a clear picture of criteria for eligibility and awards and information required for consideration. In the past, the complex decision making processes of some funds has made them too slow and political for the market place.
- In order to make project funding timely, the funding organization should have the ability to allocate funds based on criteria set at the policy level.
- Project parties should have direct access to the funder's application process and funds.
- National government involvement should be focused on setting priorities, for example in their NAMA and NAPA, and following their internal permitting or other processes to approve specific projects. The determination of the project's eligibility for funding should rest with the funder.
- Transparent monitoring, reporting and verification procedures.
- Funding should be based on the overall fit of the project with eligibility criteria and prospects for success, and not be contingent on specific requirements for IP licensing or technology transfer.
- National content restrictions are inappropriate

Conclusions

We hope that negotiators will recognize the enormous wealth of experience that resides in existing institutions and investment activities. New finance should be used to leverage off of and benefit from this experience. Business is prepared to share our experience and work with governments and others to design effective procedures to finance adaptation and mitigation activities in developing countries.

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[2] *See* Senate Report 107-52, *The Export-Import Bank Reauthorization Act of 2001* (Aug. 3, 2001).