ClimDev-Africa

Policy Brief

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Financing Adaptation through a Levy on International Transport Services

New financial resources will be needed to ramp up the level of economic support expected over the next decade to cope with increasing economic damages from climate change. Since not all of the resources required are likely to be readily available from the public treasuries of industrialised countries, a reliable mechanism must be created to augment public sector contributions with funds from the private sectors of countries whose economies are adding significant levels of greenhouse gases to the global atmosphere. A modest, harmonised international levy imposed on air transport and marine freight services could make a significant contribution to meeting these needs without damaging the competitiveness of any country, region, or economic sector. If the funds raised from such levies are combined with a global commitment to fulfil pledges made at Copenhagen, in 2009, through a balanced portfolio of public and private sector programmes, the impacts of climate change on poor and vulnerable people, especially those in the least developed countries, could be addressed effectively and efficiently.

Key messages

- Prospects for large additional infusions of public funds from industrialised countries have declined for a variety of reasons, including the financial crises in the USA and the EU.
- Private sector sources will be needed to help meet climate finance commitments.
- Modest levies on international air and marine transport services could easily raise the equivalent of US$10-33 billion per year for climate finance.

The challenge of financing adaptation

The Copenhagen Accord and the Cancun Agreements promised new and additional resources for climate finance from industrialised countries. In particular, industrialised countries participating in the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) pledged at COP-15 in Copenhagen to increase financial resources to developing country Parties. This was intended to offset the direct costs of damages and the incremental costs of adapting to the impacts of climate change. The pledges of new and additional financial resources were in the range of US$30 billion for the period 2010-2012 (the so-called "*Fast Start*" funds), with a pledged increase to approximately US$100 billion a year by 2020. As of December 2011, only about US$2-3 billion of new and additional funds had been disbursed to developing countries.

The Parties that convened at COP-17 in Durban in December 2011 faced a difficult dilemma. The resources provided by industrialised country governments to meet their *Fast Start* and longer-term targets for climate finance had been significantly below the pledged levels. In the meantime, the scale of the damages as well as the funding requirements for adaptation, have been growing. Concurrently, the prospects for large additional infusions of public funds from industrialised countries have declined for a variety of reasons, largely unrelated to climate change. These include the financial crises in the USA and EU, as well as the consequences of the earthquake, tsunami, and nuclear accident in Japan. Addressing this dilemma successfully at COP-19 in Warsaw and beyond will require the African Group to speak with one voice and to exert strong leadership in a turbulent environment.

The next decade is likely to be a period of increasing stress for both industrialised and developing countries. Industrialised countries face the need to rebuild trust in their financial sectors and reinvigorate growth in their economies. Developing countries face even sharper challenges in their efforts to meet the UN Millennium Development Goals, fulfil basic human needs, improve public health, and enhance food security, while expanding access to clean water and modern energy services.

This suite of challenges will be made more complex and difficult to address due to the growing impact of climate change. Recent estimates by the World Bank and others suggest that damages resulting from climate change and the financial cost of adaptation to protect the poor in Africa alone will grow from an estimated level of approximately US$20 billion a year by 2015 to more than US$50 billion a year by 2030.

Some Inconvenient Facts

- Economic damages due to the impacts of climate change are already being experienced across Africa. These costs raise the price of balanced development and of the efforts by African countries to achieve the UN Millennium Development Goals.
- The estimated cost of adapting to the expected impacts and damages due to climate change far outstrip the domestic resources available to developing countries, especially in Africa.
- By December 2011, only US$2-3 billion of new and additional funds had been dispersed to developing countries for the purpose of financing adaptation to the impacts of climate change. Current conditions in some industrialised countries make it unlikely that the remaining commitments to "Fast Start" funds, or to the larger, long-term target of US$100 billion per year from 2020, will be disbursed promptly.

Financing the gap through modest but effective means

One possible way to fill the gap between the need for climate finance, the pledges made in Copenhagen and Cancun, and the funds available from public treasuries in the industrialised countries would be to impose a set of uniform international levies on the cost of air passenger and air freight transport, along with a similar levy on international shipments of marine freight. A set of modest levies in the order of US$0.001-0.002 (or €0.001-0.002) per revenue-passenger-km, plus US$0.01-0.02 (or €0.01-0.02) per tonne-km of air freight, along with a uniform levy of US$0.0001-0.0002 (or €0.0001-0.0002) per tonne-km of marine freight transport (including both bulk freight and containerised cargo) would raise approximately US$12-33 billion a year.

These modest levies would have the effect of internalising part of the cost of damage from increasing emissions of greenhouse gases into the global atmosphere. At the same time, the levies would have a marginal effect on the demand for international transport services. Levies could be collected as part of the billing for transport services by transportation companies and conveyed directly to the UNFCCC Secretariat (or its designee) through the International Customs Union or some other appropriate international body. The funds could be transferred directly to the Adaptation Fund and then allocated to developing country regions on the basis of the number of low-income people identified as very vulnerable and at risk from the impacts of climate change. Individual developing country Parties could acquire these resources through the direct access modality of the Adaptation Fund.

A number of historical precedents exist for implementing such an approach. A universal levy has been used to finance the International Oil Pollution Compensation Funds (IOPC Funds), for example. IOPC Funds come from contributions paid by operators of ocean-going tankers, based on the amount of oil received each year.. A number of countries, both in Africa and beyond, have proposed introduction of a similar levy on international air and marine transport.

Imposing a set of modest but uniform international levies on air and marine transport would provide a fair and equitable approach to increasing the economic efficiency of global transport markets and factoring the environmental cost of transportation into the price of transport services. The resources derived from a set of globally harmonised levies could represent a significant contribution by the private sector to addressing the impacts of global climate change without reducing the relative competitiveness of any country, region, or economic sector.

Distributing the funds so raised through the UNFCCC via the direct access Adaptation Fund would achieve three outcomes. Low-income citizens who are most vulnerable to the impacts of climate change in developing countries could be supported. The pledges made in the Copenhagen Accord could be honoured. And the objectives of the UN Framework Convention could be advanced.

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