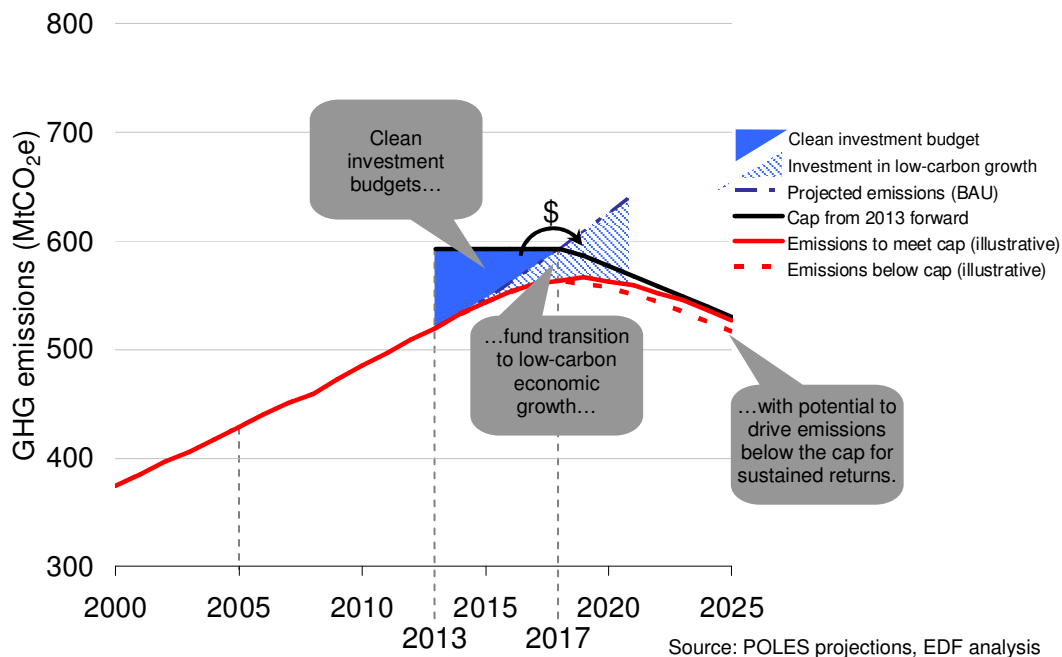




Clean Investment Budgets Reward Developing Countries for Early Action

Clean investment budgets (CIBs) represent a simple idea with powerful implications. CIBs provide a measurable, reportable, and verifiable mechanism that rewards any developing country that takes a firm emissions cap early. The term 'clean investment budget' means a multiyear absolute emissions cap initially set at a level *higher* than a country's current emissions. The resulting surplus allowances, equal to the difference between the cap and the country's actual emissions, would be fully tradable on the global carbon market provided the country uses the revenues to finance low-carbon development. Clean investment budgets can give emerging economies the funding necessary to transform their economies, decoupling economic and emissions growth and leapfrogging to innovative low and zero-carbon technologies.

Clean investment budgets reward early action: illustrative example of Turkey



For example, if Turkey adopted a clean investment budget for the five year period 2013-2017 set at 38% above its 2005 actual emissions (roughly 14% above its expected 2013 level), it would secure surplus emission allowances of 227 MtCO₂e (area of blue triangle in chart above). At a price of \$30/tCO₂e, this **clean investment budget** would generate \$6.8 billion to be invested in rapid deployment of low-carbon technologies, yielding further surplus allowances to finance even more technology development and transfer. Oversight and compliance are critical to ensure clean investment budgets are invested in low-carbon development.

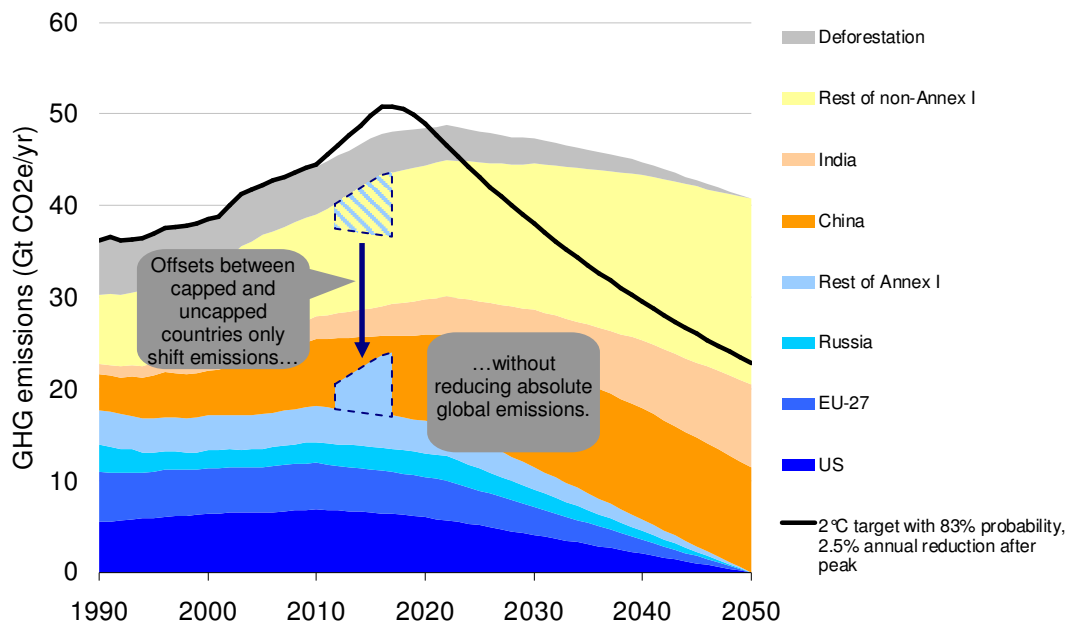
In this illustrative example, Turkey's cap would begin to decline during the subsequent period, enabling Turkey to strengthen its contribution to averting dangerous climate change (average warming of 2°C). However, investing the surplus allowances in clean development could enable Turkey to continue to reduce emissions below its cap, generating further surplus allowances – a "gift that keeps on giving."

But time is short. If developing nations do not move swiftly to claim their budget, the atmospheric space will disappear – taken by others as early as 2013, or gone completely by 2025 if no developing country limits emissions. Once they are gone, no more budgets can be given to ensure the integrity of the global budget.

Why are clean investment budgets necessary?

It is now clear that even if industrialized countries were to reduce their emissions to *zero* by 2050, without any action by developing countries to reduce absolute emissions, the world will not be able to prevent 2°C of global average warming, a level considered dangerous by many scientists. Thus, it will be impossible to avoid 2°C of warming as long as the only mechanism for major emitting developing countries to participate in carbon markets is through offsetting – by issuing credits for reductions in uncapped countries below what would have otherwise occurred (BAU) and transferring those credits so industrialized countries can increase their emissions by the same amount, as illustrates below. Such transfers only shift emissions from developing to industrialized countries; they do not reduce absolute global emissions.

2°C degrees out of reach without significant reductions by major emitting developing countries, even if emissions from industrialized countries and deforestation are reduced to zero



Source: POLES projections, EDF analysis

The good news is that analysis shows developing countries' emissions can grow at or above projections through roughly 2020, as long as industrialized countries meet stringent emissions targets and all major emitting economies take emissions caps by 2020, at the latest. Clean investment budgets enable developing countries to cap emissions with room to develop and capital to create low-carbon economic growth.

Clean investment budgets generate "development air"

Some may be concerned that clean investment budgets could cause "hot air" or flood carbon markets. In fact, CIBs create "development air." Based on the principle of "common but differentiated responsibilities," and considering their lower per capita income and smaller contribution to historical pollution, developing countries arguably ought to be given extra emissions allowances to generate development revenue. Additionally, emissions are unlikely to grow faster than otherwise because establishing national and international clean investment oversight mechanisms would ensure budgets are invested wisely. Also, establishing a scientific oversight board with a clear directive to observe and report on the progress of meeting the goals of the UNFCCC would ensure no nation is awarded a clean investment budget that exceeds emission constraints needed to avert 2°C of warming. Finally, in the carbon market of the future there will likely be no lack of demand for allowance as industrialized countries take tighter caps.

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