Konrad Adenauer Stiftung

CLIMATE REPORT 2017

PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and CO_2 emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

SOUTH KOREA

Private climate finance has gained momentum in Korea since 2010 when the country joined the competition to host the Green Climate Fund. Korea sees itself as a mediator, not only between developed and developing parties but also between the public and private sectors as regards their contributions to the 100 billion US dollars target by 2020. The public sector in Korea has not only led the discussion but also sought out initiatives to facilitate private climate finance.

In 2012, The Renewable Portfolio Standard replaced the feed-in tariff system in order to accelerate Korea's renewable energy deployment in a competitive market environment. Source: © sunhee, AdobeStock

KOREA AS HOST OF THE GREEN CLIMATE FUND

When Korea engaged in the competition to host the Green Climate Fund (GCF) in the Conference of Parties to the UNFCCC (COP), it strongly portrayed itself to the international community as a "middle power party" seeking to build bridges between developed and developing parties to the UNFCCC. As the first country to transform itself from recipient to donor country status in the OECD, Korea emphasised its experience as both a developing and developed country. For Korea, hosting the GCF meant more than just contributing to global cooperation for climate change. It was an opportunity for Korea to amplify its voice in the global climate talks, and especially in climate finance. This "middle power position" was further incorporated into its role of "facilitator" in the GCF to enhance the cooperation between developed and developing countries. Korea asserted that the role of facilitator would be essential for meeting the goal of 100 billion US dollars to be mobilised by 2020 as climate finance for developing countries within the framework of the PA.

After Korea was confirmed as the host of the GCF in 2012, it confronted a stark contradiction. First, it was widely agreed that public sector financial sources, such as governmental agencies, are not enough to meet the 100 billion US dollars target. One of the suggested solutions to this challenge was to invite private sector involvement in climate finance. However, private sector actors were considered more passive than the public sector which has led the discussions on climate finance. Therefore, Korea's task after hosting the GCF was to act as a mediator, not only between developed and developing parties but also between the public and private sectors as regards their contributions to the 100 billion US dollars target. This task was given further emphasis by the view of the Korean government that the success of the GCF was a prerequisite for fulfiling the expectations of the international community in the global climate talks.

For these reasons, facilitating private climate finance meant not just one approach to climate change response, but instead a national-level strategy for Korea in climate change cooperation. Discussions of private climate finance in Korea are still led by governmental actors such as the Ministry of Strategy and Finance (MOSF) or the Ministry of Foreign Affairs (MOFA). Both agencies have a powerful influence in climate change negotiations in that MOSF is an NDA (National Designated Authority) of Korea to the GCF, and MOFA acts as a control tower at the negotiation table. Participation from private actors was not absent. Private consulting firms such as KPMG Korea-Samjung assisted these governmental agencies from the hosting of the GCF to the provision of policy advice for its utilisation. On the whole, governmental agencies still took the lead in discussions of private climate finance, while being supported by consulting firms.

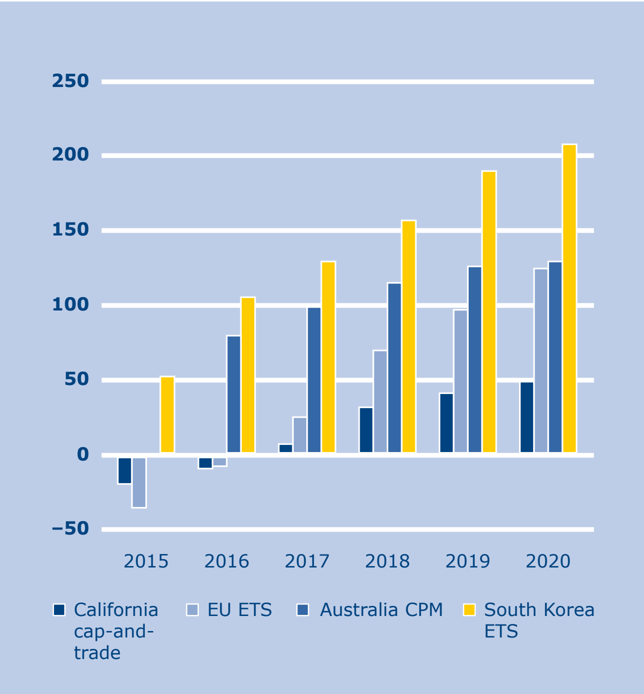
With respect to the Conference of Parties, serving as the meeting of the Parties to the Paris Agreement (CMA), Korea pledged in its NDC (Nationally Determined Contributions) to reduce greenhouse gas emission by 37 percent from the business-as-usual (BAU) level by 2030, 11.3 percent of which will be reduced by using carbon credits from international market mechanisms. While it is not clearly stated what kind of private climate finance will be utilised to meet the reduction target, the Korean government encourages private actors to actively engage in projects abroad which reduce greenhouse gas emission, and to obtain carbon credits that are accredited by UNFCCC.

KOREA'S EFFORTS FOR PRIVATE CLIMATE FINANCE

Despite the concept of private climate finance, the public sector has hardly lost its prominence in its discussion in Korea. "For a long time, the misconception of a rivalry between public and private finance has inhibited progress in these discussions. Mobilising at-scale private finance requires bold public action, be it of a regulatory, legislative, and/or judicial nature. All public action, in turn, requires public investment and public finance." (UNEP, 2014)

Therefore, the leadership of public sector actors in the discussion should not be considered a sign of disparity between the two sectors. The public sector in Korea has not only led the discussion but also sought out initiatives to facilitate private climate finance. In 2015, Korea became the first country in Asia to initiate a national-level ETS, with 525 private entities participating. The Korea Emissions Trading Scheme (KETS) is designed to facilitate private climate finance by incentivising projects to reduce greenhouse gas emissions for participating entities. In three periods, KETS aims to gradually increase the ambition of the national reduction target and to minimise the pressure on private actors in the transition to a low-carbon economy.

ESTIMATED ANNUAL DEMAND FOR ABATEMENT, COMPARISON BETWEEN DIFFERENT EMISSIONS TRADING SCHEMES (MILLION METRIC TONNES OF CO_2 EQUIVALENT)



Source: Bloomberg New Energy Finance

During the initiation period, private entities, mainly from the heavy industry sector, have however resisted the implementation of KETS, arguing that Korea as a non-Annex I Party bears no responsibility for the reduction of emissions. Industry sector actors also feared that meeting the expectations of the international community by setting a high national reduction target might impute heavy costs to them. Reflecting this resistance, the total trading unit in the first year (2015) was about 4.3 million CO_2-equivalents, accounting for less than one percent of the total allowances of that year.

To solve this conflict, the Korean government has come up with two solutions. First, considering the wide range of industrial sectors covered by KETS, its governing agency was changed from the Ministry of Environment (MOE) to the Prime Minister's Office (PMO) in 2016. It was considered that the PMO could more effectively strike a balance between different interests among industry sectors and governmental agencies. Second, KETS will gradually allow new sources to provide emission units to the market. Currently, emission units from international projects and voluntary projects by unaccredited entities (other than 525 entities) are not allowed to be traded in KETS. The Second Framework Plan of KETS plans to lift the ban on foreign units in 2018 and on those from new entities in 2020.

G20 AND PRIVATE CLIMATE FINANCE FROM A KOREAN PERSPECTIVE

Korea views the G20 as a useful platform for performing its "middle-power diplomacy" , which is also the main strategy in climate change negotiations. For Korea, the nexus between climate change and the G20 is its promotion of "green growth" as a new developmental paradigm for developing countries. Korea views this paradigm as a useful concept able to obtain support from both developed and developing countries in that it can meet the needs of developed countries (greenhouse gas emission) and developing countries (economic development) at the same time. It was not until the seventh session in 2012 in Mexico that climate change was one of the main thematic areas within the G20 because of the focus on rehabilitation of the global economy from the 2008 financial crisis and Eurozone crisis. In 2015 and 2016, when the G20 actively embraced climate change as its top priority with respect to COP21, Korea gained its voice to promote green growth in the G20.

In its response to the challenge it faces as the hosting country of the GCF, Korea derives all the more advantage from using the G20 to enhance its role as facilitator in climate finance. In 2012, Korea participated in the G20 Dialogue Platform on Inclusive Green Investment (G20 DPGI), which was tasked by the G20 Development Working Group (DWG). This initiative led to the launch of 'GreenInvest' in 2015, within the G20, which aims to facilitate cooperation between the public and private sectors in climate finance. The establishment of GreenInvest was mainly led by the Global Green Growth Institute (GGGI), which was incubated by Korea and is now run as an international organisation. Prioritisation of the green growth agenda in the G20 will continue to provide more scope for Korea to take advantage of the forum and to find valuable connections with its climate change diplomacy.

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