



Keynote address to the Carbon Expo Conference

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It is a real pleasure for me to be here today at the second Cologne Carbon Expo. The large increase in participation compared to last year is a clear and encouraging indication that the carbon market is maturing, that greenhouse gas emissions have a price for which a currency has been created.

Coming from the UNFCCC, I feel a certain pride that this has all happened because of multilateral decision-making, through the adoption of the Kyoto Protocol. I am therefore more than happy to follow the request of the organizers and give you some insights on where we stand in the intergovernmental process that has reached a crucial stage now that the Kyoto Protocol has entered into force. This means that there is:

- a need for forceful implementation;
- a need to document implementation and share information; and
- a need to look ahead.

I will briefly touch on these three elements.

The Kyoto Protocol sets greenhouse gas emissions reduction targets for the industrialized countries that are Party to it to be met in the period 2008–2012. Now that the targets have become legally binding, we see enhanced activities in many countries to meet them. It is certainly a major challenge to get there. Although there are some encouraging signs in some countries, the overall picture shows that trends resulting from action taken at the national level are not going in the right direction. Parties have to step up their efforts.

International cooperation through the market-based Kyoto Protocol mechanisms, supplementing action at the national level, will thus be of crucial importance if the Kyoto targets are to be met. A carbon market has been created and is now in its early days of functioning, thanks to the European Union emissions trading scheme and various other private and public activities. Linking the trading to the clean development mechanism, the CDM, further contributes to the development of the market. According to some estimates, by 2012 the size of the CDM market could well grow to a total of 1.2 billion tonnes of CO₂ equivalent.

It is broadly acknowledged that with the CDM the Conference of the Parties (COP) to the UNFCCC created a real innovative instrument. Allow me to summarize the major characteristics of CDM projects:

- they support sustainable development in the developing countries where the projects are realized, including through transfer of climate friendly technology;
- they are mainly initiated and undertaken by the private sector, seeking commercial benefits; and
- they allow Annex I Parties to meet their Kyoto targets in a cost-effective manner.

With so many simultaneous objectives and interests at stake there is a potential for conflicts of interest of all sorts: North–South, South–South, public–private. This poses a major challenge for the institutional set-up that must run the CDM.

Since the end of 2001 various institutions have been set up at the national and international level. As a result the CDM is now fully operational. The first project was approved in late 2004. For impatient companies and countries in search of emission reductions, this three-year wait may seem a long time. But when one considers what is normally needed to create new institutions, this is remarkably fast. At the national level 75 designated national authorities are now in place, of which 60 are in developing countries. At the international level, the CDM Executive Board and its Panels for Accreditation and Methodologies are functioning, supported by a growing network of designated operational entities that validate projects before they come to the Board and that will have to certify the emission reductions achieved through the projects.

This three-year period has allowed for a bottom-up, learning-by-doing approach, based on integrity and transparency, seeking ways for effective cooperation among all actors involved, an approach fully endorsed by the COP at all its sessions since 2001. It allows for the checks and balances, required by the Marrakesh Accords, that make the CDM both environmentally and economically sound. With memories of Enron and Parmalat still fresh, it is important that the CDM system as a whole ensures the financial integrity of investments and of the credits generated. I will spare you allusions to central banks that print money wantonly. In any case, you know the result.

The moment of truth for the system will come with the expected increase in numbers of projects that will be submitted, seeking credits that can be effectively used during the first commitment period. This will require a constant enhancement of the management system, without affecting the architecture of the mechanism, embedded in the Marrakesh Accords, which, as you know, resulted from intense negotiations balancing many interests. Any attempt to reopen the Marrakesh Accords now would, in my view, result in a situation where no CDM credits can be used in the first commitment period.

It is evident that the CDM cannot be successfully operated without the necessary resources. Unfortunately, the ambitions of governments for the CDM and the reality of resources committed do not always match. This causes frustrations on all sides, not the least in the secretariat that would like to step up its technical support to the CDM Executive Board and its Panels.

But let's be optimistic and assume that management and resource challenges will be efficiently dealt with. Is that enough for a successful market-based approach needed to deal with climate change, especially one that is based on projects that require long pay-back periods? The entry into force of the Kyoto Protocol is an important signal and ended a period

of uncertainty, but it is well recognized that markets and investors need certainty over the longer term, beyond the first commitment period. The UNFCCC process is well aware of the need to address the future, but up to now has been rather cautious on how to approach it, following the various provisions in the Convention and the Protocol.

It is evident that a discussion on the future will benefit from information on the effectiveness of implementation so far. Questions that come to mind are:

- Do we know enough about the costs: are the actual costs of mitigation lower than originally anticipated? How do they relate to the costs of inaction, of adaptation?
- Do the actions taken so far affect competitiveness and if yes, what is the experience in the various sectors of the economy?
- What is the reality in technology development and deployment?
- How effective is the support to developing countries? How attractive is it for them to participate in mitigation and adaptation activities?

It is also evident that discussions need to be based on the best available scientific insights. In that respect the forthcoming fourth assessment report of the Intergovernmental Panel on Climate Change will be of utmost importance.

Next week a UNFCCC seminar of government experts will discuss actions relating to mitigation and adaptation that can assist Parties to continue to develop effective and appropriate responses to climate change. The seminar will also take stock of policies and measures that Parties have adopted to implement the Convention and the Kyoto Protocol.

Whether an initial discussion on the post-2012 period will take place during the first session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, COP/MOP 1, in Montreal in November of this year is difficult for me to predict. It is up to the Parties and depends on their collective political will to do so. You may hear more on the aspirations of the President-designate of the Conference, Minister Dion of Canada, when he speaks at the closing session of this Carbon Expo.

When looking at the latest scientific evidence, one cannot but conclude that a sense of urgency must prevail. Concentrations of greenhouse gases in the atmosphere continue to increase at an unprecedented rate. Although the stakes are high and the interests diverse, the world community cannot afford not to find a common approach to meeting the ultimate objective of the Convention: preventing dangerous interference with the climate system before it is too late.

Thank you.

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