Carbon Expo
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Address by Yvo de Boer, Executive Secretary
United Nations Framework Convention on Climate Change

Good afternoon ladies and gentlemen, it is a pleasure to be here.

For the first time in history, every human being on this planet is now subjected to the most significant consequence of past economic development: climate change. We need a substantially new manner of thinking in the face of this.

Dealing with climate change requires changing the course of the world's economic development. For this business holds the key, since you spur innovation, implement technology and hold an important part of the investment capital to deal with climate change.

According to the IPCC's most stringent scenario, which would stabilize temperature increases around 2- 2.4C, emissions need to peak in the next 10-15 years and then decline by 25-40% over 1990 levels by 2020. By 2050, there needs to be a decline of 50% over 2000 levels.

We know that according to the IEA, global energy demand will grow by 60% by 2030, and that in the period up to 2030, the energy supply infrastructure world-wide will require a total investment of $20 trillion, to supply the energy infrastructure that's going to be needed to achieve the global economic growth that we're all looking for.

And you also know that if we invest that 20 trillion dollars without taking the issue of climate change into account, we will push global emissions up by 50%, instead of the down by 50% that the IPCC is talking about. That is changing the direction of global economic growth in a way that takes us to where the scientists tell us we should be going.

So that's the challenge: to realize that what we're talking about is changing the direction of an investment supertanker - a $20 trillion investment supertanker - and that 86% of the cargo of that tanker is actually private capital. It is private capital that is going to be driving the direction of investment; it's not a challenge of subsidizing our way out of a $20 trillion dollar problem, it's a matter of intelligently using public money, using market mechanisms to capitalize the private capital investment that is going to take place; and in that context, I think we can already see that mechanisms are absolutely critical.

I was certainly very happy that at the last talks we had in Bangkok earlier this year, governments very clearly indicated that the mechanisms have a future, that they want the mechanisms to continue; they want to enhance the mechanisms; they want to broaden the scope of the mechanisms; they want to improve the accessibility to the mechanisms; and they want to improve the contribution of those mechanisms to sustainable development.

All of this should be done bearing Copenhagen in mind. I think we have a tendency in forums around the world and at the meetings that we organize to present broad, comprehensive, theoretical content whereas, what we should be talking about are the one or two short, crisp paragraphs that are actually going to make it into the Copenhagen agreement. Joint implementation, emissions trading and the clean development mechanism are each addressed by one paragraph in the Kyoto Protocol; each no more than a few sentences long. So if you can indeed break all of this thinking down into a couple of sentences that will catalyze action that will make that investment supertanker take the direction that it needs to take.

This thinking should be guided by three considerations:

1. What is the political commitment or engagement that we need to get to a Copenhagen agreement that will actually be ratified and what provisions must we create to make that political commitment a reality? That is the challenge that we didn't manage to achieve in the period after Kyoto.

2. Why are the technologies the IPCC says are out there not making it into the market and what must Copenhagen do to ensure this changes?

3. Why are the vast majority of developing countries not managing to profit from the clean development mechanism at the moment and what must we do to change this, through provisions in the Copenhagen agreement or action outside it?

If it is a global agreement that we're looking for, if it is global engagement that we're looking for, if it is full participation that we're looking for, and if we are trying to change the direction of global economic growth, then that is clearly a parameter that needs to be addressed.

There are some significant challenges that the process needs to overcome to make sure that everything comes together in Copenhagen in a way that will enable meaningful action.

Firstly:

Under the Bali Road Map, Parties agreed to enhanced action on mitigation. Developing countries would do this through:

- Nationally appropriate mitigation actions in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner.

As a result, the more ambitious industrialised country commitments are, the bigger the financial and technological support will be, the more engagement we can expect from developing countries. And the more developing countries engage, the more ambition can be expected from industrialised countries.

And the question for me there is: can we do in an intelligent way that would do what I describe as "disbanding the Fatal Flaw Club"?

You know that the Kyoto Protocol was declared fatally flawed by the United States because it did not guarantee full engagement of developing countries, or adequate engagement of developing countries, and because it was felt to be damaging to the American economy. And we see that fatal flaw club growing: we see Canada talking about developing country engagement as a prerequisite; we see Australia, New Zealand, European industry saying the same thing. So the question really is: how can we design a mechanism that will deliver that adequate engagement, but without creating an atmosphere of subsidizing people to take jobs away? In other words, how is that intelligent financial engineering going to take place? And in that context, it will be important to achieve that real, measurable and verifiable action on the part of developing countries.

Secondly:

Secondly, a challenge is going to be how can we make market-based mechanisms a part of that solution and a part of the way forward?

We know that under very optimistic scenarios that entail a high demand potentially over time instruments like the clean development mechanism could generate a carbon finance flow in the order of 100 billion dollars per year, provided there are ambitious policies in place. But how can we guide those mechanisms in a wide direction than they're going at the moment?

What you see at the moment is that the CDM tends to follow foreign direct investment and goes to a very small group of countries. Why is Angola, with a 24% economic growth rate not attracting the CDM? Why is Uruguay with 7% economic growth rate not attracting the CDM?

And what can we do in the context of a Copenhagen agreement to change that and to get to the kind of global engagement that we're talking about?

At the same time, we need to carefully assess whether the carbon markets are enough to deliver on political commitment.

Another important challenge is going to be to get more clarity and get more ideas on the table in terms of how we can generate resources for government-to-government cooperation. It is my firm belief that the kind of political engagement that we're looking for in order to get to a ratifiable Copenhagen agreement will not be delivered by the carbon market alone. I believe the kind policy commitment that people are looking for can at least in part only happen if we manage to achieve government-to-government cooperation. And there are a number of things we can think about.

We have our project-based mechanisms, but is there potential for sectoral approaches? Is there also a potential for government-to-government policy cooperation? Is it conceivable that if China with a 10% renewables goal for 2020 were to say "we are willing to go to 20% renewable, provided we can get carbon bond to pay for that additional", carbon bonds that you can cash in when the reduction actually delivers. Are those ways in which we can think about expanding the toolbox in order to get to the kind of engagement that is really going to be necessary?

Thirdly:

How can you improve the investment climate in developing countries?

For example, the United Nations Development Programme (UNDP) is doing interesting things to help developing countries integrate both mitigation and adaptation into their national strategies. Interesting work is also being done by UNDP and others to assess in a very specific way what would be the carbon market potential of individual countries. Thus on is not simply looking at paying to make a commitment, but also looking at potential gains in the context of a commitment. This is very important and building on that to create a kind of financial architecture and very diverse toolbox that will actually get us to the comprehensive kind of delivery that we need.

There is a great risk – or a great opportunity – to complain about the rules and the mechanisms as we know them at the moment. There are opportunities for improvement; I do think that we can learn from the experience that we have to date and streamline the instruments as we know them, build on them and improve them.

But in that context, it is important to remember the importance of integrity and credibility in all of this. There may be a temptation to burn the CDM rulebook at the moment and get rid of all the bureaucracy. Yet it is also important to remember that a credible CDM credit has a greater value in the market than a voluntary offset and that a credible voluntary offset has a greater value in the market than an offset that's coming from a hole-in -the-wall operation.

So maybe I should end by throwing out a challenge to you:

I see many of you actively engaging at our conferences and I know that many of you have excellent ideas on how market mechanisms could work and how we could build on them and expand them in some of the ways that I've been talking about. The challenge I would pose to you is: think now about the short, simple crisp language that needs to go into a Copenhagen agreement to catalyze broad action through the market and a really comprehensive toolbox to come to grips with this issue over the longer term and give that language to the government negotiators who will be involved in negotiating whatever will be the outcome at Copenhagen.

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