Carbon Market Insights 2009
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Address by Yvo de Boer, Executive Secretary
United Nations Framework Convention on Climate Change

Ladies and gentlemen

The financial crisis has put the world's economy on a roller-coaster ride.

While 2008 saw the value of the global carbon market surge 84 percent to some $118 billion, New Carbon Finance projections for 2009 point to lower carbon prices and a slower growth rate of the market compared to 2007 and 2008.

The global economic down-turn certainly plays a role in that. But unlike other markets, the carbon market hasn't collapsed despite the fact that carbon as an asset is still somewhere between infancy and childhood.

At the same time, we all know that the future of the carbon market is directly linked to the level of ambition of industrialised countries.

Copenhagen 2009 is the event at which you hope to get the long-term policy clarity on emission reductions that you have been calling for. So, where are we on the road to Copenhagen?

The Poznan Climate Change Conference last December was an important milestone

Although the conference wasn't marked by any major political outcomes, it made progress in a number of specific areas of work and fully endorsed an intensified negotiating schedule for 2009.

The major success of the conference was making the Adaptation Fund operational, with direct access for eligible developing country Parties. But no agreement was reached on extending the share of proceeds to Joint Implementation and Emissions Trading.

A number of improvements to the CDM were decided in Poznan, which include streamlining and speeding up the CDM. The CDM Executive Board was requested to explore how to enhance the regional and sub-regional distribution of projects. Parties also asked the Board to assess the implications of including carbon capture and storage projects and extending the eligibility criteria for afforestation and reforestation projects. Since Poznan, the Executive Board has decided to take a number of improvements forward. These improvements will boost the CDM's functioning in its current form up to 2012.

The Poznan conference was also important in that it revealed clear areas of convergence that are emerging in the negotiations towards Copenhagen. These need to be built on.

This is especially encouraging because these areas of convergence are emerging within the political prerequisites for success in Copenhagen

To my mind, there are four inter-related political prerequisites that have to be resolved this year to get to an ambitious agreed outcome.

1. **The first prerequisite relates to clarity on ambitious targets for developed countries**

There is strong convergence amongst Parties that developed countries must agree on an ambitious mid-term target, with all developed countries sharing a comparable effort.

The new Obama Administration has committed to vigorously reengage in the climate change process. President Obama's intention to return the US' emissions to 1990 levels by 2020, and by 80% by 2050 is a good first offer.

The European Union has firmly committed to -20% over 1990 levels by 2020 and is putting in place policies to achieve that goal. Its intention of committing to -30% if others follow suit, remains on the table.

Additionally, a number of other industrialised countries including Australia and Norway have already announced their level of ambition, or, like Japan, are in the process of defining theirs.

I cannot tell you by how much carbon will be constrained by developed countries as a group; but I can tell you that carbon will be constrained with clear reduction goals up to 2020. There is also convergence that a long-term goal is needed and that 2050 is an appropriate time-frame for this; and that we need to reduce global emissions by at least 50%.

This will lead to an increased use of market mechanisms beyond 2012. The structures of the carbon market may need to be adjusted towards this, and your input is required on how best to do that.

Other important infrastructure for the increased use of mechanisms is already in place: Parties want mechanisms like the CDM and Joint implementation to continue beyond 2012 and the European Union Emissions Trading scheme is open-ended.

In the US, 2009 marks the first year of compliance targets under the Regional Greenhouse Gas Initiative. RGGI could account for up to 5.8% of global carbon market volumes. The new administration also intends to enact national cap-and-trade legislation. This would significantly boost the global carbon market.

2. **The second political prerequisite relates to clarity on nationally appropriate mitigation actions of developing countries.**

Many developing countries have climate change policies, strategies or programmes in place and have begun implementing them. In Bali, developing countries clearly indicated that they are willing to undertake additional nationally appropriate mitigation actions - or NAMAs -, but that their overriding concerns of poverty reduction and economic growth remain.

Having said this, a host of developing countries have indicated their willingness to move beyond current efforts to limit emissions.

The question is: could investing in NAMAs of developing countries count towards meeting targets in industrialized countries, and could this somehow be linked to the carbon market?

The extent and magnitude of NAMAs will depend to a significant extent on the effective delivery of finance and technology through international cooperative action.

3. **This leads to the third political prerequisite, which relates to clarity on how financial and technological support both for mitigation and, crucially, for adaptation will be generated.**

Predictable and sustainable funding is essential to unleash developing country action for both mitigation and adaptation. Here it is crucial to look beyond funding based on voluntary contributions and towards more sustainable sources of funding.

As said, ambitious mitigation commitments by developed countries hold the key to the mobilization of financial flows through market-based mechanisms.

There are several proposals on the table on how to improve and upscale market-based mechanisms beyond 2012. Furthermore, a CDM methodology was approved in 2008, that incorporates benchmarking and points the way for a scaled up CDM.

The CDM experienced rapid growth beyond all expectations when the prompt start of the mechanism was agreed years ago. The CDM currently has over 1400 registered projects in 53 countries. An estimated 33% of all projects transfer both technology and knowledge to developing countries. There have been improvements to the assessment of additionality, as well as to validation and verification. The way has also been cleared for a wide array of new projects in energy efficiency and renewable energy.

Yet the success of the CDM has also led to challenges and criticism, some constructive, some less so. But the CDM is what we have and, for all the criticism, it has demonstrated that it works - and that it can be scaled up. So why should the baby be thrown out with the bath water?

Copenhagen needs to build on the successes and further improve the CDM. The negotiations on developed country targets and improvements to the market-based mechanisms need to be closely linked. And your input is needed on how to upscale the mechanisms in a way that works for business.

The carbon market needs to secure a significant amount of predictable financial flows to developing countries. In times of economic uncertainty, the world needs to seize the opportunity of generating a large amount of the required finances from within the climate change regime.

At the same time, the carbon market is unlikely to cover all financing needs. It will be important to create a mix of financial instruments with effective disbursement. Attempts to force the CDM where it is least able to go need to be carefully considered.

In the context of providing financial support for mitigation, the recent conclusions of EU Finance Ministers deviate from what was concluded in Bali. This is not helpful for moving the world towards a successful Copenhagen.

The world is looking to the EU Summit to decisively move forward on financing, without questioning what has already been agreed.

4. **This leads to the fourth political prerequisite: clarity on the institutional framework to deliver support for mitigation and adaptation**

It is critical that the funds that are agreed as part of the Copenhagen outcome have governance structures that are founded on equality, giving developing countries a major say in what is ultimately intended to achieve their development goals.

Resolving these four political prerequisites will lay a solid foundation for a successful outcome at Copenhagen.

If these essentials are not resolved, the world does not have the beginning of a Copenhagen outcome. On the road to Copenhagen, the clock is certainly ticking: as of today, there are only 265 days to the beginning of the UN Climate Change Conference that is set to make history.

Much work remains to be covered before then. Four negotiating sessions have been dotted throughout the year, with the possibility of a fifth, if needed. The first negotiating session will begin in 12 days and will include talks on further commitments for industrialised countries, as well as in-depth consultations on the project-based mechanisms and emissions trading. Parties will also consider a focus document based on submitted ideas and proposals, in view of a negotiating text for the session in June.

For a host of reasons, I believe Copenhagen represents a tiny window of opportunity. An opportunity which, for a host of reasons, we cannot afford to miss. But this cannot, it must not, be a “Charge of the Light Brigade”. This foray must be cheered on and universally applauded as one of the key moments in history when humankind fundamentally changed the nature of its development.

Thank you

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