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It is my great pleasure to speak here today, coming to you from the inter-governmental side. The wide range of movers and shakers, from both industry and government that IETA has been able once again to bring together is testimony to the seriousness with which the greenhouse gas market is viewed today.

This evidence of the emerging market is especially welcome as we continue to wait for the entry into force of the Kyoto Protocol. Last month at the World Climate Change Conference in Moscow, the lack of a clear signal concerning Russia's ratification was disappointing to many – business people, environmentalists, governments and the Climate Change secretariat alike. It extends the period in which Kyoto hangs in limbo at a time when business would greatly appreciate more certainty.

The consideration that Russia is giving to economic factors in its decision on Kyoto is another example of the important link between climate change negotiations and greenhouse gas markets. It is my understanding that Russia is assessing how membership of Kyoto will impact on its ability to grow its economy, over the shorter term but also beyond the first commitment period. One can only hope that our Russian colleagues will soon complete their assessment and join the over four billion people in the nations of the world that have already ratified the Kyoto Protocol.

It is interesting how differently people view this link between climate action and markets.

- Action to address climate change is perceived by some as a threat to markets and growth.
- Others see instead all the new market opportunities that are emerging.
- Still others perceive markets as being the best tool we have in addressing climate change and safeguarding our climate for future generations.

We have often heard economic concerns over action to cut greenhouse gas emissions. Our host country, when it went through its ratification process is an interesting case in point. And the example forefront in our minds is of course the intention of the US to not ratify the Kyoto Protocol. If the world's biggest emitter considers it too costly to join, the proposition of climate action being foremost a threat to markets is clearly placed before us and others will pay heed.

At last year's eighth Conference of the Parties in New Delhi, developing countries clearly underlined that they are also very concerned about economic growth. For so many of them, the key priorities are to alleviate poverty and to ensure that the changing climate will not be yet another set-back on their path. This is an important reminder that we are also dealing with the social and economic costs of taking insufficient action on climate change. It is clear that economic realities play a key role for all countries and sides in the climate debate. It is extremely important that when considering the future, clear insight is provided in terms of the cost of action and inaction.

On one level, such arguments do not bode well for those adhering to the second view of markets, the view that emphasizes the new business opportunities that are emerging around action to address climate change. So many of you are moving already – and that is why you are here today. What you need is a clear signal on how current and future policy will continue to support the markets in which you deal. You need to know how the politics will impact on the investments you decide upon today.

It is indeed unfortunate that we cannot yet make the Kyoto Protocol an official reality by holding the first meeting of the Parties to the Kyoto Protocol this December in Milan. But I would like to suggest that, while this is certainly an undesirable delay, it does little to change the underlying dynamics to which people such as yourselves and the 119 countries are responding. I am quite confident that the COP9 in Milan will address the need to keep the momentum for action.

We should not forget that the Climate Change Convention has always been about economics and development, as well as about climate action. It was born at the Rio Earth Summit out of a spirited search for a common future with higher global welfare. It put on the international agenda the duality of inter-generational interests and the balance between social, economic and environmental forces. The objective of the Convention is significant. It aims to stabilize atmospheric concentrations of greenhouse gases at a level that is safe, while still allowing economic development to proceed in a sustainable manner. None of this has changed and the Convention continues to enjoy quasi-universal support. It was out of this that the Kyoto Protocol emerged, with its specific targets and systems for reporting and testing compliance.

Despite setbacks, it remains vital to shift our economies to a low-carbon future. The wide consensus among scientists, as demonstrated by the Intergovernmental Panel on Climate Change, remains that global emissions need to fall in the long term to a level well under half of what they were in 1990. As Minister Anderson said: an order of magnitude of 50 - 70 %. This science is not about to go away. I believe that we, as policy-makers and market actors, need to listen intently to what our scientists have to tell us.

I am happy to confirm that many are listening. The Kyoto Protocol has to date been ratified by 119 countries, taking in the full European Union, all but two of the remaining OECD Convention Parties and 87 developing countries, including China, India and Brazil. And the US and Australia, while not wishing to ratify Kyoto, stress the importance of taking action. Successive meetings of the Conference of the Parties under the Convention have succeeded in finalizing the details on the workings of the Kyoto Protocol. Governments around the world are now actively deciding on climate policies and implementing the necessary measures.

And so we come to the third view of the linkage between climate action and markets that I mentioned earlier. From a policy perspective, markets have been recognized as a key tool in addressing climate change and safeguarding our future climate. If we can realign market incentives such that they recognize the social and environmental implications of our actions, we can enlist some of the most powerful forces available in the fight against climate change.

In doing just this, the Kyoto Protocol is a very “modern” environmental agreement. The projects under its clean development mechanism and joint implementation provisions provide for investment to be made where emissions can be cost-effectively reduced. Likewise, its provisions on emissions trading, and on private sector participation, encourage those facing cost-effective opportunities to reduce emissions themselves and sell the resulting surpluses.

Many of you will have heard yesterday of the very encouraging progress made in establishing the CDM from the Chair of the Executive Board, so I won’t go into that. The COP9 will take stock of this progress.

Progress is also being made with the emissions trading frameworks under the Protocol. Many governments are at work to set up their registries for holding and transferring credits as early as 2005. Work is underway in the secretariat to establish the transaction log for monitoring the overall integrity of trading, hopefully by the end of next year, and to specify the standards for electronically exchanging data which are required to enact transactions.

This work at the international level is of course only part of the market story. Implementation now lies just over a year away for the European emissions trading scheme, as well as for the estimated four to five thousand installations expected to cover almost half of the region’s CO_2 emissions in 2010. With the involvement of at least 25 countries, European emissions trading will be a key driver for trading programmes all over the world. Elsewhere, Canada, Japan, New Zealand, Norway and Switzerland remain open to installing trading instruments. In the US, the original home of emissions trading, many initiatives are being made, ranging from state-level initiatives to industry-led initiatives such as the Chicago Climate Exchange. On the project side, the pace is gathering as governments, development banks and big players in the financial and industrial worlds implement a raft of new programmes and funds.

At present, in this crucial period of learning by doing, it is not yet possible to speak of a single market for project credits and trading. What we have instead is a series of largely unconnected markets. For the sake of effective climate change action, I hope this will change. Emissions trading under Article 17 of the Kyoto Protocol provides an overarching framework for linking these initiatives in Kyoto Parties. Under it, the new government-led trading programmes must help consolidate markets and must contribute to their maturity and efficiency.

As with climate change science, I believe that the market-based approach to climate policy is not about to go away. The movement towards market-based instruments has gained too much momentum for that. Many are now turning to consider what might be the shape of a future climate regime beyond the first commitment period. Nobody yet knows how this will look, but I am quite sure that the lessons learned so far in developing the flexible mechanisms of the Kyoto Protocol will form an integral part of this future agreement.

I imagine that it will be a far more complex international agreement than we see now. A future agreement will have to increase the level of ambition in limiting emissions, and ultimately reducing them, if we are to move towards the objective of the Convention. At the same time, many will wish to encompass the contributions of a wider range of countries in this effort and maybe look at a longer time horizon. Commentators - and there are many - are suggesting frameworks of diverse obligations for different countries, sectoral agreements and technology protocols. They are stressing the need for real technology transfer and capacity-building, as well as the need for flexibility and new means to cap the economic burden that it would be possible to bear. These are all worth exploring.

As the ambition grows, so it will depend on our ability to discover and implement cost-effective policy solutions. As well as the good they offer us now, today's greenhouse gas markets will impart lessons for how we can move ahead beyond 2012. We must now strive to gain from this experience and learn how the potential of markets can be applied in solving the problem of climate change. The insightful players out in the private sector are already moving to mobilize resources and gain experience early. I trust that this will be a fruitful endeavour together with government and the rest of civil society.