Carbon Forum North America
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Statement by
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United Nations Framework Convention on Climate Change

Ladies and gentlemen,

First, I want to thank IETA for organizing this event and also C2ES for their support. Let me start with a fact that is not very popular among market participants: the carbon market is not an end in itself.

It is a tool to solve a global problem in a cost-effective manner, and is the result of intergovernmental agreements. So where are we with the global problem, and where are we with the intergovernmental agreements?

Regarding the global problem, we have bad news here. Global GHG emissions continue to rise and the effects of global climate change are every day more evident.

In the USA:

- The first half of 2012 was the warmest on record in the USA
- DC had its most historic heat wave in 2012; most intense in 141 years of record
- Worst droughts on record extending from the Rocky Mountains to the Ohio Valley, with devastating effects on farmers, and impact of 1.3% less growth
- Colorado had its most destructive wildfire in history in 2012
- …the list goes on

Elsewhere:

- For the 330th month in a row it has been hotter than the 20th century average
- Arctic ice at its lowest extent ever recorded in midwinter.
- Disastrous droughts and searing heat in Africa and Latin America
- Floods in China
- …the list goes on

Whether you believe in the science of climate change or not, it does not change the fact that we are already in the midst of climate unpredictability, of a profound disruption of the Earth's hydrological cycle, the full effect of which is still unknown.

So is anything being done about this?

In regards to the intergovernmental process, there is reason for some hope, and I underline <u>some</u>. At the intergovernmental level, in the last round of negotiations in Durban, all countries agreed to not let temperature rise go beyond two degrees centigrade, and are considering limiting it to 1.5 degrees – the only target that would give us some chance to protect small island States from the worst effects of climate change.

From your perspective, the importance of the temperature target is that it is an unambiguous signal that we are moving toward a global low-carbon economy.

Additionally, in Durban most industrialized countries agreed to continue leading in their emission reduction efforts via a second commitment period of the Kyoto Protocol.

And for the first time, all governments have agreed that they will negotiate a legally-based, universal agreement by 2015 to be implemented starting in 2020. Furthermore, through the New Market Mechanism and the Framework for Various Approaches they have agreed that the market will again be an important component of the implementation of the new, more ambitious agreement that will have deeper reduction commitments.

So from your perspective, good news for the future, but what about right now? I am sure you want to know where we are with the carbon market. Does it even exist anymore? Or has it gone on R and R?

Yes, it has most definitely gone on R and R. Now many of you will be feeling that the market has gone on Rest and Relaxation, on vacation, absent, gone to the beach permanently, never to return again. I will, of course, agree that the market is at an all-time low, but actually I pose to you that the market is in a very active R and R: it is currently in an aggressive Redesign and Reconstruct phase. What do I mean by that?

Regarding redesign, CDM is currently the only market mechanism between developed and developing countries, and will be the source of knowledge and experience for the future market mechanism.

CDM is not perfect, but it continues to incorporate significant improvements that are moving it in the direction of a more mature mechanism. Improvements include new registration and issuance procedures, new top-down methodologies, and streamlined assessment of small scale projects. Perhaps the most significant improvements to bridge into the future mechanism are PoA standards and standardized baselines.

The strengthening of the CDM is far from being done. The high-level panel for the CDM Policy Dialogue has recommended implementation of standardized methods for assessing additionality, among the total 50 recommendations of their report. Those of you concerned with additionality in the CDM should be happy to note this.

While CDM is being strengthened, there is more construction and reconstruction going on in the markets, outside the CDM, than there ever was.

As we all know, the EU ETS is transitioning into Phase III.

But let's look at what's happening in Asia, which is the new center of the universe in regards to emission reduction efforts.

China: You will not read much about China in the US press, but China is number one in solar panel manufacturing and number two in wind technology, soon to be number one. Seven provinces and large cities are developing their local voluntary trading system, and a national emissions trading scheme in the making, with technical support from EU and specialized institutions.

India: Will begin an ETS in 2014.

Japan: Tokyo has had a metropolitan trading scheme since 2010 and Japan is developing a bilateral trading scheme.

South Korea: Developing ETS to go into effect in 2015, with first initiative already in operation.

Thailand, Indonesia and Vietnam: With support of the PMR all are working to establish market based mechanisms.

Down under:

Australia: Launched the Carbon Price Mechanism. Agreed to link to EU ETS by 2018, sending a clear signal of the enhanced liquidity that comes with linking and standardization.

New Zealand: Operates domestic ETS which includes a range of sectors, and considering possible linking with Australia

And on this continent, my home continent:

Mexico: Parliament passed comprehensive national climate change law laying the ground for establishing an ETS.

Brazil: Considering national cap and trade system with PMR support. Rio ETS first phase 2013-2015 covers big emitters in power generation and several industrial sectors.

Chile and Costa Rica: Early state of developing ETS with PMR support.

In this country:

In June 2012 the program administrator of the Regional Greenhouse Gas Initiative (RGGI), which covers nine states, announced average annual CO_2 emissions have fallen by 23 per cent compared to emission levels before the start of the program.

California cap-and-trade system – Mary Nichols is here today and we thank her for her and her team's effort in this regard. California is the second largest carbon market in the world; 6 weeks away from its first official CO_2 permit sale. California is working to make its climate policies the foundation for broader action. It hopes to encourage the expansion, creation and linkage of regional systems to drive both national and international action.

In the rest of the country, even without regulatory pressure:

In 2011, 214 of the biggest public firms in the US had set own internal voluntary emissions targets, a nearly 30 per cent rise from 2010. (IBM, FedEx, Microsoft, UPS, Walmart, Coca-Cola, Unilever, Nestle, etc.)

It does not take too much to connect all these dots. An increasing number of governments are developing and implementing market mechanisms. A growing number of global companies are setting emission targets. All are welcome developments. They are reactions to the international regulatory signal of the move toward low carbon, and at the same time, distributed preparations for the implementation of the still nascent international regulation.

There is no doubt that we will see progress in the shaping of the international regulation over the next few years, and as we do, there is also no doubt in my mind that we will progressively realize that the most cost effective way to implement that global regulation is through linking these individual schemes, via common standards and rules that provide enhanced liquidity and fungibility while avoiding double counting.

The high level panel for the CDM Dialogue has already recommended ensuring the comparability among the standards used across the various market-based mechanisms, inside and outside the Convention, to minimize regulatory costs; and establishing a common registry function that tracks mitigation outcomes effectively, so as to avoid double counting across different types of market-based mechanisms.

The final question to be addressed this morning is the role of the US in all these developments. The US could obviously choose to follow a rest and relaxation path, not participating in the progress of the markets. I would however argue that both US and international interests are better served by active participation in the design and construction of the future market mechanism(s).

Mitigation is as much about climate change as it is about energy security. Solving the climate challenge will require – as so many other problems have in the past – American ingenuity, know-how, resources, etc.

The US is already making good progress is shaping future carbon markets. However, as experience has shown, larger markets are stronger than smaller markets. The risk for investors is smaller. The price stability is better, the number of actors greater. Most importantly, the access to low-cost mitigation is higher in large markets than in small. We must work towards a globally linked market in the future.

Ladies and gentlemen, let me give you this message in the elevator pitch version, as we are in Washington, DC:

1. We are moving toward a low carbon world economy.
2. GHG emissions are being regulated domestically and will be regulated internationally.
3. You will need the market to reduce emissions in a cost-effective manner.
4. You are better off if you get involved in the design and the construction of the rules with which you will have to comply, rather than letting other write them for you.

Thank you.

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