Carbon Market Insights 2008

Copenhagen, Denmark, 11 March 2008

Speaking notes for key note address
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Thank you very much for the opportunity to address this big event on the developments in the carbon market.

These developments prove that the carbon market is **growing at a spectacular rate** and it has a **bright future** looking at the recent trends

Recent calls from all over the world for a cap-and-trade system, including from labour leaders in the US, may be a step in the direction of long-term certainty that business and the market is so desperately waiting for.

Bali has kicked off formal negotiations on strengthened international action on climate change. Negotiations, both under the Kyoto Protocol and under the Convention, will need to look into the role of market mechanisms to reduce emissions cost-effectively.

Stronger action on climate change

We are standing at the dawn of an incredible busy two years of negotiations that should lead to an agreement by the end of 2009 in this city.

The challenge is to come to an agreement that is **effective, efficient and equitable.**

What do I mean by that?

It should be **effective** in the sense that it meets up to what science tells us: the need to stabilize emissions in the next 10 to 15 years and dramatically cut them back by 50% in 2050

It needs to be **efficient** in the sense that it gets us where we want to go. It is one thing to set targets, but you also need to make sure that you will meet them. So we need to think of expanding cost-efficient market mechanisms and sound policy. Furthermore, given that technology is a central piece of armour in the fight against climate change, we need to find ways to bring down the costs of low carbon technologies. How can we speed up their market introduction, also in developing countries?

Finally, we are looking for a deal that is **equitable**: All countries will have to do their fair share.

Fighting climate change is about **spurring green global growth.** It is about putting in place a global low-carbon development plan. A plan that makes climate-friendly economic growth globally viable, especially in developing countries. It's about cleverly steering investment flows into the low carbon direction. It's about finding clever ways to cope with the impacts of climate change, which are already showing. It's about creating new business opportunities.

In short: we need an agreement that makes economic sense. The Bali Action Plan calls for input from business to achieve this. So, your engagement is crucial as never before.

Critical factors

This all sounds very sensible and logical. How do we move forward to get there?

The **first critical factor is leadership** by **rich countries**. The G-8 has already turned their attention to the 2050 global goal. But where does this leave businesses that need to make important investment decisions today on capital stock that will be there for the next decades?

Would a target for 2050 give you enough clarity? I don't think so. That's why I call on rich country leaders to now also address the need for medium-term goals. Reductions in the order of 25-40% of 1990 emissions by 2020 is what is needed according to the most stringent IPCC scenario that has been examined so far.

EU has already shown leadership. Now, we wait for the G8 Summit in Japan to follow suit.

The **other critical factor is** the **further engagement of developing countries**.

The global fight against climate change, can only be successful if developing countries act as well.

In Bali there was **agreement on a text** on nationally appropriate mitigation actions by developing countries, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner.

This is a clear signal from developing countries that they are ready for a **meaningful contribution to the solution.** Of course, there will be differences between the commitments of rich nations on the one hand and developing nations on the other. Binding emission targets for developing countries are simply not realistic nor reasonable. But it is **crucial that developing countries put forward mitigations actions** that can indeed be recognized as a meaningful contribution**.** Otherwise we might very well be working on an agreed text that key countries will be unwilling to ratify.

As I just mentioned, developing countries <u>are willing</u> to take further steps to green their economic growth and cope with the impacts of climate change, but it is also clear that they need international support for these extra efforts; international support in terms of additional resources and technological assistance.

The need for a new financial architecture

In this context, I believe the key challenge is to design a **clever financial architecture** that will make developed countries commitments and developing countries actions **run together like well-oiled cogwheels** by spurring measurable, reportable and verifiable support for measurable, reportable and verifiable developing country actions.

Clearly, everything is linked with everything and progress is needed on all four building blocks. But, I think it is a **priority to start thinking about the design of the financial architecture right now.** This will determine the level of participation of developing countries. The bigger the support, the more we can expect from developing countries and the more developing countries are willing to do, the more ambition can be expected from industrialized countries.

We need to **move fast** as the decisions in the upcoming years will determine the level of greenhouse gas emissions for decades to come. Especially in the energy sector. In the upcoming 5-10 years 40% of the electricity capacity will have to be replaced. Up to 2030 a massive amount of 20 trillion dollars is needed to meet the world's energy hunger, which will grow especially in developing countries. If we fail to steer these investment flows into a low carbon direction, the IEA tells us global green house gas emissions will go up by 50% in 2050, while the IPCC tells us that they need to be cut by 50% in the same year.

The question then is: **how can additional finance and support be generated** to enable developing countries to take further action on low carbon growth and **what kind of action can that be?**

What kind of mechanisms do we need to set the wheels in motion and help us reach 50% cut, instead of ending up with a 50% increase?

Need to expand and go beyond the current carbon market

It is obvious that the carbon market is and will be a key tool. The **international carbon market** spawned by the Kyoto Protocol is booming. In 2006 it was worth 30 billion. In 2007 it grew to 40 billion (according to Point Carbon) and in 2008 its growth is projected to be even more spectacular, perhaps even 56% representing a worth of 63 billion euro.

Let me particularly mention the Clean Development Mechanism. There might be a lot of criticism, but I believe it has been a great success so far and -maybe even more important- it offers a great opportunity to further support developing countries in greening their economic growth.

It has provided an important **source of investment and financial flows** for mitigation action in developing countries. It is estimated that the CDM projects that entered the CDM pipeline in 2006 will result in **25 billion USD in capital investment.** It is also estimated that CDM **renewable energy and energy efficiency projects** that were registered during 2006, will result in **5.7 billion USD in capital investment**. This is about triple the amount of official development assistance for energy policy and renewable energy projects in the same countries. CDM has provided

companies in developed countries with access to emission reductions at lower cost that would be available to them within the company. It has moved **mitigation technology** to developing countries. Through a 2% levy on CDM projects we are feeding the Adaptation Fund. It is recognized as a key tool by many, including **China,** which is supporting African countries in setting up the necessary infrastructure to kick-start CDM investments.

Under a high demand scenario, with ambitious targets for industrialized countries, CDM has the potential of spurring 100 billion USD annually in investments.

So, it is clear to me: the carbon market and CDM in particular will need to be expanded. In that respect, I feel that proposals to limit the use of CDM are certainly not helpful and will not motivate developing countries to get more involved.

It is much better to look for smart ways to make the market work more for green growth particularly in developing countries.

How for example can the three flexible mechanisms work for international sectoral approaches?

And what, according to you, does it take to make the market also go to small and medium sized countries, which are currently hardly benefiting from CDM?

Your insights as practitioners are critical in crafting a stronger climate change agreement that makes sense from a business point of view and that offers sound investment opportunities.

Having said that, it is wishful thinking that we could rely on the market alone. The market does what the market does: it picks the cheapest options and does not guarantee an equal geographical distribution. So there is a clear need for additional public money and government-to-government support.

In short, what we are looking for is a <u>set</u> of tools that create value for green growth; an intelligent mix of mechanisms that will make spur both public and private money flows, through different channels, at both national and international level.

Closing remarks

Bali has offered us **the unique opportunity** to put in place a clever set of mechanisms that will change the course of economic development.

At the same time, Bali presents a **very small window of opportunity** to craft a solution to such a huge global problem. We need to pull out all the stops to get to an international climate change deal in Copenhagen within less than two years time. There is in fact no time to lose. And there is a lot to be done.

Finance is the key to the success. It should be a priority to get this building block right, since it is a prerequisite for meaningful participation of developing countries. We should look for possibilities to expand the carbon market and its mechanisms to spur even bigger financial flows for low carbon growth in the South. In addition we should look for innovative government-to-government support.

Designing this clever financial architecture will in my opinion lay the basis for an agreement in this city next year December.

Copenhagen is **not about** finding the answers to all questions. Copenhagen is **not about** writing the rules for all possible games

Copenhagen is **about unleashing innovation**. Copenhagen is about **creating rewards for change.** Copenhagen is about **freeing the spirit of enterprise.**