Carbon Expo
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Statement by
Christiana Figueres, Executive Secretary
United Nations Framework Convention on Climate Change

[Introduction in Spanish]

Dear friends,

It is wonderful to be at the 10th Carbon Expo. I would like to thank and congratulate IETA, the World Bank – in this case Fira Barcelona, also intermittently in partnership with Kölnmesse – for your original vision, for your steadfastness and, in particular, for having acknowledged that it is time to look beyond the markets to a broader context. That is evident in the way that you have structured this 10th celebratory Carbon Expo and I thank you for that.

You have devoted a decade to supporting not just the markets, but to strategically think how to support low carbon growth and this Carbon Expo is a vivid example of your forward-looking thinking.

Now, my dear friends, I'm going to share three messages with you. These are:

1. While it may seem that markets are painfully shrinking, the fact is that they are prolifically sprouting everywhere;
2. Markets are a very important part of the response to climate change and they must be developed appropriately; and
3. Markets are only one part of the response, and it is in all our interests to intentionally explore the broader financial context for addressing climate change.

To my first point: I don't have to explain to you the pains of the shrinking market. You all know that.

But my friends, I don't believe in coincidences and, therefore, I don't believe that it is completely coincidental that this 10th Carbon Expo is being celebrated in Barcelona. Because, those of you who have been here before or those of you who came a few days ago undoubtedly noticed the extraordinary number of trees that this beautiful city has.

And it strikes me that trees are a great symbol for the markets. We only planted that tree of the carbon markets a few years ago, and the fact is those carbon market enthusiasts – such as myself – who were there in 1997, could not possibly have imagined that only a few years later we would have 6,800 projects registered in 88 countries representing 215 billion dollars of investment. Completely beyond our imagination at that time.

Now those carbon enthusiasts – myself included – also have an unfortunate tendency to stand over this tree that is growing still and insist that the growth has to come from the trunk, because that is what we planted and we want to see growth from the trunk.

But the fact is that we need to realize that growth is not now coming from the trunk, it's actually coming from an extraordinary number of offshoots that are springing up everywhere.

Here are examples, let's start with Asia:

China: seven cities and provinces, national ETS in sight more or less for 2016 and in fact rumours, not yet confirmed, of a national cap in China.

India: renewable energy and energy efficiency trading programme. Korea: ETS being developed in order to reach 30% reduction of emissions from business as usual by 2020. Vietnam: on its way to an ETS system.

Then you have Australia with its carbon pricing mechanism; New Zealand with its ETS and with steps toward a national reduction target. California: very successful ETS launched this year and already three successful auctions under their belt.

In my own region in Latin America, we have Brazil with an ETS in São Paulo, and movement toward a national ETS. We have progress on markets in Mexico, Columbia and Chile. And to end up the list with one of the largest economies of the world, my tiny country of Costa Rica creating an internal market system to help us get to carbon neutrality. That's just to name a few new market systems, because the list is longer. So there is no doubt that markets are sprouting all over the world.

My second point: markets are a very important part of the response and they must be developed appropriately, AND they are an important part of response at three different levels.

At the international level, we have a second commitment period of the Kyoto Protocol, and we have the reiterated commitment of governments that they are going to come to a universal agreement by 2015 and increase ambition before that. At that international level it is very clear that markets create tradable assets that cross boundaries and lower cost; hence, a very important part of the international response.

At the national level – and here we have just heard what Barcelona and Catalunya are doing, so let me start at the sub-national level – cities, provinces and states all around the world are already actively promoting their low-carbon growth.

We have federal governments already recognizing that carbon emissions and low-carbon growth are key to their national security, to their energy security, to their economic stability and of course to their environmental protection.

We have 30 countries, and counting, with nationwide, economy-wide climate legislation and, interestingly enough, we see an increasingly positive correlation between those countries that are enacting legislation and those that are instituting some type of a market system, some kind of emission trade system in order to further drive policy and enable cost-effective implementation of that policy. So at the national level, it is clear that markets both encourage and are driven by policy, and that they will continue to grow.

Finally, at the private sector level, we already have one trillion dollars invested in renewables, 244 billion dollars of which were invested just last year. What those numbers show us is that renewables are beginning to move from the fringe into mainstream economic policy. What is needed now is to move them into mainstream energy infrastructure.

In order to optimize the markets that can work at all these three levels, in order to allow them to get to their full potential, there are several things that we can do:

1- No doubt about it, we've got to increase demand. Demand coming from industrialized countries is sadly insufficient. We need deeper reduction commitments from developed countries.
2- We have to be able to take all of these offshoots, all of these different markets being built around the world and link them. Because by linking these markets, we would be able to stabilize fluctuations, we would able to increase investor confidence and we would take an important step toward a global price on carbon, which is ultimately the most efficient way of dealing with our challenge.
3- We have to standardize. There is no way that we can move forward without knowing that a tonne in Japan is the same as a tonne in Australia and is the same as a tonne in Costa Rica. We have to get to the point where we are standardizing across countries so that we know that a tonne is a tonne is a tone… no matter where that tonne is actually attained.
4- We have to put in place a global accounting system to avoid double counting, because otherwise the whole effort has no environmental integrity.

We have seen progress on most of those issues. On linking, we already know that California and Quebec are in advanced conversations and California may even consider linking to the China market. Australia and EU have already planned to link by 2015, and several of the other markets are already considering who can they link with and under what conditions.

What we still need to see more of is on the other issues. We still need to see increased demand, and there I very much look forward to seeing what industrialized countries are going to put forward in 2014, because they have already committed themselves to increasing their ambition in 2014.

Then on global standardization and a global accounting system: that is precisely what the framework for various approaches is all about and is currently in its incipient stages under the climate change negotiations, but clearly an important part that is being recognized by governments. So we're moving. Not as fast as we should, but we're moving in the right direction.

My third point: yes, markets are one part of the response but let me underline they are <u>only one</u> part of the response, and we have to look at the broader financial context.

Why is this? Because the goal – what we are really about – is not about creating or reviving a market. What we are really about is ensuring a solid, consolidated low-carbon energy system maximum by 2050, at the latest. What that means is that what we have to do between now and then is transform the emissions trading experience and know how into carbon-related assets that reach global scale and are able to determine the quality of energy infrastructure worldwide.

Right now what we have is frankly, at best, a second-rate asset because governments are not enacting a strong carbon regime. If they were, we wouldn't have surpassed the 400ppm that has already been mentioned. We have surpassed the 400ppm concentration because carbon regimes of governments are not tight enough.

Investors understand that climate change undermines the assumptions they have been making in their risk and return models that are at the basis of their investment decisions. So, investors are already on their own tightening up their fiduciary requirements and they are valuing companies using corporate carbon accounting systems. But, they do need greater clarity from policymakers.

Carbon market players, you understand that the carbon market alone cannot lift the global mitigation effort that is needed worldwide. You understand that carbon markets are stronger if they are part of a broader suite of financial instruments that will provide a compelling incentive to mobilize increasingly high levels of capital into low-carbon infrastructure.

So investors and carbon market players have a shared interest to make sure that governments across the world, in both the developed and developing world, tighten their carbon policies, and there are many ways to do that:

I've already spoken about ambitious emission reduction targets. To that we can add carbon taxes, subsidy structures to help with clean energy and job creation, strong efficiency standards, and private-public partnerships in which public capital can de-risk the flow of private capital. All of these and many more policies can be enacted by governments.

Because ultimately, this is not only about reviving current markets, this also about creating major new liquid carbon assets that have low volatility, that have reasonably high likelihood of stable future returns and that are able to mobilize not one billion, but tens of billions of dollars of investment into renewable energy and energy efficiency over the next few decades.

Ultimately, what this is about is underpinning the future low-carbon infrastructure with a smart present-day financial structure that is broad enough and diverse enough to allow each sector, each investment, each economy, to use the most appropriate types of finance and the most appropriate blend of financial instruments.

Ultimately, what this is about is realizing that we cannot afford to not see the forest for the trees. This is about realizing that the trees that we see today and that are now very familiar to us, are actually only a part of the larger forest, and those very trees are healthier if they grow in that larger forest.

Given the state of the market, I know that all of you are here to find out what you can do to move this agenda forward. So let me tell you three things you can do:

1. You can continue building the carbon markets. This room holds vast experience, knowledge and insight into carbon markets. I encourage you to put it at the service of all those governments, all those countries that are building their carbon markets and would benefit from your insight, your guidance and your suggestions.

2. Do not wait for policy perfection. Policy is on the right track but it is not being developed at the right speed. So do not wait for policy perfection. Now is the time to seek future returns in the market, now is the time to invest in scaled-up carbon assets.

3. Perhaps most importantly, continue to make the case to policy makers. They have committed to a global universal agreement by 2015. By the time they take those decisions, governments need to know that their private sector, sitting right behind them, is ready, willing and able to move into the necessary structure of low-carbon growth. And you need to show them that you are ready, willing and able.

My dear friends, markets are driven by the risk and reward model. What we must remember is that our biggest risk is waiting to act, and our greatest reward comes from creating low-carbon growth, enabled by markets and further carbon-related assets.

That is not an easy transition, but all of us here need to decide which way we are going to go? Which path are we going to follow? Are we going to take the easy but very dangerous road of inaction? Or, are we actually going to lead the transition and reap the rewards?

I am counting on every single one of you to make the choice of leading the transition with your experience, your knowledge and your insights, because frankly we don’t have another option. We have to solve this, and we will solve this through a financial architecture that includes market-based solutions and others.

Thank you.

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