CHECK AGAINST DELIVERY

Public debate on the Kyoto Mechanisms

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Address by Yvo de Boer, Executive Secretary
United Nations Framework Convention on Climate Change

Ladies and gentlemen, Jeffrey, and panel. I am very pleased to speak with you here at the Earth Institute. Thank you John, and the others involved, for making this discussion possible.

Climate change is a huge, global problem, in need of a global solution, to reduce the cost of mitigation and to secure funding for adaptation. While concerted action significantly reduces the cost, it is clear that we will need all the tools at our disposal to really rise to the challenge.

As a result, I think you'll agree that it would be rather futile to debate carbon market versus carbon tax; because in reality, we need the carbon market *and* national taxes, and much more, including a clever financial architecture for effective climate change abatement.

That said, there is a range of benefits that recommend a market-based approach. I'll highlight a few.

To start, we need a comprehensive, international agreement that guarantees action on all fronts. This requires global buy-in, especially from the private sector, since the largest amount of funds - up to 86% - and clean technologies are in their hands.

Large sections of the private sector prefer a market-based approach over mere taxation, because this increases the economic opportunities of climate change abatement, both in terms of investment opportunities and job creation**.**

A market-based approach is acceptable to civil society because the environmental benefits can be checked and assured.

Then there is the matter of information asymmetry. A tax and an emissions trading scheme are only identical in outcome when governments have full knowledge of the costs of abatement. The first phase of the EU emissions trading scheme showed that this is not realistic. Governments do not have precise knowledge of the cost of abatement and need a market mechanism to deliver price discovery.

Another important factor to keep in mind is dynamic efficiency, which occurs at two levels:

1. On the first level, the market sets a dynamic incentive for emission reductions as prices change to reflect supply and demand. Whereas, taxation rates are hard to change and therefore the incentive for further reductions tends to become static.

2. On the second level, the market promotes awareness and involvement. Cap-and-trade creates a new asset class which attracts interest from finance departments and market makers. Many of the emission reduction projects in livestock raising, for example, would never have happened with taxation of methane, as companies would have preferred to absorb the cost increase. A market mechanism stimulates a more proactive response.

A market approach allows for graded levels of involvement. This is vital in a UN context.

So how has the market-based approach in its current form under the Kyoto Protocol done?

The question to ask is: Has the Kyoto Protocol's clean development mechanism met the goal for which it was designed. In my view, the answer is yes.

There are now more than 1170 registered CDM projects in 49 countries – everything from community electrification, to landfill gas capture, to industrial chemical projects, destroying extremely potent greenhouse gases.

Of these projects, more than a third transfer climate-friendly technologies to developing countries**.**

We're just concluding the first year of a five-year commitment period, and already more than 195 million certified emission reductions have been issued to some 400 projects. That's equivalent to 195 million tonnes of CO2.

Let's look at some of the CDM's further accomplishments:

- The CDM is stimulating developing country and private sector involvement in emission reductions, while it helps to identify cost-effective opportunities for emission reductions.

- The CDM 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 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 in capital investment. This is about triple the amount of official development assistance for energy policy and renewable

energy projects in the same countries.

- And, through a 2% levy on CDM projects, the CDM is feeding a fund for adaptation.

All of this said, I'm not blind to the challenges that the CDM has faced, although many of these are normal teething problems that new initiatives, especially large ones, face.

One of the key challenges is additionality – ensuring that emission reductions are additional to what would have taken place without the project. The rules, tools and guidance now in place under CDM mean that we have an acceptable level of certainty that reductions are additional.

In the end, however, a balance must be struck between, on the one hand, removing every speck of doubt about additionality, and as a result turning down a great many perfectly good projects, and on the other hand, taking a too lax approach to additionality. I think the CDM has managed to strike the right balance.

Many argue that the CDM is actually too strict. Some would like to see a paring down of the layers of oversight. Perhaps the present turmoil in the financial markets is the best argument against such a paring down. Still, bottlenecks in the regulatory process must be addressed, and are being addressed, to ensure a smooth and steady flow of registered projects and credit issuances.

Then there is question of the CDM and sustainable development. Apart from reducing GHG emissions, CDM projects are meant to assist countries in achieving their sustainable development goals. How this criteria is applied is left up to the host countries themselves.

Granted, it is sometimes not obvious how capturing emission from a waste dump can contribute to development. Let me use such a project in Bali as an example. There, the ability to earn CDM credits has led to construction of a waste sorting facility, installation of a generator fuelled by gas captured from organic waste; it has stopped the dump from encroaching into a surrounding mangrove swamp; and not least, it has provided steady, healthy employment.

Some projects are even harder to reconcile with the CDM's sustainable development criteria. But even the lucrative industrial gases projects have their role to play. In China, for example, a full 65% of credits produced by HFC-23 projects go into a sustainable development fund.

We mustn't lose sight of the fact that the CDM is relatively new. Whatever criticisms there are of the mechanism should be tempered by reflection on just how far the mechanism has come. It has created a global, environmental currency, and in the process has shown, in a practical way, how a project-based mechanism can work. This is just the beginning.

The CDM has tremendous potential. To achieve that potential it must be scaled up substantially in terms of both applicability and geography.

There are fears that the CDM could unfairly subsidise competitive advantages of developing countries. However, the CDM is an important way to engage developing countries in climate change action. At the same time, the current uneven geographical distribution of projects must clearly be addressed.

In Africa, for example, there are just 27 registered projects. And while those 27 projects alone are expected to stimulate $3.9 billion in capital investment, it is clear that Africa needs to benefit more from the CDM. This is currently being addressed through specifically targeted initiatives, which are starting to bear fruits.

Also, part of the negotiating process, Parties are in the process of identifying ways to improve the CDM. Parties agreed, for example, to consider improvements in scope, effectiveness, efficiency, accessibility, contribution to sustainable development and the transfer of technology.

To rise up to the challenge of climate change, we will need to build on, and improve, the tools we have at our disposal. Two of the most powerful tools we have are the carbon market and market based mechanisms like the CDM.

The agreed outcome in Copenhagen 2009 needs to ring in the global transformation to a green, low-emissions economy.

The two-year negotiating process under the Climate Change Convention presents the world with a window of opportunity to craft an economically viable solution to climate change.

Current indications show that Parties are committed to a strengthened outcome in Copenhagen 2009 that results in real emission reductions and has support mechanisms to reduce the cost of mitigation and to leverage funding for adaptation. Parties have already indicated that the market-based instruments under the Kyoto Protocol should continue beyond 2012. This is a clear indication of their effectiveness.

Furthermore, at the UN Climate Change Conference in Bali last year, all Parties to the Convention agreed to step up mitigation actions, including by considering the opportunities for using markets - another clear indication of the effectiveness of this approach.

At the same time, the carbon market won't adequately respond to all the challenges we face. Markets do what markets do: they cherry-pick the cheapest options and don't guarantee even geographical distribution**.**

We need a global economic transformation if we want to keep climate change manageable and economic losses due to impacts at a minimum**.**

To illustrate this point: according to the IEA, global energy demand will grow by 55% by 2030. In the period up to 2030, the energy supply infrastructure world-wide will require a total investment of 22 trillion dollars, with about half of that in developing countries.

If we do not manage to green these investments, to direct them into climate-friendly technologies, emissions will go up by 50%, instead of down by 50%, as science tells us they

should. If emissions go up by 50% there is a good chance that we will be put on the road of unmanageable climate change.

Economic development and poverty eradication in developing countries cannot happen without energy. The question is, where will the 11 trillion dollars worth of energy investment needed in developing countries come from?

A carbon market and market-based mechanisms, like the clean development mechanism, are essential for achieving the large shifts in investment required, such as for energy supply**,** on the scale that is required, to put the world on a clean path to development.

However, given the limits of the carbon market, it is clear that we need two sets of tools. The first relates primarily to the private sector, and here we are talking about cap-and-trade and market-based mechanisms. The second relates to what governments can do, especially through government-to-government cooperation. And here we're essentially talking about taxes, standards and subsidies.

In short, we need different horses for different courses. What we are looking for is a set of tools that create value for green growth; an intelligent mix of mechanisms that will spur both public and private money flows, through different channels, at both national and international level.

Thank you

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