



**Carbon Expo 2011 Roundtable:
"From carbon finance to climate finance" - Are we getting there?
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**Keynote address by Christiana Figueres, Executive Secretary
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Ms Teresa Ribera, Secretary of State for climate change, Ministry of Environment, Spain,
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Mr. Arturo Gonzalo, Director of Institutional Relations and Corporate Reputation, Repsol,
and our moderator, Fiona Harvey of The Guardian,

I am very pleased to address you here in beautiful Barcelona, home to most of the works by the Catalan architect Antoni Gaudi. I am sure you know of his famous mosaics, combining fragments of stained glass and ceramics of all kinds into beautiful, flowing images. But if you stand too close, you only see the component pieces held in place by cement and grout. In order to appreciate his masterpieces, you must stand at a distance and have full view of the whole.

In a sense, that is the challenge of making sense of where we are in the development of both carbon and climate finance. If you stand too close, the reality does not make any sense. So let me invite you stand back and take a full view.

Like the 3D aspect of many of Gaudi's structures, we are currently doing three things at the same time: we are further developing the carbon market, we are beginning to design the features of climate finance, and we are struggling to understand the relationship between carbon finance and climate finance. Let me first address carbon and climate finance individually, and then the relationship between the two.

Carbon Finance

The current lull in the carbon market is well known to all of us, and not enthusiastically embraced by any of us. Some may be tempted to consider the carbon market a thing of the past. I do not. While the future scope may be as yet unclear, I see many signs that the market is, in fact, in the process of reinvigorating itself:

- In the CDM itself, among other positive elements, we have a firm commitment to develop standardized baselines, which will lower transaction costs, simplify implementation and facilitate scale; and
- There is decided progress on Programmes of Activities (PoAs), which is opening the door to city-wide and cross-country mitigation programmes.

At the same time I see growing interest in emissions trading.

- The EU is interested in broadening the ETS to include additional sectors, and is discussing more ambitious mitigation targets.
- The New Zealand ETS is operational.
- In the US, state-level systems are progressing, most prominently in California, with possible good ripple effects across the country and in Canada.
- Japan's voluntary systems are proceeding.
- And developing countries such as China, India, South Korea, Mexico, Brazil and Chile are showing interest in domestic trading.

Some of you may see these developments as fragmentation, but I stand back, view the whole, and conclude that much action is being considered or proposed around the world, and this can only lead to an invigorated market; in particular if we develop compatible standards that will allow for unhindered trading, lower transaction costs and clear price signals.

So although the long-term direction may be clear, the short-term implications for the carbon market are admittedly not. Nonetheless, the international negotiations have repeatedly given statements of principle that the current market mechanisms should continue.

Some countries wish to focus on the current Kyoto mechanisms, perhaps with further strengthening and alignment to make them more effective. Other countries are calling for new market instruments that can address a larger scale of mitigation activities.

Core to both views is the desire to keep the mechanisms we have now. The question is how they might be refined, whether new mechanisms should be developed to complement them, and whether those new market mechanisms could be combined with other financial instruments as a new avenue for mobilizing finances at scale. That brings me to climate finance.

Climate finance

Much as Gaudi uses cement and grout to hold his elements together, climate finance may well be the cement and grout of the global response to climate change. Climate finance is what holds all the elements of action together - and it is what will enable a steady and increasing flow of action in developing countries, both on mitigation and on adaptation. But climate finance is in its infancy. In fact, it is no further along than the carbon markets were in 1997. And in contrast to 1997, today it is clear that we need to develop climate finance to scale and with speed, which is the aim of the Green Climate Fund.

In Cancun, agreement was reached that the fund would be designed by a Transitional Committee, composed of representatives from both industrialized and developing countries.

The committee recently had a first productive meeting in Mexico City, and is deep into a technical workshop this week in Bonn, with the support of the technical team seconded for this purpose, and with direct input from a large number of stakeholders. The Transitional Committee is working along four work streams, focusing on scope, governance, operational modalities and monitoring and evaluation. Several follow-up meetings and technical workshops will take place throughout the year, with the aim of presenting operational documents to COP17 in Durban.

To get public and private capital flowing on the scale required, the fund's design needs to ensure two things:

- That it can swiftly and transparently deploy funds so that both providers and recipients are encouraged and incentivized to greater action.
- And that the fund offers a clear and compelling route of engagement for public funds to partner with and leverage private capital.

As it is apparent that part of that private capital will come via the carbon markets, I come to my third point, the relationship between carbon and climate finance.

Relationship between carbon and climate finance

The question here is what is financed how? One simple view that can be taken is that some mitigation efforts could be financed by the carbon market, and others by climate finance.

That may be appropriate in some cases, but the reality is that we can achieve higher levels of mitigation through the blending of financial instruments. This blending is an expertise existent in the finance industry, but has yet to be applied to the carbon space, where I would expect it to be brought in with additional creativity and insight into risk management, in particular in the context of financing nationally appropriate mitigation actions (NAMAs) in developing countries.

Since we are only just beginning to explore the relationship between carbon and climate finance, it is not surprising that we cannot yet see the complete mosaic. Rather, we need to look at the individual pieces and work towards integrating them in the most effective manner.

We need to ensure that carbon finance retains and reaches its full potential. And most importantly, we need to ensure that carbon finance and climate finance work effectively together so that the intention of capitalizing on and using the Green Fund - hopefully before 2020, but certainly by 2020 - can be fully achieved.

Ladies and gentlemen, Gaudi would no doubt tell you that creating a mosaic from start to finish takes time. I'm sure you will agree with me that the same is true for the creation of the climate change regime, and certainly for the development of the financial architecture to underpin that regime. We will continue to develop this architecture one piece at a time.

I do not deny that this is, at best, cumbersome - but I urge you to keep the faith. I urge you to look at the respective pieces of stained glass or ceramics that directly concern you and provide input on where and how they could best be placed in the mosaic that is the climate regime.

The fact is that governments are designing, but they cannot fully implement. They need the private sector to suggest design considerations that will eventually create liquidity and entice private capital for the implementation of both mitigation and adaptation measures.

Your stakes in the regime are high - but the planet's stakes in your effective participation are also high.

I hear the attendance at this Carbon Expo is unexpectedly high. Just because you are here today, I know that you are visionaries, committed to helping us solve the climate problem, committed to finding financially viable solutions that will get us through the good and the bad days. These are certainly not the sunniest days for the carbon market, but solving climate is not for the weak of heart.

It is my hope that your involvement will continue to provide possible avenues for funding the response to climate change; in other words, I hope that you remain actively involved in mixing the cement and grout that hold all the pieces of the mosaic together.

Thank you.
