



# Energy, Environment and Climate Change Policy Forum

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Climate Change Capital<sup>®</sup> 

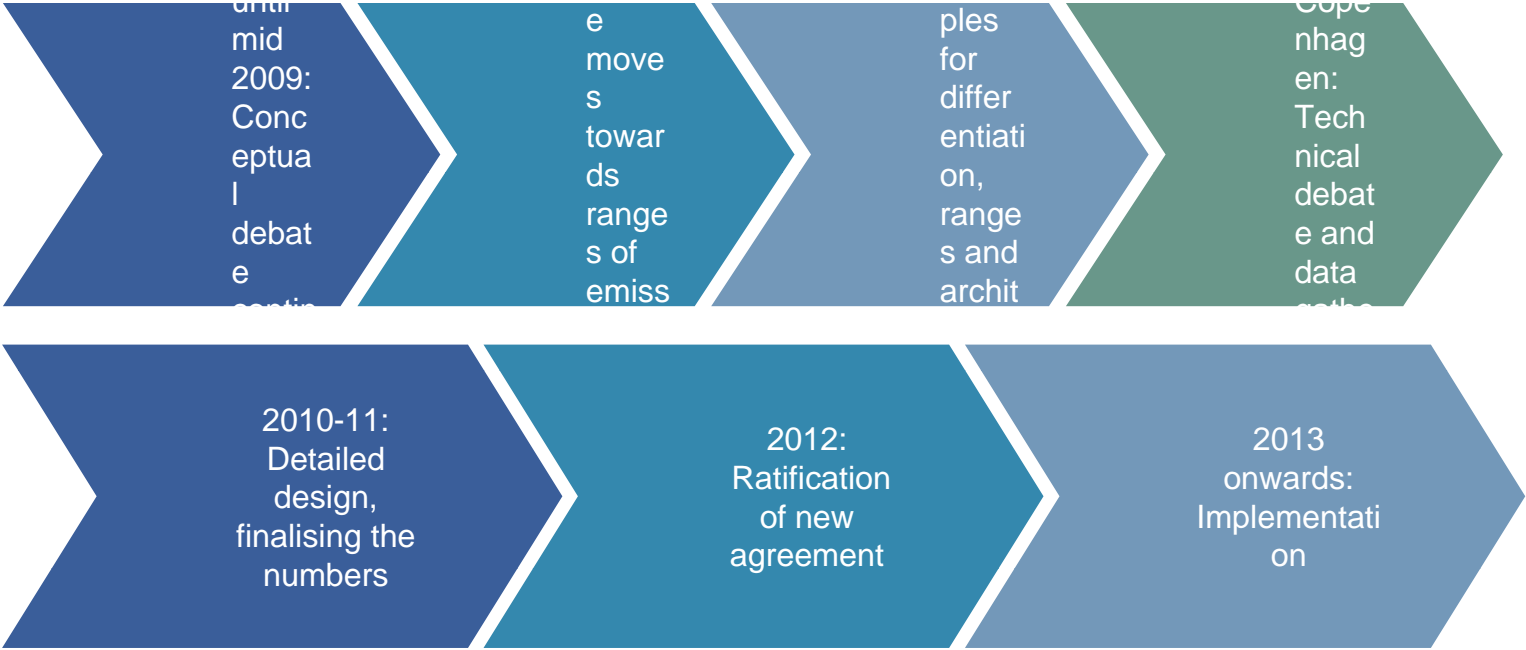
# The Pathway towards the International Deal

Although the process began in 2008, there is still a long road ahead to Copenhagen, where the goal is to have a post-Kyoto agreement in place – but it doesn't end there

This stream is the direct result of the 13<sup>th</sup> Conference of Parties (COP13) “Bali Road Map”

Parties under the Convention (UNFCCC) have defined the elements that need to be part of future action on Climate Change

Parties will elaborate on the elements of the “Bali Road Map” and will conclude their work in December 2009 at COP15



# What is expected to be in an International Deal

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## Principles

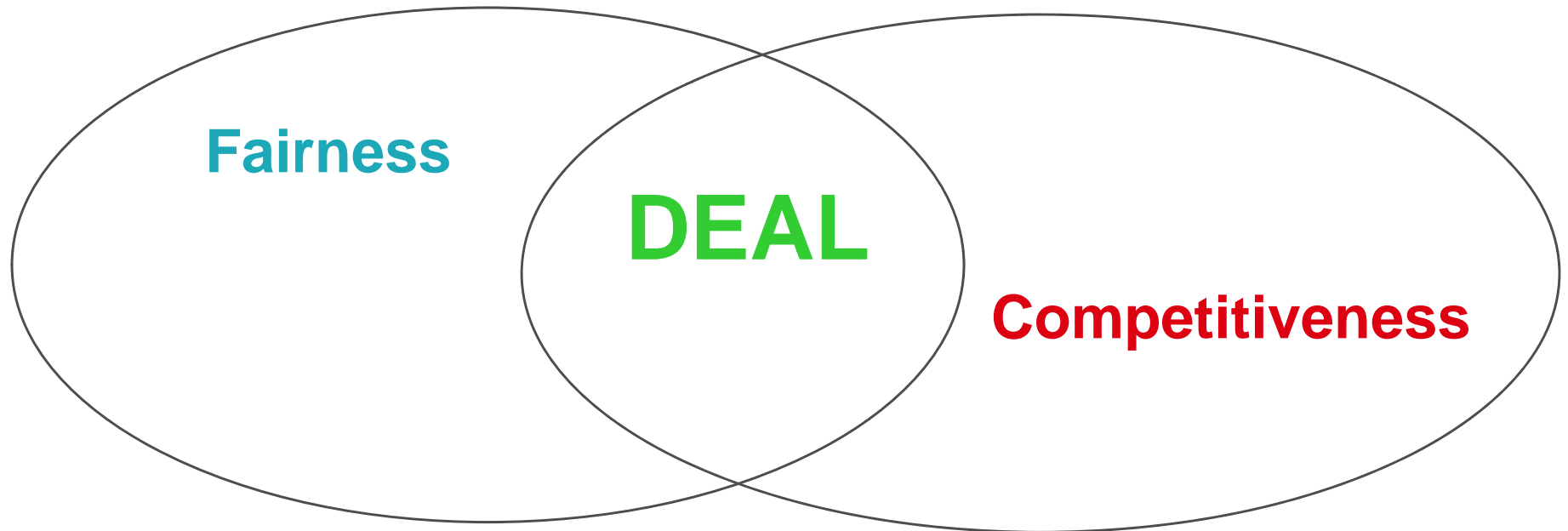
- Article 2 (UNFCCC)
    - ▶ avoiding dangerous climate change
    - ▶ allowing for sustainable development
  - *Common but differentiated responsibilities & capabilities*
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## Elements

- **Mitigation objectives**
  - ▶ Possible global pathway
  - ▶ Quantified emissions reductions for Annex 1 (new members?)
  - ▶ Quantifiable contributions for some developing countries
- **Financial Flows**
- **Instruments**
  - ▶ Carbon market
    - Private sector mechanisms (evolution of CDM)
    - Backbone (MRV, compliance and enforcement)
  - ▶ Sustainable Development Policies and Measures, i.e. pledge and review
  - ▶ Financial support for technology transfer
  - ▶ Other finance and investment tools?
- **Financial mechanism for Reduced Emissions from Deforestation**
- **Adaptation**

# Who pays and for how long?

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- Developing country concern: ensuring adherence to principle of “common but differentiated responsibilities and respective capabilities”, recognition of their existing efforts and securing greater access to investment and technology
- Developed country concern: levelling the playing field for sectors exposed to international competition
- Environmental imperative:
  - ▶ IPCC range already being referenced in the climate negotiations: *aggregate 25 to 40% reductions against 1990 levels by 2020 for developed countries*
  - ▶ IPCC also says “*Under most of the considered regime designs for low and medium stabilization levels, the emissions from developing countries need to deviate – as soon as possible – from what we believe today would be their baseline emissions, even if developed countries make substantial reductions. For the advanced developing countries, this occurs by 2020 (mostly Latin America, Middle East and East Asia).*”

# Commitments to reduce CO<sub>2</sub> emissions are the drivers for demand in carbon credits

## Commitments by 2020

- Serious commitments have been made by countries to reduce CO<sub>2</sub> emissions mainly by developed economies
- These commitments set out the market demand up to 2020 beyond the Kyoto Protocol

	Reduction targets by 2020
EU	-20% from 1990 levels
Japan	-15% from 2005 levels
US	-17% from 2005 levels
Australia	-15% from 2000 levels
Canada	-20% from 2006 levels
Switzerland	-20% to -30% from 1990 levels
Norway	-30% from 1990 levels
China	-20% energy consumption per national income between 2005 to 2010
Brazil	Reduce deforestation by 70% by 2017
South Korea	-21% to -30% from BAU levels
Russia	-10% to -15% from 1990 levels

## Long term commitments

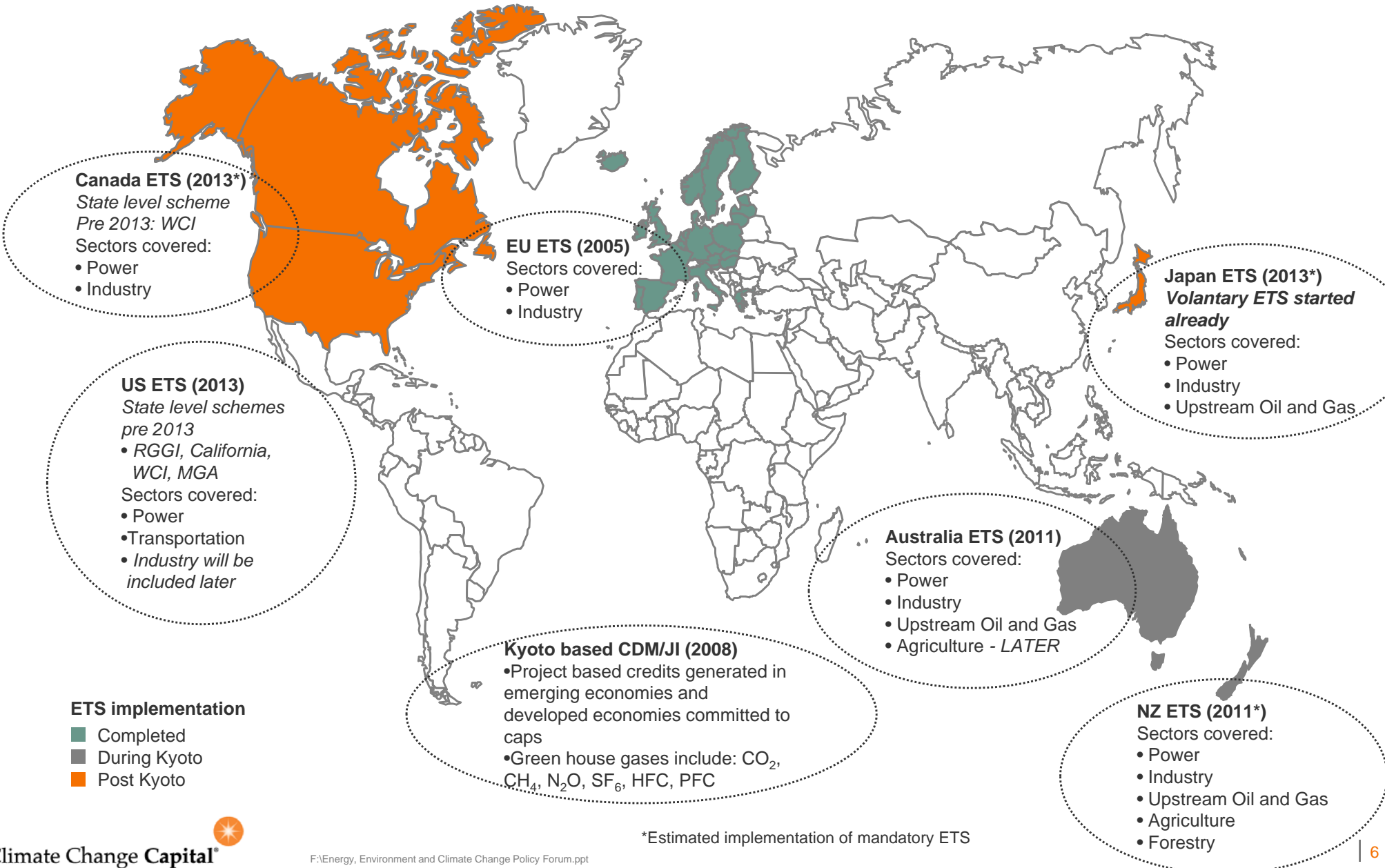
- Even longer term commitments have been made by some of the countries individually and jointly
- Developing economies are also making commitments in the longer term

	Longer term reduction targets
EU	-80% from current levels by 2050
Japan	-80% from current levels by 2050
US	-83% from 2005 levels by 2050
UK	-80% from 1990 levels by 2050
Mexico	-50% from 2000 levels by 2050
G8	-50% from 1990 levels by 2050
MEF*	Agreement on scientific view that global average temperature above pre-industrial levels not to exceed 2 degrees

\*MEF (The Major Economies Forum) include: Australia, Brazil, Canada, China, EU, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, South Africa, UK and US

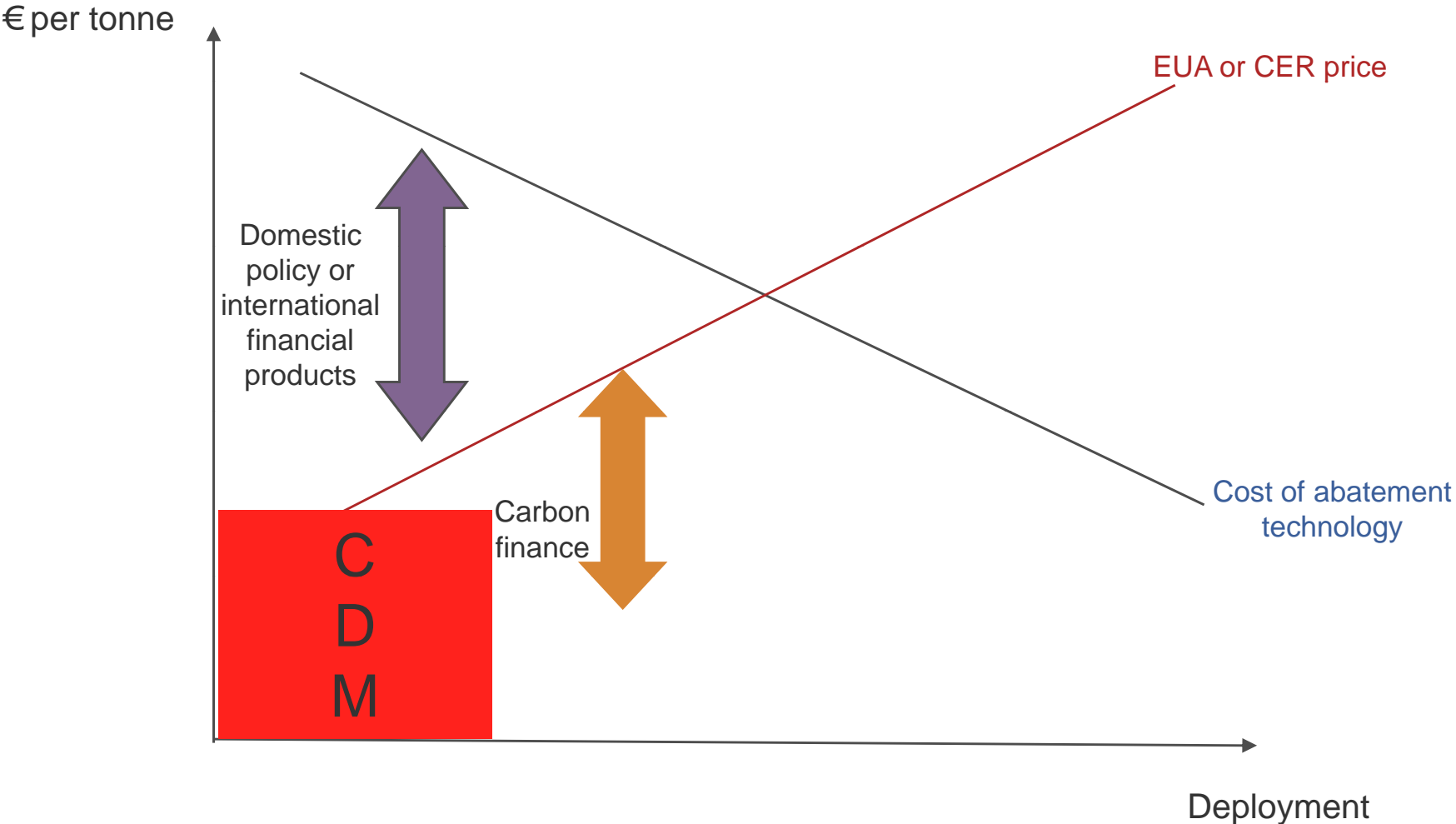
Sources: Project Catalyst, Lazarowicz, Global Carbon Trading, Point Carbon, UNFCC, MEF

# Development of carbon markets at multilateral, regional and national levels will facilitate emission reduction activities to meet the commitments

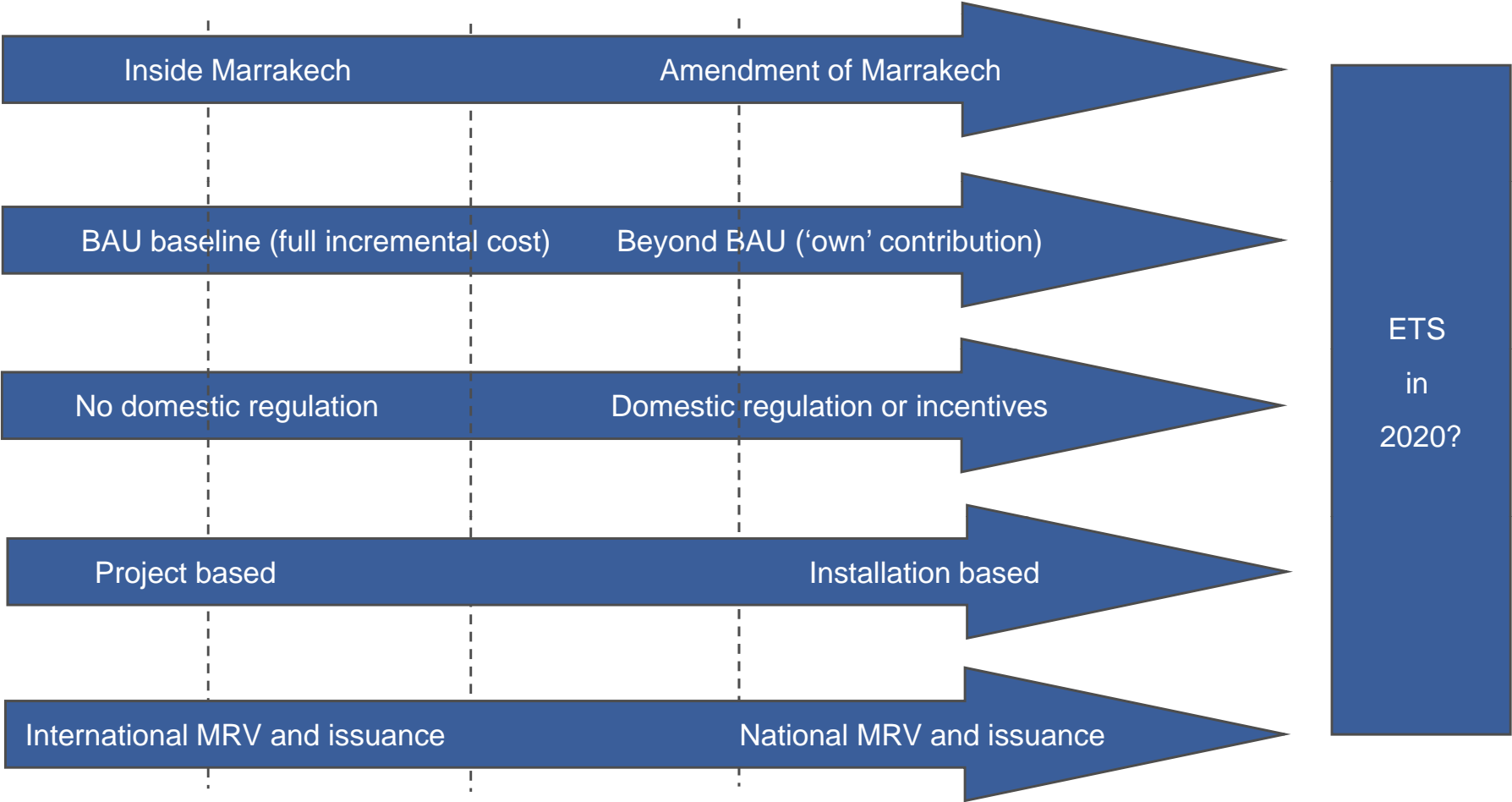


\*Estimated implementation of mandatory ETS

# Role of carbon finance in policy co-financing



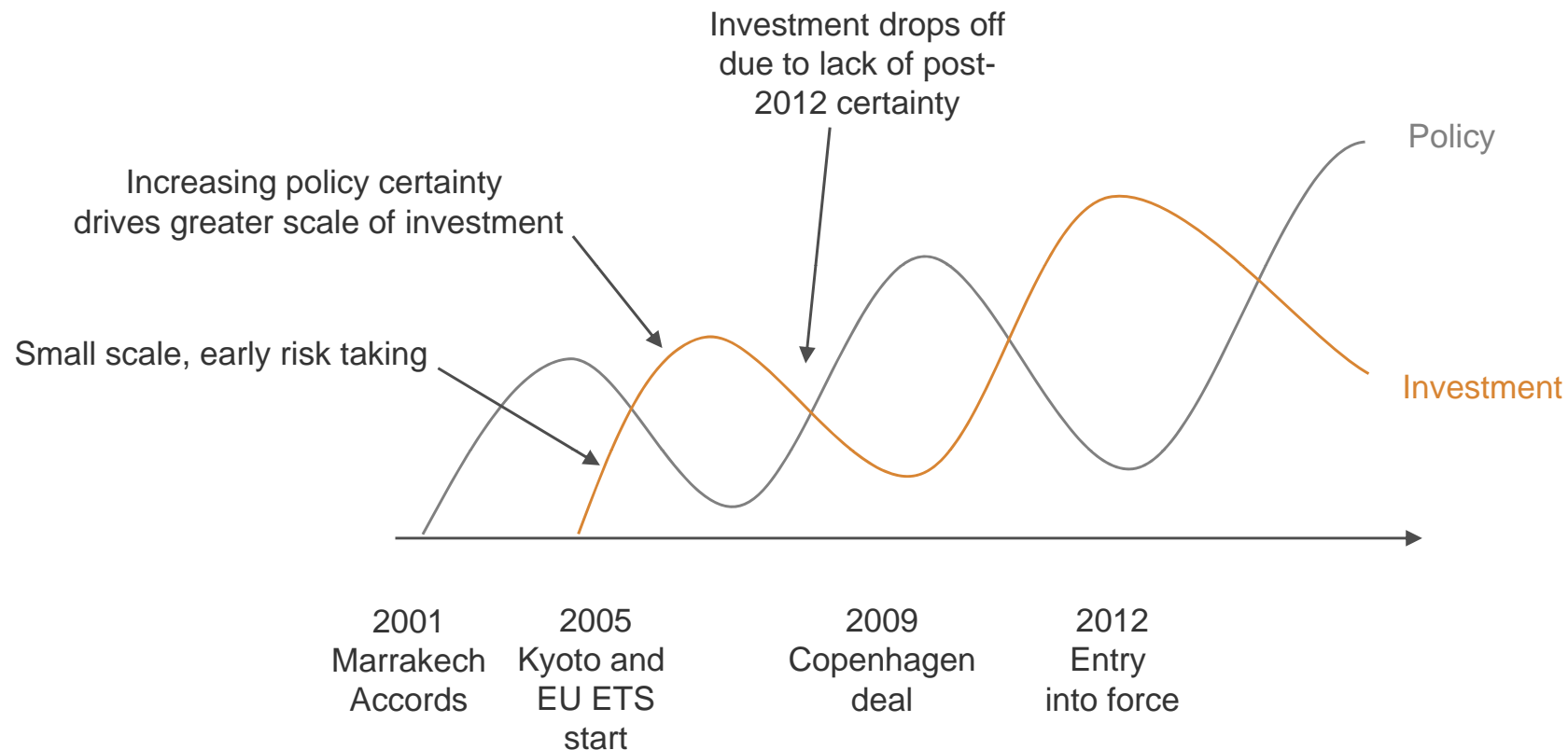
# Evolution of carbon finance away from project-based offsets



Project-based CDM with standardised sectoral baselines

Sectoral crediting combined with standards or incentives

# Moving away from 'boom and bust' policy making



- The IPCC warns us that delays of even a few years will put some atmospheric stabilisation pathways out of reach
- The delay between policy signalling and investment needs to be shorter and the cycle of policy-induced boom should come to an end; accelerated, smoother capital deployment while facilitate the achievement of scale
- Delay will also undermine energy security and reliability and infrastructure development

# Policy credibility

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- **Policy-driven markets** will become increasingly important given the need to accelerate the deployment of low- and zero-carbon technologies beyond the usual route to commercialisation
- **Governments must be credible** in order for the private sector to believe that good performance will be rewarded and poor performance penalised
- To reduce the **distance in time and value between political signalling** and investment, policy must be:
  - ▶ Credible – who is sending the signal?
  - ▶ Coherent – is the signal reinforced in multiple areas of policy?
  - ▶ Long term – is policy visibility consistent with investment cycles?
  - ▶ Simple – is regulation easy to understand and respond to?
  - ▶ Predictable – is the process of longer term review and change established according to explicit criteria?
  - ▶ Transparent – does the market have the necessary information to price assets correctly?
- Business is used to dealing with risk, but dislikes policy risk in particular

# Contact Climate Change Capital

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