



Mobilising private capital

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Climate Change Capital



Continuity

- The Kyoto Protocol has successfully mobilised private capital through the Clean Development Mechanism in particular
- If the Kyoto Protocol framework and its institutions did not exist, they would have to be reinvented in order to provide the backbone for the global carbon market
- Business needs longer term carbon value in order to deploy capital to the solutions, particularly in infrastructure:
 - ▶ 7 to 15 years' policy certainty is needed (depending on the sector)
 - ▶ Longer term visibility on the level of ambition is also important
- Discontinuity between the pre- and post-2012 eras would result in the retreat of capital for several years (while the science tells us that delays of even a few years may put some atmospheric stabilisation pathways out of reach)
- The EU has already created some post-2012 value with its unilateral target and commitment to continue the EU Emissions Trading Scheme
- In order for national ratification processes to complete in time for the second Commitment Period to begin without any gap, as per agreement at the first COP/MOP in Montreal (2005), the international community must agree to a post-2012 regime by the end of 2009
- Given the urgent need to reach agreement:
 - ▶ An end date for negotiations and the elements of the deal must be agreed as part of the Bali roadmap
 - ▶ Data gathering and financing mechanisms must be developed between now and 2009
 - ▶ Mandatory quantified commitments (absolute targets) and voluntary quantifiable contributions (other policies and measures) can be agreed in 2009

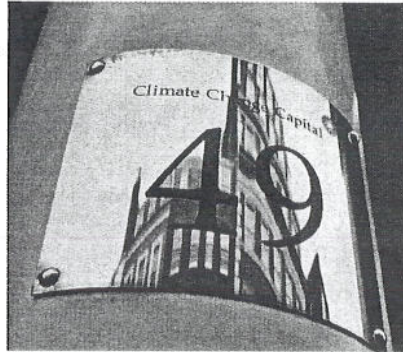
Credibility

- The IPCC Fourth Assessment Report and the Stern Report provide us with the necessary scientific and economic bases for decision making; only the necessary political will is absent
- 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
 - ▶ Supply chain mobilisation requires forward visibility on market, not just 'demonstration'
 - ▶ Policy continuum is essential: incentives for both technology push and technology pull, notably mandatory market mechanisms
- Governments must be credible in order for the private sector to believe that good performance will be rewarded and poor performance penalised and to change their operational and investment behaviour accordingly
 - ▶ So far, most Annex I countries have failed to do this to the extent required
 - ▶ However, examples of good practice in policy are abundant and can be replicated
- 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
 - ▶ Depoliticisation is desirable to the extent that social/ political consensus can be reached e.g. UK Climate Change Bill
 - ▶ Investor confidence will grow over time but policy makers need to accelerate that process

Scale and differentiation

- Global capital cycles are coming into synch, creating a moment of great risk and opportunity for creating economies of scale and avoiding technology lock-in:
 - ▶ The EU and the US are about to invest in a new generation of power stations
 - ▶ Emerging economies are investing in power and other energy intensive infrastructure to meet their development needs
- Capital is abundant and the private sector can react quickly if the right regulatory signals are in place
 - ▶ Carbon funds under management doubled in one year: from \$4.6 billion in 40 funds in May 2006 to \$11.8 billion in 58 funds in March 2007
 - ▶ Public liability must therefore be transferred to the private sector through mandatory policies and measures (such as emissions trading) to the greatest extent possible
- However the scale of investment is still inadequate
 - ▶ Primary CDM transactions also doubled: from \$2.4 billion in 2005 to \$4.8 billion in 2006
 - ▶ But the Stern Review estimates that the carbon market should deliver \$24 billion to non OECD countries per year in 2015 and \$173 billion per year in 2025
- And this will not cover the full costs: i.e. the carbon market is essential but not sufficient
- The CDM is already evolving beyond the project by project approach with new rules on programmatic CDM that allow the carbon market to support policies where enforcement is inadequate
 - ▶ This approach should be enhanced to reward developing countries that adopt climate friendly policies with greater upfront support and autonomy in managing carbon assets
 - ▶ Under a sectoral crediting approach, countries would opt for a policy reference line where policies deliver significant co-benefits (e.g. energy security, local air quality) and the carbon market would provide additional support to go further
- Developing countries are a varied group with different capabilities and should be enabled to move at different speeds, not be limited to a one-size-fits approach to carbon finance

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