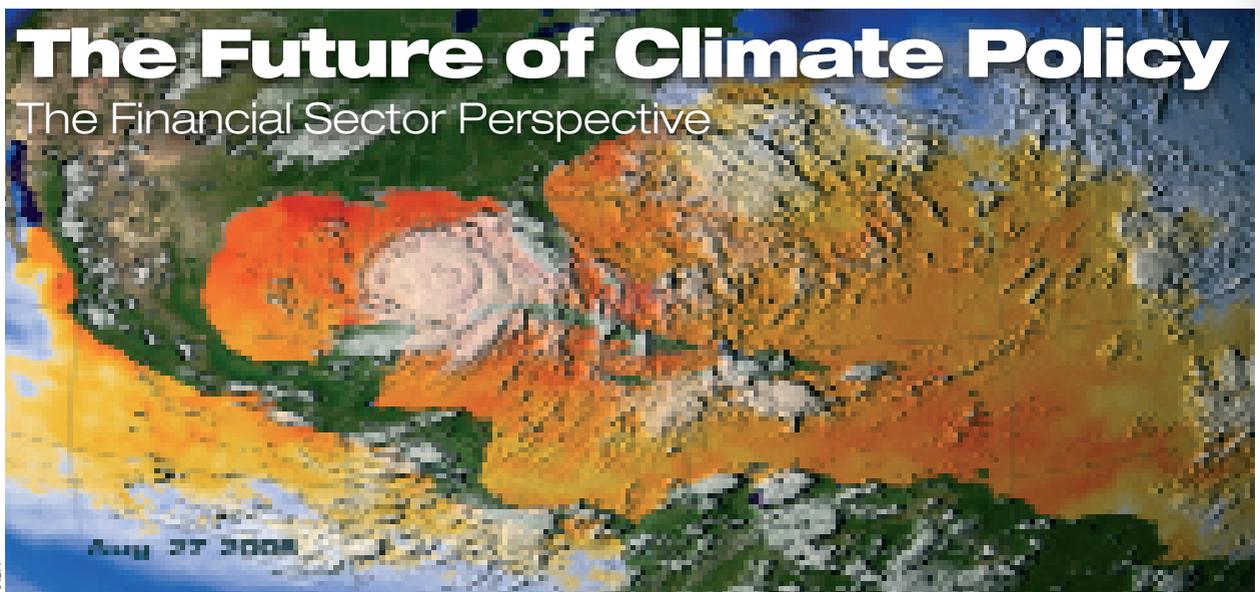




UNEP **Finance Initiative**
Innovative financing for sustainability

CEO briefing

A document of the UNEP FI Climate Change Working Group (CCWG) • December 2005



NASA

The Future of Climate Policy

The Financial Sector Perspective

Recommendations

The CCWG recommendations to policy-makers on how international climate policy should develop up to 2012 and beyond are:

- Adopt a clear, precautionary, long-term reduction target and pathway for greenhouse gas emissions.
- Provide early, clear guidance on the continuation of the international climate policy regime beyond 2012.
- Foster an appropriate framework to ensure a liquid and efficient global carbon market.
- Set clear targets for renewable energy and energy efficiency, coupled with an effective, stable support mechanism.

CCWG Statement

In 1995, insurers attended the first climate negotiations, the Conference of the Parties (COP1) in Berlin, to raise their concerns directly with the international community over the potentially costly impacts of climate change, and natural catastrophes in particular. A decade later, there is little doubt that human-induced climate change is real, and that the negative consequences are starting to emerge.

The ratification of the Kyoto Protocol in February 2005 has established the framework for a global carbon market, which together with the EU Emissions Trading Scheme, will provide an important price signal to achieve greenhouse gas emission reductions at minimum cost. However, in order to incite the urgently needed mid- to long-term investments in a low-carbon economy, it is vital that policy makers provide certainty about the post-Kyoto framework and international climate policies beyond 2012. Only with a clear outlook on the future design of climate policies can the finance sector help mitigate related risks and realise new business opportunities. As representatives of the finance sector, the CCWG has an important perspective on the public debate regarding a viable climate policy framework post-2012.

The CCWG is aware of the fact that the overall climate change policy response must also consider climate change adaptation policies – the impacts of climate change give urgency in responding to this challenge. The focus of this paper, however, is on mitigation policies.



Climate change science: An update

“Whether because of the risks associated with climate change or related issues of security of energy supply, we need to send a clear signal that whilst we continue to analyse science (...) we are united in moving in the direction of greenhouse gas reduction. I support the Kyoto Protocol.”

Tony Blair
UK Prime Minister
January 2005

Clarity on climate change science has never been stronger. The vast majority of climate change research strongly confirms a direct relation between human activity, the rising levels of greenhouse gases (GHG) in the atmosphere and climate change. Human-induced climate change is real and is becoming a serious and growing threat, not only to our environment and human health, but also to our economic systems.

In 2001, the Third Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) concluded that there is strong evidence that human-induced GHG emissions are influencing the global climate. The IPCC predicted that GHG emissions are likely to raise global temperatures by 1.4 – 5.8 °C during the 21st century, resulting in a

wide range of negative impacts on the natural world and human society.

Since 2001, the evidence supporting human-induced climate change has increased further. In many cases, climate change-related risks are even more serious than previously thought. For example, the climate scenarios produced by the German Max Planck Institute for Meteorology from August 2005 see an increasing risk of the melting of the Greenland ice sheet with enormous consequences for sea levels and biodiversity. The UK Hadley Centre concludes in its report from February 2005 that large scale, irreversible climate system disruption (such as the reversal of the land carbon sinks) is likely with a temperature rise above 3°C.

The cost of climate change

Climate change has become an important factor for the finance sector in its insurance, banking and investment activities (see Box 1, page 4). The frequency and cost of global natural disasters are increasing dramatically — the hurricane season of 2005 may cost insurers approximately US\$60 billion, more than double any previous year. According to Munich Re, the economic cost of natural catastrophes has risen seven-fold and insured losses 16-fold since the 1960s. The Association of British Insurers (ABI) reports that the

costs just from windstorm-related damage will rise to an average of US\$27 billion per year by 2080.

According to growing scientific evidence, human-induced climate change is most likely an important factor driving the long-term increase in natural catastrophes, their intensity, and therefore their costs. In light of the global nature of this problem and its linkages to other important policy fields (e.g. energy policy), climate change policies are, and must remain, an important issue on the international policy agenda.

Purpose

This study is the fifth in a series of briefings to policy-makers and financial institutions by the Climate Change Working Group of the UNEP Finance Initiative.

This paper addresses the potential benefits and pitfalls of the international climate regime beyond 2012 from a financial sector perspective, and provides recommendations on how international climate policy should develop up to 2012 and beyond.

International climate change policies: Development of a global carbon market

Thirteen years after the adoption of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, the Kyoto Protocol entered into force in February 2005. The Kyoto Protocol represents the collective will of 156 countries (as of September 2005) to mitigate climate change. Almost half the world's economy (48% of global GDP) is committed to the Protocol through which 37 industrialised countries (so called Annex B parties) are legally bound to reduce GHG emissions by an average of 5.2% from their 1990 levels by 2012. The Kyoto Protocol's flexible mechanisms, which include International Emissions Trading (IET), Joint Implementation (JI) and the Clean Development Mechanism (CDM), provide incentives for the promotion of emission reduction activities, including investments in renewable energy and energy efficiency technologies, in both industrialised and developing countries. As part of its compliance with its Kyoto obligations, the European Union (EU) started an EU-wide cap-and-trade emissions trading system (EU ETS) in January 2005, with explicit linkage to the market for CDM and JI credits.

The creation of an international carbon market clearly provides opportunities for companies to add value and profit from the development and commercialisation of low-carbon products and services. Emissions trading is now an option for more than 6,000 European companies that have obligations under the EU ETS. Further national or regional trading systems are developing e.g. in Australia, Japan, Canada and some states within the US. Furthermore, the carbon fund market (investments in emission-reduction credits and projects) is rapidly expanding. More than US\$2 billion is currently invested in approximately 20 carbon funds worldwide. New and innovative financial products have emerged, e.g. Dresdner Kleinwort Wasserstein's participation certificate on EU allowances for private investors. ABN AMRO expects

the overall trading volume in the EU ETS to reach at least US\$54.6 billion between 2005 and 2012.

Key challenges

Despite the political success stemming from the ratification of the Kyoto Protocol, and the corresponding development of an international carbon market and other policies and measures, real challenges remain. The most immediate is to ensure continuity in the regime beyond 2012. Currently, the political timeframes built into the regime are not well aligned with investments, which need clarity over a 10 to 20 year period. As a result, the incentive for financial players to invest in long-term clean energy projects is rather limited. A typical project has a working life of 10 to 20 years, sometimes longer, and only generates profit after the set-up costs have been repaid, usually after several years. Today's attention must focus on creating certainty for climate policies beyond 2012, and sending a strong 'carbon' signal to near-term commercial investments, particularly in energy and energy infrastructure.

In order to be politically stable, these policies must follow the principle of reducing GHG emissions at lowest possible cost. GHG reductions through low carbon technologies must be accelerated and intensified beyond current efforts. The International Energy Agency (IEA) forecasts a growth in energy demand by 2030 that will require investment in energy infrastructure of US\$20.3 trillion by 2030 and result in emissions approximately 52% higher than in 2005 (business-as-usual scenario). Even if policies change and governments commit to significant GHG reductions, global emissions would still rise 37% by 2030. According to the IEA, time for long lasting negotiations is running out – the rate of emission reductions would need to be significantly higher, and likely more costly, if mitigation were postponed by 20 years.



“Katrina is the first sip, the first taste, of a bitter cup that will be proffered to us over and over again. It is up to us [to tackle climate change], and it does involve accepting that there is a legitimate role for government.”

Al Gore

Former US
Vice-President
October 2005

Criteria for assessing future climate policy frameworks

In order to develop recommendations for future international climate policy, a general view must be taken on the criteria for designing an effective post-2012 policy regime.

Environmental criteria

The underlying question for the future climate policy regime is what emission reductions are required to achieve the UNFCCC's objective of stabilisation of GHG concentrations at a level that would prevent dangerous interference with the climate system. Understanding the

required absolute global reduction target and timeframe needs to be the starting point for political negotiations, in order to foster clarity on the scale of changes that will be required from the marketplace. A global cap for GHG emissions needs to be understood, in order to design a policy regime with effective market-based policy instruments, and an incentive to develop new energy technologies. There will always be a certain level of uncertainty, however, around determining these absolute amounts, and therefore, a target should be set sooner rather than later based on current knowledge, and allow for flexibility in reviewing the longer-term targets at a later date. Delay will send the ultimate cost of reductions required even higher.

Economic criteria

The fundamental aim of a post-2012 agreement must be to achieve maximum emission reductions at least cost. Otherwise, an agreement will not find the necessary support in the private sector or from policy makers. A future climate policy regime requires full participation of the world's major-emitting countries. The IPCC 2001 report noted that significant cuts in emissions were already possible at zero or marginal cost relative to conventional technologies, i.e. ignoring environmental benefits. However, increasing oil prices and the rapid rise in natural disasters have improved the economics further, even without counting the benefits of clean air and improved security of supply, as well as hidden carbon-fuel subsidies. There are major opportunities in developing countries – with the CDM process as the tip of the iceberg – to benefit from emission reductions and to reduce the energy intensity of their economies. A clearer set of goals would foster greater confidence in market development and encourage greater engagement from the business and finance sectors in those countries.

Box 1

Financial institutions and climate change

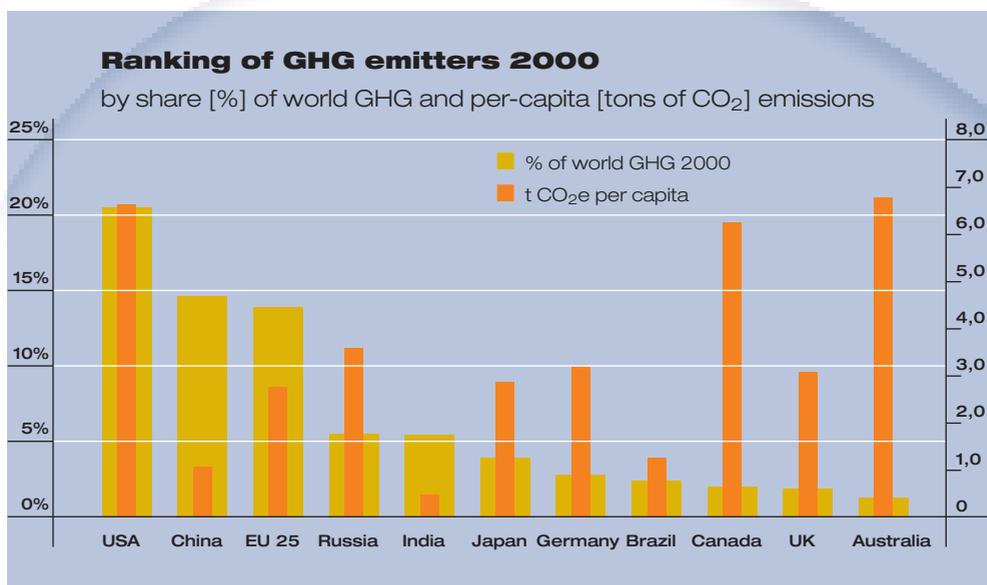
The financial services industry has a two-fold responsibility with respect to climate change. On the one hand, it needs to be prepared for the negative effects that climate change has on its business and its customers. On the other hand, it can significantly help the low-carbon economy to develop by providing related products and services.

For the insurance sector, the growing intensity of extreme weather events and the related claims make climate change more of a threat than a business opportunity, which needs to be incorporated in risk management processes. However, innovative climate change-related product options (e.g. renewable energy insurance, carbon delivery guarantees) do exist.

In their role as financiers, banks face new credit risks because emission reduction policies create costs for clients. The global carbon market also offers opportunities for banks, e.g. services for emissions trading and financing for renewable energy technologies.

For asset managers, understanding the extent to which climate change will impact or enhance the value of investments is crucial, if investor value is to be protected. Since 2000, some of the largest global investors and asset managers have collaborated to request more transparency on climate exposure through the Carbon Disclosure Project, representing assets of US\$21 trillion (2005). A network of national initiatives is also rapidly appearing, e.g. UK-based Institutional Investors Group on Climate Change, the US-based Investor Network on Climate Risk, and the Investor Group on Climate Change Australia/New Zealand.

Diagram 1:
Global ranking
of GHG emitters
(2000)



Data source:
PEW Center 2004

Political criteria

In view of the *global* nature of the climate change challenge, there is clearly the need for a *global* policy response and the internationalisation of mitigation costs. Fairness and equity between industrialised, industrialising and developing countries will play an important role in fostering a stable post-2012 regime. Stability and clarity are important to businesses and investors, and this will be enhanced by creating a strong political consensus in the future. Attention will need to be paid to the relative lack of wealth, limited state of development, and low historic contribution to global GHG concentrations of developing countries compared to developed ones (see Diagram 1). Industrialising countries exhibit strong growth in energy demand. China may soon overtake the US to become the world's single largest emitter by 2020, despite its low per-capita emissions (see Diagram 2). Hence, there is also a need to tackle these trends in the developing

world in order to achieve significant global GHG reductions. Financial services have a major role to play in mobilising action by assessing and pricing the implications of climate change, which can encourage early action on the issue to avoid considerably higher costs in future.

Social criteria

In September 2000, the UN adopted the UN Millennium Development Goals (see Box 2, page 6). By the year 2015, all 191 United Nations member states have pledged to meet these goals. CCWG member companies, as partners to the United Nations, strongly support these goals. Climate policy clearly has an important social and development component, which must be considered when further designing global climate policies. One of the most difficult challenges will be to align future climate policy frameworks with the relevant Millennium Development Goals and create coherent market signals.

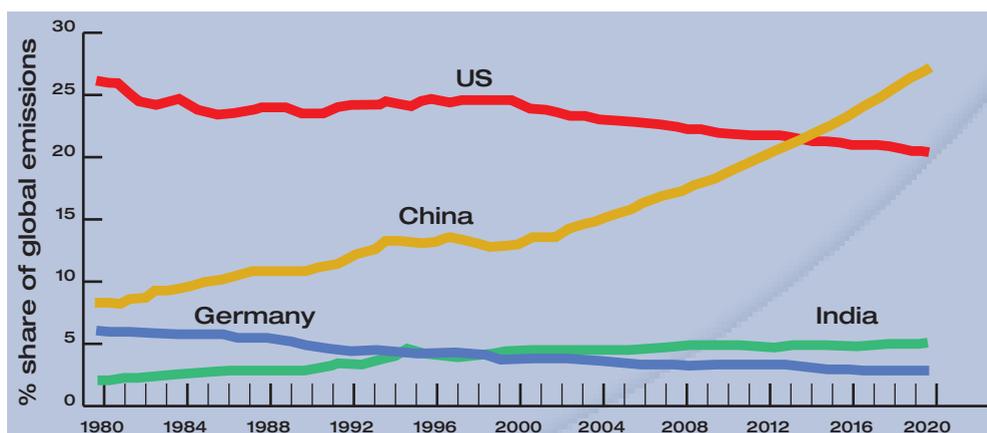


Diagram 2:
Percentage
share of CO₂
emissions from
selected
countries
(1980-2014)

Source: Based on economic growth projections from US Energy Information Agency International Energy Outlook 2005



CHRISTOPHER UGLOW / UNEP / STILL PICTURES

The following three challenges for future international climate policy development can directly be derived from the above criteria:

- 1.** Establishing a regime that safeguards environmental integrity;
- 2.** Ascertaining the scale and direction

of investment flows required and how the Kyoto regime, alongside government policies and finance, can foster this;

- 3.** Achieving political consensus, considering the varying interests and positions among the key climate policy players, especially
 - a.** the inclusion of major emitting countries in a post-2012 agreement, and
 - b.** the alignment of future policy frameworks with those UN Millennium Development Goals that are linked to climate change.

Box 2

UN Millennium Development Goals

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

Source: <http://www.un.org/millenniumgoals/goals.html>

In order to ensure a mid-to long-term investment horizon, and a liquid, international carbon market beyond 2012, policy makers must provide assurance as soon as possible that there will be continuity in the existing international climate policy regime.

Climate policy steps to and beyond 2012: The view of the financial sector

Looking at future policy, financial institutions around the world are in need of a clear and long-term policy framework. This framework must be built upon environmental integrity and a clear, consistent and stable investment environment that signals the scale of change expected in the marketplace, including a global carbon market and harmonised standards, and explicit national low carbon energy and infrastructure policies. A staged approach (see page 10) for broader participation in the international climate policy regime beyond 2012 would be a positive step in this direction.

Environmental integrity

To ensure the adequacy of future global climate policy commitments, it is essential to adopt a long-term climate objective. This is also crucial for the planning of domestic climate policies and private and institutional investors' activities. In order to avoid interference with the climate, the CCWG supports the objective of preventing average global surface temperature from rising by more than 2°C above its pre-industrial level, which has widespread scientific support. The EU has adopted this target, and it was the first recommendation of the International Task Force on Climate Change (ITFCC) directed at the G8, held in July 2005. This will serve to guide policy makers until an alternative basis achieves consensus. In order to achieve this, the CCWG recommends that governments build on the global targets established by the 1997 Kyoto Protocol, alongside other measures, to foster the growth of a vibrant, liquid carbon market and associated markets such as renewable energy and energy efficiency. Various EU member states, for example, have already established national GHG reduction objectives that support this path, e.g. Germany is proposing a 40% cut by 2020, the UK a 60% cut by 2050, and France a 75% cut by 2050. The State of California has set itself the target of reducing emissions 80% below 1990 levels by 2050.

Cost efficiency: A portfolio of actions to foster global carbon reductions

The Kyoto Mechanisms

The fundamental objective of a post-2012 agreement is to achieve the necessary emission reductions at least cost. The market-based flexible mechanisms of the Kyoto Protocol are among the most promising instruments



to live up to this challenge as part of a clear, consistent and stable investment environment that effectively signals the scale of change expected in the marketplace.

Today, the global carbon market is still at a nascent stage, but its administrative teething troubles (e.g. pending regulations for JI, non-existent International Transaction Log) are likely to be overcome in time. It is crucial to foster a medium- to long-term policy framework for market-based climate policy instruments. If the global carbon market fails in the near term (e.g. due to politically-driven changes to the system, market illiquidity or inefficiency through overly generous allocation of emission allowances), emissions trading as a climate policy instrument will lose its credibility with the private sector and it may be difficult to re-engage parts of the sector in climate mitigation efforts later on. While robust emissions trading systems provide an important basis for private sector innovation and carbon emission reductions at lowest possible cost, additional policies will also need to be adopted to foster investment in new technologies, which are not yet cost-effective, or which are at a pre-commercial stage.

Ideally, a functioning and cost-efficient global market would benefit from participation of the world's major emitting countries, especially the US and China, which together currently account for more than 35% of global GHG emissions. Widening the scope of emissions trading systems, e.g. linking the EU ETS with state-level US, Canadian, Australian or Japanese cap-and-trade systems, and widening the scope of included sectors, such as incorporating the aviation sector in the EU ETS and planning for the inclusion of marine transport, could provide an important impetus for further market development to reduce price volatilities and increase liquidity. Regional trading systems should be harmonised in order to fully benefit from a globalised emissions market. A truly global carbon market has the potential to create a win-win situation for both the economy and the environment.

The finance sector recognises that CDM and JI can be important vehicles for implementing low carbon technology in developing countries. According to the International Emissions Trading Association (IETA), Kyoto compliance in the first commitment period 2008-2012 could require generating credits of around 275-880 million tonnes CO₂ per annum outside Annex B countries. If realised in this magnitude, this could leverage private investment of around US\$100 billion into developing countries based on the assumption of an average Certified Emission Reduction (CER) price of US\$10. IETA estimates that 1,000-1,500 projects will be needed annually to reduce global GHG emissions by 300 million tonnes per year. The current number of registered CDM projects is 32 (as at November 2005), demonstrating that the CDM has yet to take off (see CCWG CEO Briefing on the CDM, December 2004). The financial sector's engagement in the project-based mechanisms needs certainty over the respective regulations in the short- and long-term. In addition, with no second commitment period agreed, the investment time frame for CDM projects is closing rapidly and the market for CERs generated beyond 2012 has yet to emerge. As a result, CDM projects are increasingly moving out of the profit zone.

Clean energy and energy efficiency

Mitigating climate change depends on the further development of zero- and low-carbon options, such as renewable energy technologies, energy efficiency standards, and carbon sequestration, that may not yet be fully cost-competitive with dominant energy sources. The Asia-Pacific Partnership for Clean Development and Climate launched in 2005 by the US together with China, India, Australia, Japan and South Korea, may provide a useful step in fostering such investments. However, the Asia-Pacific Partnership takes no measures on mandatory GHG emission limits. The CCWG supports governments establishing national renewable

energy commitments, and believes that there should be strong targets for industrialised countries. Coupled with a target, a supportive policy framework should be in place to encourage commercial renewable energy investments. Such investments are already attractive options for the finance sector, and will become even more important in the future (see CCWG CEO Briefing on Renewable Energy, 2004).

Subsidies for renewable energy investments should only be provided for a clearly defined period. The development of incentive instruments such as low interest credits is a promising trend. Governments need to understand better the investment environment that can significantly scale up commercial investments in clean energy technologies, carbon capture and storage technologies and energy efficiency technologies. Contradictory policy signals such as subsidies to fossil fuels should be phased out, and higher standards for end-user applications (e.g. higher standards for fuel efficiency in cars) could be progressively introduced, and harmonised internationally. Such an approach fits with the Gleneagles Plan of Action: Climate Change, Clean Energy and Sustainable Development agreed upon at the G8 meeting in July 2005. This action plan includes improvements to energy efficiency in appliances and buildings, cleaner vehicles, aviation, work on developing cleaner fuels, renewable energy and promoting research and development.

Public/private finance initiatives

The private sector has the mandate to safeguard its capital, which means limiting its risks to a foreseeable and manageable scale. Many climate-friendly initiatives involve risks that are beyond normal commercial parameters in terms of timescale or familiarity. The public sector may have a vital role to play in the provision of a safety net, or to assume the non-commercial aspects of risk, so that the private sector can provide finance for mitigation. This is particularly true regarding the early stage develop-

ment of new energy technologies.

Insurance is a special case, both for adaptation to climate impacts, and for clean energy technologies. Conventional insurance products do not reach the masses in developing countries. The United Nations and the World Bank are promoting research into innovative risk transfer e.g. micro-insurance, catastrophe bonds and weather derivatives, but this would also benefit from more direct national government support.



KEVIN LANE/UNEP / STILL PICTURES

True-costing

In many cases, a narrow definition of “cost” is used in considering the economics of mitigation. Increasing oil prices and the significant rise in natural disasters have improved the economics of low-carbon technologies, even if collateral benefits like clean air, employment opportunities and improved security of supply, as well as carbon-fuel subsidies are not accounted for. Independent assessments, for example on the interdependency between carbon and energy prices, should be financed by governments to better inform policy makers on such important issues. Without such a broad approach, it is likely that sub-optimal policies will persist, as some costs have not been internalised.

A staged approach for participation in the international climate policy regime beyond 2012

Given that the 25 biggest emitters in the world are responsible for approximately 80% of global GHG emissions, a multi-lateral agreement including as many of these countries as possible is the desir-

able outcome of post-2012 negotiations. From the finance sector perspective, it is vital that any differences between the first Kyoto period, and a second commitment period beyond 2012, particularly in terms of participating countries, allocation of emission rights, and the nature of emission targets, should be agreed upon soon to permit a smooth transition.

The CCWG believes a staged approach for participation in the international climate policy regime beyond 2012, is worthy of further consideration. This approach is supported by the EU Commission, as well as other bodies including the International Task Force on Climate Change. Such an approach includes a range of different forms of commitments that different countries would adopt depending upon their relative state of economic development. Within such a framework, the evolution of a global carbon market could be fostered, and a range of investment opportunities opened up for both national and multinational businesses and entrepreneurs (see Box 4).

Such a staged approach allows for differentiation between industrialised and developing countries and flexibility over types of commitments.

Critical features to review are the duration of each commitment period, when progress will be assessed, penalties levied, and negotiations begin and end for each subsequent phase. From the financial sector perspective, ten years is an appropriate timeframe. However, the definition date of the duration of the commitment period must be five years before its actual start, and a mid-term review must be conducted. That would give a horizon of 10 to 15 years, which is a 'material' period acceptable for most financial decisions.

Box 5 provides a possible timeframe for policy decisions that will promote financial risk-taking and provide greater certainty over the long-term.

Box 4

Possible staged approach for participation in the international climate policy regime beyond 2012

Stage 1: Countries would have no reduction commitments

Stage 2: Countries would commit to taking steps to limit emissions; no emissions targets as such, but countries would reduce emissions by a percentage below business-as-usual within ten years

Stage 3: Countries would accept a moderate absolute target, that should be further below reference level than in stage two, though it could still involve an absolute increase in emissions; the target could be positively binding (with incentives for success but no sanctions for failure)

Stage 4: Countries would have to make a substantial absolute reduction in emissions until a low per capita level is achieved.

Source: Ecofys 2005

Box 5

A possible timeframe for policy decisions that promote financial risk-taking

2006

- CDM amended
- Long-term basis for emission targets adopted e.g. to limit temperature to less than 2°C above pre-industrial levels

2007

- Continued value of Kyoto CERs; guaranteed beyond 2012
- Pilot adaptation schemes with public/private partnerships

2008

- Rules for linkage between non-Kyoto emissions trading schemes defined
- Outline post-Kyoto framework agreed for 2013-2024

2009

- Detailed framework for 2013-24 decided

2013

- Review of Kyoto achievements

Summary and recommendations

The evidence is overwhelming – human-induced climate change is real, and the environmental, economic and social costs due to inaction against this threat are already high and are likely to be much higher in future. Climate change costs will vary widely from region to region and from sector to sector leaving the developing world with the largest negative consequences.

The Kyoto Protocol is the start of an inevitable transition to a low-carbon economy. There is an urgent need now to extend this framework beyond 2012, as a key part of a global policy regime, in order to foster investments in low and non-carbon technologies. A stable, long-term regulatory framework, which can enhance and develop a global carbon market, and, more importantly, the broader investment environment, is necessary to meet long-term environmental targets. Aligning environmental objectives and investment horizons will require clear signals to the finance and business communities, both through the emergence of a carbon price and other policy signals providing clarity on climate policy for medium- and long-term corporate investment decisions.

Four recommendations from the UNEP FI's Climate Change Working Group on how international climate policy should develop up to 2012 and beyond are:

■ **Adopt a clear, precautionary long-term reduction target and pathway.**

Take into account fully the developing scientific consensus, as articulated by the IPCC, with the objective of preventing the average global surface temperature from rising more than 2°C (3.6°F) above its pre-industrial level. Consider fully national and regional approaches such as: the requirement for a 60-80% cut in CO₂ emissions by 2050, as outlined by EU Environment Ministers in March 2005; the State of California's reduction target of 80% by 2050, and consider the need for investment, innovation and roll out of climate friendly technologies in a scaled-up manner. This must be accompanied by a clear and consistent set of signals to the marketplace about what is expected in terms of implementation, with a timeframe that is aligned to investment horizons.

■ **Provide early, clear guidance on international and national climate policy regulations beyond 2012.**

Without a clear long-term framework, private financial institutions are unlikely to engage in large volume mid- to long-term climate mitigation/adaptation investments. The CCWG believes that the Kyoto Protocol structure must be retained to build investor confidence in the continuity of the emerging carbon markets, in energy efficiency and renewable energy projects (also within the CDM framework). Under an international regime, all countries should progressively engage in emission reductions activities, using a staged approach, based on an appropriate scale and form of commitment. This would lead to greater awareness of and engagement in lower carbon technologies within the business and finance communities.

■ **Foster an appropriate framework for the global carbon market.**

A liquid and efficient global carbon market is essential for achieving GHG emission reductions at minimum cost. It is necessary to further develop the administration of the Kyoto Protocol flexible mechanisms, make the CDM more commercially viable, and look at opportunities to harmonise effective regional/national carbon markets.

■ **Set clear targets for renewable energy and energy efficiency.**

The finance sector has a clear interest in renewable energy, and strong national or regional targets with an effective, stable support mechanism will enable more capital to flow into this sector. Industrialised countries should establish renewable energy targets, and remove barriers to investment in clean energy and energy efficiency technologies. End-user efficiency standards should be made progressively more stringent. With the help of the industrialised world, where needed, developing countries can look to adopt higher energy efficiency standards and cleaner energy. The CDM can play an important role in this process.

UNEP Finance Initiative

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme and the private financial sector. UNEP FI works closely with the 170 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organisations, to develop and promote linkages between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programme, training programmes and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

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