



UNEP Finance Initiatives

Climate Change Working Group

Introduction of the study:

The greenhouse gas market framework -
opportunities and best practices for the financial sector

Erik Schmausser
Swiss Re

Objectives

Two aims:

- to identify an appropriate **macro-level policy** that will bring climate change within “safe” (financial and physical) levels
- to recommend **appropriate market frameworks** that will encourage financial institutions to engage in adaptation and mitigation actions

Why this study is necessary

The lay of the land

- Kyoto Protocol mechanisms have not been completely defined yet
- the long-term path towards a safe climate has not been addressed
- Increasing natural catastrophies
- conflicting, technical information from a variety of sources

What is necessary...

- internationally compatible, easy to understand carbon trading schemes with clear emissions reduction goals
- clear framework including the requirements of the financial sector for this emerging market

...and this will lead to

- new business opportunities for the financial sector as key-player in this future market

Set-up of the study (1)

General

- study work done by a contractor (consulting firm/institute)
- consists of 2 modules
- project coaching done by representative of the UNEP FI climate change working group
- timeframe: start: January 2002
 end: July 2002

Set-up of the study (2)

Module 1: Macro-level policy

- review of available material on future impacts and the strategies for mitigation and adaptation (mainly based on IPCC report, but with financial sector focus)
- fresh work only where necessary
- Conclusion: appropriate safe and sustainable development path regarding GHG emissions
- Recommendation: most appropriate policy to achieve this

Set-up of the study (3)

Module 2: Practicalities of the greenhouse gas market

- consideration of the practicalities of implementing a safe and sustainable development path for greenhouse gas emissions:
 - experience to date with the Kyoto flexible mechanisms
 - best practice in adaptation and mitigation projects (bank and insurance view)
 - options for financial products in emission reductions and trading
 - market requirements and incentives for emission credit generation and risk management
- Conclusion: recommendations on appropriate political actions to encourage financial activity in these areas



Benefits

- recommendation for an appropriate policy and regulatory framework to address climate change from a financial, ecological and societal point of view
- understanding and know-how for the future market of greenhouse gas reductions
- identification of options for innovative financial products and services in this market
- identification of best practices in climate change adaptation and mitigation projects
- faster developments of financial products for the greenhouse gas market
- boosting emission reduction and trading activities