UNEP Finance Initiative
Innovative financing for sustainability

Climate Change Working Group

"The Future of Climate Policy: The Financial Sector Perspective"

5 December, 2005

Dr. Sascha Lafeld - 3C climate change consulting
UNEP FI Side Event
Montreal/Canada, COP 11/MOP 1

3C climate change consulting

- spin-off of **Allianz Group/Dresdner Bank**
- based in **Frankfurt**/Germany
- services: **EU ETS / JI & CDM / Climate Neutral**

climate neutral

3C climate change consulting

Allianz Group

Dresdner Bank
Advice you can bank on

Motivation for the Climate Change Working Group´s (CCWG) post-Kyoto Briefing

- **In 1995 insurers attended COP1 in Berlin.** Today, there is little doubt that human-induced climate change is real.
- **Kyoto Protocol & EU ETS** established framework for global carbon market that provides price signals to achieve GHG emission reductions at minimum cost.
- To **incite mid- to long-term investments in a low-carbon economy**, it is vital that policy makers provide certainty about the post-Kyoto framework.

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CEObriefing

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

The Future of Climate Policy
The Financial Sector Perspective

Aug 27 2005

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.

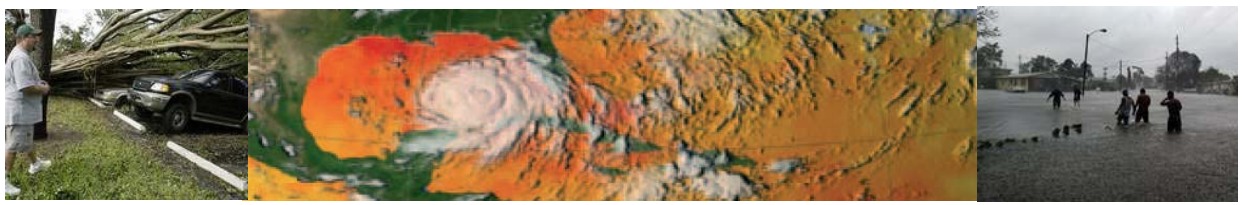
The CCWG is aware of the fact that the overall climate change policy response must also consider climate change adaptation policies – the impacts of climate change give urgency in responding to this challenge. The focus of this paper, however, is on mitigation policies.

Climate Change Science: An Update

WMO INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE UNEP

- Since IPCC's TAR in 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.
- see e.g. current climate scenarios by **Max Planck Institute for Meteorology**/Germany or **Hadley Centre**/UK

The Cost of Climate Change



- Frequency & cost of global natural disasters **increase dramatically**
- Munich Re: economic cost of natural catastrophes has **risen seven-fold and insured losses 16-fold** since the 1960s
- Human-induced climate change is most likely an **important factor**

Climate Change and Financial Institutions

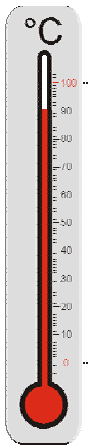
- **Insurance:** climate change must be incorporated in risk management processes; also product options exist
- **Banks:** face new credit risks but also opportunities, e.g. services for emissions trading
- **Asset management:** need to understand the extent to which climate change will impact the value of investments

International Climate Policy Developments: Key Challenges

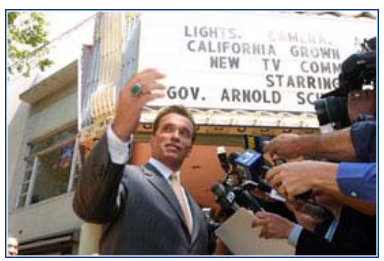
- Ensure **continuity** in the regime **beyond 2012!**
- Political timeframes are not aligned with investments, **incentive for financial players** to invest in clean energy projects is limited
- Policies must follow the principle of **reducing GHG emissions at lowest possible cost**

Climate Policy Beyond 2012: The View of the Financial Sector (I)

Environmental integrity



- Essential to adopt a long-term climate objective (preventing average global surface temperature from rising more than 2°C above preindustrial level)!



- Various EU states have established national reduction objectives that support this path, also California set target of reducing emissions 80% below 1990 levels by 2050.

Climate Policy Beyond 2012: The View of the Financial Sector (II)

Cost Efficiency

- Foster the policy framework for market-based instruments. ETS provides important basis for emission reductions at lowest possible cost.
- Widening scope of ETS and widening scope of sectors reduce price volatilities and increase liquidity.
- Regional trading systems to be harmonised

Climate Policy Beyond 2012: The View of the Financial Sector (III)

Clean Development Mechanism/Joint Implementation

- CDM/JI important vehicles for implementing low carbon technology
- IETA: CDM could leverage private investment of US$100 bn into developing countries. However, CDM has yet to take off.
- With no second commitment period agreed, the investment time frame for CDM projects is closing rapidly. **As a result, CDM projects are increasingly moving out of the profit zone.**

Climate Policy Beyond 2012: The View of the Financial Sector (IV)

Clean Energy and Energy Efficiency

- Support for low-carbon options that may not yet be fully cost competitive with dominant energy sources needed.
- CCWG supports governments establishing national renewable energy targets.
- Subsidies for renewable energy investments should only be provided for a clearly defined period.
- Contradictory policy signals such as subsidies to fossil fuels should be phased out.

Climate Policy Beyond 2012: The View of the Financial Sector (V)

Staged approach for an international climate policy regime beyond 2012

- Multilateral agreement is desirable! It is vital that the details of the second commitment period are agreed upon soon.
- A staged approach for beyond 2012 is worthy of further consideration. Such an approach includes a range of different forms of commitments for different countries depending upon their state of economic development.
- Within such a framework, the global carbon market could be fostered.

Recommendations

- **Long-term reduction target** of preventing the average global surface temperature from rising more than 2°C above preindustrial level.
- Provide **early, clear guidance on the continuation of the international climate policy regime** beyond 2012: all countries should engage in emission reductions activities, e.g. using a staged approach.
- Foster an appropriate framework to ensure a **liquid and efficient global carbon market:** make the CDM more commercially viable, and harmonise effective regional/national carbon markets.
- Set **clear targets for renewable energy and energy efficiency** and remove barriers to investment in clean energy and energy efficiency technologies.

Contact

3C climate change consulting GmbH

Dr. Sascha Lafeld
Managing Director
Hanauer Landstr. 521
60386 Frankfurt/Germany

Tel. 069-42 08 89 80
Fax. 069-42 08 89 89
info@3c-company.com

www.3C-company.com