

Chairs' Conclusions from Ministerial Meeting on the Gleneagles Dialogue on Climate Change, Clean Energy, and Sustainable Development – 3-4 October, Monterrey, Mexico

Summary

The meeting we have chaired at Monterrey marks a significant step in the struggle of the international community to combat climate change. We heard authoritative presentations on

- the economics of climate change mitigation and adaptation,
- the costs of introducing new low-carbon technology sufficient to cut energy sector emissions consistent with stopping accelerating climate change, and
- the way the international finance institutions can organise public and private finance to help meet those costs.

We also heard from business, legislators and civil society, all of whom are looking for Governments to take a lead.

The overall message is one of increasing urgency. The basic science is no longer disputed. We now see that the economics demonstrate that early action is necessary. The increase in costs if we wait is rapid and substantial. Behind those costs lie real-world risks to growth and the health of populations, and the possibility of physical catastrophes. While there are still differences of view, the private sector is increasingly understanding that carbon emissions have a price. They can reflect that price in their activities and investment decisions, allowing the power of the market to be used to combat climate change, if they are clear that a carbon price is here to stay over the long term. It is therefore urgent to take forward the international negotiations so that the conditions for a tough but fair price are met.

Introduction

Our meeting on the 3rd and 4th of October was the second Ministerial session of the Dialogue on Climate Change, Clean Energy and Sustainable Development, which was launched at Gleneagles on 6-8 July 2005.

It was attended by Ministers, including the UK Foreign Secretary Margaret Beckett, and senior officials with responsibility for energy and environment issues from the G8 and from Australia, Brazil, China, India, Indonesia, Mexico, Nigeria, Poland, South Africa, South Korea, and Spain. We were joined by senior officials from organisations including the World Bank, Regional Development Banks, the UN Framework Convention on Climate Change (UNFCCC), the International Energy Agency (IEA), and the World Economic Forum (WEF) business group, as well as legislators from the Globe organisation.

Our discussions were complementary to the UNFCCC, particularly its ultimate objective of stabilising greenhouse gases in the atmosphere at a level that avoids dangerous climate change. Our discussions focused on the challenges of tackling the causes of dangerous climate change in our energy production and consumption systems and development pathways, and our need to promote economic growth and to adapt to long term changes, particularly in the developing countries.

The meeting was arranged around presentations by Sir Nick Stern on the economics of climate change (previewing his Report to be published shortly), Claude Mandil on the IEA's work on the costs and potential of low carbon technologies, and Kathy Sierra of the World Bank on the Bank's Energy Investment Framework. The last two presentations derived from work undertaken in response to the conclusions of the Gleneagles summit and the first Ministerial meeting of the Dialogue in November 2005. We also heard compelling presentations from a series of business leaders and representatives of civil society, who emphasised the need for urgency from both of their different perspectives.

(1) Economics of action to tackle climate change; mitigation, adaptation and economic growth

Nick Stern's presentation of analysis from his forthcoming review of the economics of climate change helped us to explore the nature of the challenges of tackling climate change. In the discussion we explored how those challenges affect our investment choices and structures, and how this shows the need to develop appropriate and complementary national, regional and global policy frameworks that co-ordinate rather than compete with each other, strengthening the effectiveness of the measures. The main points discussed were:

Shape of the problem

- We are building consensus on the science of climate change, to reach an understanding of the economics of climate change.
- The financial effects of climate change are likely to be very damaging and very long lasting. The later we act, the more expensive it will be, but the costs are manageable if we begin now.
- The case for action is urgent – the window of opportunity for staying within a 450-550ppm range is closing. The costs of mitigation rise sharply for stabilization below this range, and for adaptation, the costs rise sharply beyond the upper limit of that range.

Scale of investment

- Climate change is an example of global market failure. Public policy, such as tax, trading or regulation, is required to send signals to the private sector to influence investment in lower carbon infrastructure in order to correct the market failure and reflect the social/global cost.
- Public and private investment flows, including the Global Environmental Facility (GEF), carbon finance and the Clean Development Mechanism (CDM), all play a key role in beginning to tackle some of incremental costs. The scale of future investment needs are much larger than current investment flows. There needs to be a substantial expansion of the global carbon market, including transforming the CDM to support much larger flows.
- We must look to cut emissions across all countries and sectors, including not just energy sector emissions but also emissions from other sources including forestry
- Existing institutions including the UNFCCC and the Kyoto Protocol provide a helpful basis for these discussions.
- International Financial Institutions (IFIs) have a key role to play in piloting new approaches and scaling up investment flows, but the expansion of the carbon market should come from deeper reduction goals from developed countries, with a longer-term vision and greater ambitions, and an imaginative approach to reducing transaction costs for CDM and similar mechanisms.

Growth and development

- Emerging economies should not jeopardize their aspirations for growth and development, but a Business As Usual approach will actually impede development in the medium to long term.
- Economic growth is crucial, as it will provide the resources that will enable investment in technologies. Experience over the last ten years shows that there are diverse approaches to deal with climate change according to circumstances, but that we should focus on sustainable development as the best strategy.
- Inevitably, especially in the longer term, we will need adaptation. Adaptation is mainly driven by actions in the private sector, but public policy has a crucial role. The impacts of climate change of development also reinforce the importance of delivering on existing aid commitments.
- Adaptation has limits however and is not a substitute for mitigation. A framework of long term goals/objectives is needed to provide the incentives for adaptation as well as mitigation measures.
- The Gleneagles Dialogue is a valuable forum to make links and bridges between a long term goal and frameworks for adaptation and mitigation. These should include links between technology and financing, creation of more flexible and larger carbon markets, and a long term goal to provide certainty.

(2) New approaches to research, development and deployment of low carbon and adaptation technologies

We heard the IEA's latest assessment of world energy demand and supply, prepared at the request of G8 leaders at the Gleneagles Summit. We heard that even with the most optimistic assumptions about the rate of technological development, most energy will still come from fossil fuels by 2050, and that without further action, carbon dioxide emissions in 2050 will be some 137% higher than in 2003. The cost associated with low carbon and adaptation technologies is not beyond reach; none of the

energy technologies in development have incremental costs greater than \$25 per tonne of carbon dioxide.

The main points discussed were:

Collaboration

- We are convinced of the necessity of action, and that a more sustainable energy future is possible with known technology. The costs are not out of reach and coordination helps to reduce them.
- Collaboration between developed and developing countries is essential, and we should focus on identifying the most successful elements of existing technology projects and consider ways in which to replicate these projects on a wider scale. We should also consolidate and build on existing analysis about the way in which technology and policy measures can both help provide energy security and tackle climate change.
- Public and private sectors must act urgently to adopt concrete measures, provide clear and predictable incentives, and look for long term goals, involving international organisations. Technology agreements between governments and industry should be explored, including the role of carbon finance in facilitating such agreements.

Cost

- It makes good economic and practical sense to adopt the lowest-cost measures first, as the cost of new technologies will be reduced over time by programmes (including standards and targets) to promote their use and by learning from this experience.
- Energy efficiency can make an immediate impact and provides significant value for money. Many energy efficiency measures offer savings.
- Governments need to offer clear and predictable policy frameworks which provide incentives to invest in low-carbon technology.

Access

- Developing countries need better access to finance to develop and deploy technologies, which should be explored through proposals such as how a New Paradigm could be developed to address technology transfer barriers.
- Technology transfer needs redefining. It is not just a matter of transferring Intellectual Property (IP) or capital equipment, but involves know-how and capacity building, something market forces do not address. Countries are not currently tackling these issues fast enough.

(3) Investment Frameworks for a low carbon future

We heard a presentation from the World Bank on the development and current state of their Energy Investment Framework (EIF) prepared following the Gleneagles discussions and the Plan of Action. The main points were:

- Countries welcomed the work being taken by the World Bank and Regional Development Banks, recognising the progress achieved so far and potential value for assisting developing countries in

attracting the necessary public and private investment in low carbon energy and adaptation in line with national policy objectives.

- Mainstreaming climate change throughout the operations of IFIs is a key challenge for progressing the effectiveness of existing financing instruments and sources of finance, including monetary resources through the GEF as well as international carbon markets.
- Existing instruments should be scaled up to develop markets for energy efficiency and renewable energy technologies, once uncertainty about the future of the carbon market has been removed (through long term goals and commitments).
- There was a strong emphasis on the need for engaging the private sector, including private banks, in the EIF moving forward.
- Continued close cooperation between the IFIs is necessary to ensure a coherent approach to investment structures and initiatives.
- Given the scale of the challenge of adaptation and associated costs, climate risks need to be integrated within national planning processes and international finance.
- Governments recognised the need for long term frameworks to provide certainty to investors. Expanding the carbon market and providing certainty beyond 2012 is necessary to ensure low carbon investments, and it was noted that the EU Emissions Trading Scheme will continue longer-term and could allow for others to join in the future.

(4) Next steps

We thank the IEA for their analysis of the potential of new energy technologies. We look forward to further reports that will develop our understanding and inform policy developments, particularly:

- Further refinement of the analysis in Energy Technology Perspectives, especially on the incremental costs of low carbon technologies
- Development of tools to assist us in identifying the most effective policy options and best practice on energy efficiency, particularly the development of energy efficiency indicators and advice on international standards.

When developing these further reports, IEA should work closely with the World Bank and other multilateral initiatives such as REEEP, REN 21 and Medrep. It should also access expertise from business and wider civil society.

One area of particular concern to business and Governments, especially from the developing world, is the technical barriers and Intellectual Property Rights issues associated with research, transfer and deployment of new low carbon technology. We look forward to the continuation of work commissioned to identify the precise problems and their solutions.

We agree with the IEA's assessment of the crucial importance of progress with carbon capture and sequestration, and their view that significant improvements in energy efficiency will be fundamental if we are to reduce emissions cost-effectively. Improvements in energy efficiency will also bring benefits for global security of supply and competitiveness. We recognise the potential to develop a wider global initiative on energy efficiency. This idea should be discussed and developed further, through

the Gleneagles dialogue and other forums. We welcome and support the European Commission's proposal to host a global conference on energy efficiency in January 2007.

We welcome the proposal coming from Mexico, Spain, the IADB, ECLAC, ESCAP, EBRD and the UK to create a working group to scale up responses to the energy and climate challenges ahead, examining programmatic approaches to the CDM, combining policies, finance and technologies, as well as identifying pilot activities under the IEF in energy efficiency, housing, carbon capture and storage and renewables.

We recognise the critical importance of an international cooperation framework for research, development, demonstration and deployment of low-carbon technologies. We welcome the extensive cooperation and collaboration already being taken forward through initiatives such as the IEA implementing agreements, the WIRE meetings, the Asia Pacific Partnership and Carbon Sequestration Leadership Forum. We need to develop an effective process to facilitate replication on a much wider scale.

We thank the World Bank for their work so far, and look forward to suggested next steps:

- The offer of the WEF and the World Business Council on Sustainable Development (WBCSD) to work with the Banks to engage the private sector in the EIF, including through their regional meetings, was welcomed and some practical next steps agreed.
- Recognising that the Banks have strengths in different areas it was suggested that this could provide a useful basis for practical coordination on the respective Investment Frameworks being developed. One way could be with a cross-bank working on a sectoral basis such as: energy efficiency; renewable energy; transport; power sector management; reducing emissions from coal use; and adaptation.
- There was a call on the Banks to work with the World Bank and other development agencies to identify and integrate climate risks within their investment portfolios. Guidelines should be developed to enable screening of projects for climate benefits and risks.
- The IFIs should work together, in particular on developing international standards and methodologies to assess the benefits of low carbon and energy efficiency projects and initiatives.
- The IFIs could have a key role in developing a long-term carbon market. It was proposed to set up a taskforce to examine how the CDM can be scaled up.

The wider climate change agenda

The instruments and processes of the UNFCCC and (for those who have ratified it) the Kyoto Protocol are the primary fora for authoritative multilateral negotiations and agreement on climate change. However it is widely accepted that useful contributions to the work of those bodies or their procedures can be made by interested voluntary groupings. We therefore recommend that the conclusions, the information gathered and the ongoing work of this Gleneagles Dialogue should be taken into account in the workstreams started at the Montreal COP/MOP on the future of the Convention and on further developed country commitments.

In particular, while noting that there is no consensus as yet on the form of next steps in those international forums, we draw attention to the very widespread concern about the need to reduce uncertainty for the carbon markets and investment markets. We note the large number of participants and interested parties who have called for a longer-term goal or objective that will indicate the firm

resolve of Governments to take further strong action on climate change beyond the end of the first Kyoto commitment period, and will help the markets perform the functions intended for them, including assistance to carbon-reducing projects under the CDM, which we believe needs rapid scaling-up to help provide a broader and more flexible carbon market. If there is to be no gap in the international climate regime, and therefore the value of carbon, after 2012, negotiations ought to be concluded in 2009.

We also note the great importance, in order for the international processes to move forward, of achieving clear progress in assisting the developing world to overcome its huge problems in adapting to long term climate change. There is specific business relating to the funding of adaptation, technology transfer, and the needs of Africa that requires to be successfully concluded at the Nairobi COP/MOP next month.

We further note strong concerns expressed about the shortage of worked-up models to provide negotiators with ideas and alternative approaches to Parties' commitments as part of current urgent work on the future of the UN Convention. It would be useful for more such models to be developed and placed on the table; and this Gleneagles Dialogue could offer a location for voluntary discussion about them. However, we recognise the crucial importance of capacity building in developing countries to enable them to assess what these models might mean for them.

We are very encouraged by the close interest of civil society and business in the Gleneagles Dialogue work. We also welcome the work done by the G8 and +5 legislators in the parallel exchange of ideas of the GLOBE Climate Change Dialogue and look forward to receiving its results.

Conclusion

We welcome the intention of the German Government to make progress with the issues covered by this Dialogue during their 2007 G8 Presidency, and to receive further reports and proposals from the World Bank, the IFIs and the IEA. The third meeting of this dialogue will take place in Germany in early summer 2007 (arrangements for preparations for this meeting will be made in the coming months). We hope this meeting will among other things receive a fuller report on the continued implementation by the countries and institutions of the Gleneagles Plan of Action. We welcome the intention of the Japanese Government to take forward the Dialogue in 2008, with a report to the G8 summit in the summer.

We believe this meeting in Mexico has been a useful contribution to the development of a practical approach to climate change that treats energy and climate policies as inextricably linked, and now adds finance to the mix. But there is a very long way to go, and it is clear that we are not yet on the right path to combat the increasingly urgent challenge that climate change poses for all of us. We look to build on the work we have done in Monterrey.