

**Financing Clean Energy:
A Framework for Public-Private Partnership to address Climate Change**

**Conference held at the EBRD, London
13-14 March 2007**

Closing keynote address

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Can I say, ladies and gentlemen, what a real pleasure it is to be at this conference today, how pleased I am to be with so many people who are contributing to the tackling of climate change in our world. I would like to begin by thanking you, Elliott, for chairing the panel but also the organisers of the conference, the EBRD, the World Bank – and I am grateful to Paul Wolfowitz for being here today – the World Economic Forum, the World Business Council on Sustainable Development. What you have achieved on this unique occasion is to bring businesses that are determined to pioneer new environment environmental technologies, the development banks, governments and the financial sector together over these two days to discuss how we can find global solutions to what is a global challenge. I think we now know it can be met by our international institutions, working with the global business community.

Let me pay special tribute, as I start, to President Lemierre and our host, the EBRD. The EBRD under his leadership has a proud record in development and reconstruction and I thank him and his staff for what they have achieved. Now the EBRD's environmental work, which was once 5 per cent of its activities, is already 20 per cent and rising, and the EBRD's Sustainable Energy Initiative is now leading the world in its field. Paul Wolfowitz is with us today, and I know from his speech today but also from his speech in America last month that not only has his commitment made possible the establishment of this initiative when it came at Gleneagles two years ago, but he is a driving force, pushing forward both new ideas and new initiatives in this area.

I want to offer in the remarks I make today my support to the multilateral development banks in developing their Clean Energy Investment Frameworks. I want

to suggest some areas where there is more to be done, huge opportunities, and where the combination of government setting a clear framework and making it possible for markets to develop can be a major driver of change in this new and important area. I want to begin by setting out what I believe is the right approach to international action on climate change, what we in Britain are trying to do.

When nearly two years ago I commissioned Sir Nicholas Stern to prepare his report on the economics of climate change I wanted to build a new consensus about economics moving forward. The Keynesian paradigm had been a duality of objectives: economic growth and full employment, and that was to drive decision makers as they made their judgements about economic policy. I wanted to ally environmental care to economic growth and social justice in a trinity of objectives for future economic policy. I am pleased to say that the publication of the Stern report with the International Panel on Climate Change's report in the last few weeks makes clear that not only is climate change a considerable technological challenge but it is also, if handled correctly, a major economic opportunity.

Tackling climate change, as I understand it, will generate major new markets in existing and new technologies that are likely to be worth \$500 billion by 2050. What the Stern report shows me is that a green economy can also be a growing economy. Our first priority, indeed, the precondition of everything we are discussing today, is to forge a new agreement, a global agreement, on reducing carbon emissions that stretches beyond 2012, and that must start with the United Nations negotiations in Bali later this year. It was for this reason, to establish a new global agreement, that the Gleneagles Dialogue was set up during our UK G8 presidency. It is why Germany, as President of the G8, is now driving the effort to secure agreement between the G8 and the G8 Plus Five group on the elements of a post-2000 framework to act as the basis of these international negotiations. I can assure you that the United Kingdom Government will work with everyone and work everywhere and will remain unstinting in our efforts to secure a strong global agreement over the next few months and years.

However, we do not have to wait for a post-2012 agreement to set in motion the flows of economic investment we now know are needed and indeed, we must act now. A

new agreement is, after all, not an end in itself; it is a means to achieve the bigger purpose, the bigger purpose we have been discussing today, that is, to direct global resources more effectively into low carbon investment.

The facts are that over the next 25 years the International Energy Agency estimates that global energy demand will increase by nearly 50 per cent. Over 70 per cent of this will be in developing countries. This will require in itself global energy investment of some \$20 trillion, so the core question facing us as an international community is whether that investment contributes to the problem of climate change or helps to solve it. Do our energy technologies lock in high emissions for the next 40 years or do we take the low carbon path? Our policy is efficiently designed to keep the cost down, so can we afford the dramatic reductions in emissions that are needed?

The Stern report that we published shows that we must also make these choices and make them urgently. To stabilise greenhouse gas concentrations at a level which avoids dangerous climate change, global emissions must soon peak and then fall within the next 10 to 15 years. Developed countries must take responsibility for cutting emissions first and most, and, as Stern suggests, by at least 60 per cent by 2050. For the developing countries, we understand that reducing emissions must not be a brake on their growth. It must somehow support their economic development and their goal of taking a billion people out of poverty. At present, only half of the investment in energy that is needed for development is being met. 1.6 billion people do not have access to modern energy services. So the richer countries, as well as acting themselves, must assist the developing countries to make their contribution.

The question is, how are we going to achieve investment in energy efficiency and alternative sources of energy on the scale that is required for the future? I suggest that, first of all, the developed world's emissions must be set on the serious downward trajectory recommended by Stern. Every developed country must recognize that it has to play its part. I believe that the agreement by the 27 nations of the European Union last week to a binding 20 per cent emissions reduction by 2020 as a first step to what they want, an internationally negotiated reduction of 30 per cent, does mark a historic moment. The United Kingdom will continue to play our role. We are, of course, on course to reduce our own greenhouse gas emissions by 23 per cent by

2010. That is a near doubling of our Kyoto commitment and it is achieved during a period since 1997 in which the United Kingdom's economy has grown faster than before, at a level of 24 per cent. Today we published in our Climate Change Bill the world's first ever national legal framework for carbon management using five-year carbon budgets, setting the targets for emissions.

The second element of our vision for a new global system is, again, what you have been discussing today, the development of a global carbon market. As you know, such a market can help developed countries reduce emissions at lowest cost, provide significant flows of finance and technology to the developing world and, in doing so, of course, it can create the backbone of a long-term international agreement. In 2005 it is estimated the global carbon market was worth €9.4 billion but I believe over time it could grow to €50-€100 billion. This means ensuring emissions trading schemes as they are set up around the world are compatible with one another so that trading can occur between them. We are already working, as Europe, with California and with the north-eastern states of the United States to do this. It means improving and scaling up the Clean Development Mechanism of the Kyoto Protocol. So we in the United Kingdom will host a conference later this year on how the global carbon market can be developed, both principles and practice, and I know we need to place special emphasis on how the Clean Development Mechanism can work for Africa.

The third part of our vision for the future: I believe that we need much stronger collaboration between governments and with the private sector, working together on the research, the development, the demonstration and deployment of low carbon technologies. In the United Kingdom our new Energy Technologies Institute is, I believe, the first of its kind in the world. It is already a £600 million public-private partnership to conduct research and development into sustainable energy. I believe that, through collaboration with similar institutes, set up in other parts of the world, working with public and private sectors acting together, we can build a new global network, indeed, a global research platform on sustainable energy, and I would urge people on other continents to consider how they can bring public and private sectors together to achieve the same kind of the institute as we are now setting up in the United Kingdom. I know that there are proposals already being floated in the rest of the European Union, in America and indeed, in the Asian continent and the great prize

is these technology institutes being able to work together on major energy and environmental research projects.

The fourth part of our vision is we must – and I heard the discussion on this only a few minutes ago – find mechanisms to address deforestation. That is not just because of the importance of forests to global biodiversity and climate change but because of the extraordinary environmental, economic and cultural value of forests throughout the world. Since the publication of the Stern report we have been engaged with the world's major forest nations on how we can find ways to mobilise international resources to support action to reduce deforestation, and I believe we must and can make progress on this during the course of this year.

The fifth element is adaptation. We know that the countries most vulnerable to changing climatic patterns are of course already the poorest. In some countries, for some communities, climate change threatens to wipe out all the development gains which have been made over the last two decades. I have just seen this morning statistics which show that for a degree of climate change and a worsening of climate change, the rise in the incidence of malaria in Africa could devastate many communities. The poorest countries, of course, are those least responsible, as we know, for causing the climate change problem, so I believe that we, the rich countries, have a moral duty as well as an economic and political imperative to assist developing countries in adapting to the effects of climate change. This means integrating climate resilience into development planning, through economic diversification, investment in alternative crops and livestock, responding to change in disease patterns, and strengthening capacity to manage environmental and water assets. We must also, as we have known from what happened in recent years, reduce the impact of natural disasters on the poorest.

The final critical element of the new global arrangements we suggest is a coordinated system of support for low carbon energy and energy efficiency investment in developing and emerging economies. This is the purpose of the Clean Energy Investment Framework initiated at Gleneagles two years ago and the subject of this conference. Our vision has been and is that, by providing a range of financial instruments and policy advice, the development banks can help to reduce the risk and

therefore lower the cost of cleaner technologies and in doing so, we can catalyse through the private sector a step change in investment, in energy access and low carbon energy in the developing world.

We strongly welcome the progress that has been made since the Gleneagles summits and all the development banks have played their part in developing the investment frameworks. I am pleased that the UK has been able to offer each of the banks support to implement their new investment frameworks. In July I am pleased to say we will be hosting, with Mexico, a workshop of the Gleneagles Dialogue countries to identify opportunities for scaling up successful investment approaches to tackle climate change but I do believe that this is the point at which we say more is needed now if we are to succeed in leveraging the scale of investment needed to meet the challenges.

We need to mainstream investment in climate across the portfolio of development banks. We need closer engagement with governments to explain the opportunities that arise from the new framework. We need better use of existing instruments and resources and we need to consider the design of new ones. If new resources are needed, I can tell you that the UK stands ready to make its contribution. Bringing the private sector firmly into the investment climate discussions is absolutely vital, and I hope that this conference can help achieve this. When I say bringing the private sector in is vital, I mean not just foreign investment; that is of central importance but so too is domestic couple in developing countries as well. Both brought into the investment framework discussions can help make the difference that we need.

I also believe – and I think this has come out of the discussion from what I have heard today – that there needs to be stronger collaboration between the banks on this issue so that by next year we can see a unified, global investment framework which will be greater than the sum of its parts. If we could see a formal high-level working group established to achieve this we, the United Kingdom, for one, would welcome this.

Today I wanted to invite the Presidents of the multilateral development banks to jointly set out a level of ambition for the scale of investment which can be mobilised through their frameworks. We have a major challenge in front of us. We need to

identify the scale of the response we intend to make. To identify the scale of the resources needed will help us measure up to the great challenge of the future.

In conclusion, 2007 is a critical year for environmental progress. The months ahead can lead to important decisions which will set the agenda for the future. We want the G8 and the Plus Five group to agree on the basic elements of a post-2012 framework that will not only address the urgent challenge of climate change but it will give a certainty to the developing markets in this area. Crucial also is a commitment to the scale of the investment flows which will be required. The Clean Energy Investment Frameworks are absolutely essential to this, and that is why this conference, what you are doing, what you are discussing and what you are agreeing, both today and tomorrow, is a vital element in getting the framework right.

I wish the conference every success. I look forward to receiving a report on its outcome. There can be no more important challenge facing the global community than that governments, the international institutions and the private sector can work together to address this huge global challenge, a global challenge that we can turn from a fear into an opportunity. Thank you very much.

(Applause)