

Interactive Panel Discussions March 13

Plenary 2: What are the practical ways forward for the multilateral development banks (MDBs) and the private sector to take a smarter approach to low-carbon finance in transition and develop countries? How can the Gleneagles Dialogue process help?

MR MORLEY (Moderator): Please take your seats. We are a little bit behind and we are trying to catch up a little bit. My name is Elliot Morley, MP. I am the Member of Parliament for Scunthorpe. I also represent the Prime Minister in the Gleneagles process, particularly with legislators, and I am also President of Globe International and was involved in the very successful conference in Washington in February, in which a number of companies who are at this conference were involved, and I very much appreciated their input. There is clearly a shift taking place because it was the most encouraging conference on climate change with legislators I have been to for a very long time, and that is not saying very much, frankly, given the scale of these things. It was a very positive outcome. There is clearly a shift in political opinion in the United States. There is clearly an openness from China and India, thinking about the shape of the second commitment period and what that means, the implications of a global carbon market, and a stabilisation target and what that means but, of course, to get there, you do need the support, the financial support, and the role of the multilateral banks is absolutely crucial to that.

You heard in the last session some of the obstacles and opportunities for scaling up the finance that is required, and in this session we are going to talk about some of the practical ways forward for the multilateral development banks and the private sector to take a smarter approach towards low carbon financing. In the first session you heard about the problems; in this session you are going to hear about the solutions from my excellent panel. I look forward to that and the discussion with the audience.

I would like to start with Luis Alberto Moreno, who is President of the Inter-American Development Bank based in Washington, and then I would like to ask my panellists to respond to what Luis has to say.

MR MORENO: I would like to begin by saying that when you look at Latin America compared to other regions in the world, we really face a set of challenges when it comes to low carbon finance. First of all, as you know, Latin America and the Caribbean are really leaders even today in relation to clean energy. More than 21 per cent of the total primary energy supply for renewable sources is in Latin America and comes largely from hydro.

However, we believe that renewable energy sources could make a far greater contribution to meeting not only both electricity generation and energy demand in the region if existing trends continue as suggested. Studies of the region's technical capacity for wind and for hydro and geothermal suggest that these sources alone could provide anywhere from 23 to 47 per cent of electricity needs projected by 2030. While there are interesting developments in areas such as wind and geothermal, as I was saying, small hydro power and bio fuels are by far the most promising source of clean energy in our region, while we have to recognize that we cannot produce enough bio fuels to replace all of the world's fuel needs. So it is not an alternative in that sense. It is an excellent way to diversify the region's energy matrix.

In Latin America bio fuels have numerous benefits beyond their role in replacing fossil fuels. They can be grown in marginal lands that are not used for food production. They can bring investment and development to depressed rural areas, where most of the emigration stems from. They can provide alternatives to sugar producers that have been hit by low prices. They can generate much-needed rural jobs, promoting entrepreneurship in areas where there is much need for employment creation. In essence, you can plant energy, as you can co-generate electricity as one uses the latest technologies.

In fact, the bio fuels market is evolving much more quickly than energy policy in our region. Brazil and the United States already account for more than 80 per cent of global ethanol production and are forecast to double their production within the next

few years. International trade in ethanol, although still proportionately small, is exploding. In 2006, for example, the United States imported more ethanol than it did in the previous 12 years, and Brazil accounted for two-thirds of those imports, despite the fact that, as we all know, there is a tax of 54 cents per gallon coming into the United States. In addition to foreign exchange, ethanol will help to lower the domestic fuel expenditures of many of these countries by substituting it for imported oil.

Private investors from large agro-industrial firms to venture capital funds are aggressively negotiating deals in virtually every Latin American country with a bio fuels potential. The problem is that these investors are finding very few viable and bankable projects because, despite the proven economic opportunity, there are still too many risks and obstacles, such as the uncertainty regarding domestic demand, the lack of technical specifications and environmental standards, limitations to international trade and public misperceptions and stakeholder resistance to bio fuels.

This is where I think that the IADB and other multilateral development banks have a clear role to play. Given our special relationship with both policy makers and our extensive knowledge of each region, we are uniquely qualified to help governments make informed decisions regarding bio fuels. Specifically at the IADB we are targeting investments in this sector both on the public and the private side, and also providing risk mitigation products that will allow greater intervention by investors. In this spirit, the IADB is also proposing to lead, as we discussed this morning, a multilateral development bank working group on bio fuels towards standards that can be coordinated in this area. Our goal is to accelerate the development of harmonised standards and technical specifications for renewable fuels in order to encourage international trade and investment in this sector.

Finally, we are planning a number of sub-regional conferences to tackle specific issues with government officials, investors, feedstock producers, fuel distributors, other manufacturers, environmental groups and certainly civil society.

I think this type of consensus building work is essential. Poorly executed bio fuel projects can cause serious environmental and social damage and some civil society

groups in our region have already begun to express their concerns. Only by encouraging an open dialogue on the risks and opportunities of bio fuels will we be able to ease people's anxieties and clear the way for investment and growth.

MR ELLIOTT: Thank you very much, Luis. That was very succinct and to the point and outlined some real opportunities in developing countries and regions like Latin America. I am very pleased that you picked up the potential problem of unsustainable management of crops for bio fuels, which is an increasing worry, and I think there is an issue about regulation and certification. I also think that the energy conversion of sugar compared to corn ought to be an issue in this thing as well. That, I think, is quite a wide debate.

I wonder if I could turn to the panellists and ask first of all Ben Van Gils, who is the Global Utilities partner from Ernst & Young to respond to some of those points.

MR VAN GILS: One of the points that I have hardly heard this afternoon is really how governments should behave. We have talked about industry, we have talked about initiatives and we are not so much talking about what from the side of the government should be done in order to become a sustainable partner in this whole discussion. We have the impression that initiatives are coming from their decision process. The EU over the last week was of course very important, a 20 per cent agreement, but the first reactions that I heard in many European countries over the weekend was already "Who is going to pay for that?" and all the politicians that I have seen in the various countries say "We don't know. One country pays more, another country pays less."

That brings me to what we have started calling the value chain ideas, to risk. Somebody who takes risk needs to be remunerated in this whole discussion. Somebody who takes risk in new investments in renewables, whatever way, one way or another should be complimented for that and should have a certain subsidy, a certain stimulus to do that, either by the market or by social responsibility or by a government position or buy a certain way of soft financing. If the government is not going to play around and discuss openly what the risk factor is in the total value

chain, this whole discussion is one-sided; all the time it is about what is industry going to do.

If governments were totally consistent in their policy there would not be a problem. If governments were really consistent, “This is what we are going to do for the next 15 years”, that would be fine. I live for most of the year in the European Union. We started the liberalisation process there and we thought we all knew what liberalisation was about, but at this moment I think nobody knows what it is about. There we are just talking about how to organise a market, let alone how to go into the details of that market. Those issues are missing this afternoon. If we are talking about huge investments in bio, we also know that there are parties that are taking huge opportunities on that one. Apparently, they take the risk, they are remunerated for that, but there are also other parties in our economy that are not so subsidised by the whole thing and that is the agricultural parties, the food business. We already know there are some problems here and there in some countries in Latin America, as we understand, and there may be more to come. We have to handle those issues on the value chain of the risk analysis and certainly the governments at this moment I think have a pretty easy job to shift it all to industry by simply saying “Let us do it,” but in the end the rules must be yours.

Let me give you a very nice example which cropped up yesterday, as I understand, on the European continent. We had a discussion that diesel fuel has to be mingled and mixed, as you know, with more bio in a couple of years’ time according to a new EU Directive. I was not aware of that, but apparently Germany at this moment has a problem that it misses out on €2 billion a year because of what is called diesel tourism, people who are not putting diesel in their tanks in Germany but are doing it in the bordering countries. This is what we call one liberalised economy and one market. Governments one way or another do not even know how to shift the risks to each other, let alone what they can do with industry.

I am missing that aspect of who is initiating which initiative and who is going to be better and who is going to be stimulated doing it.

MR MORLEY: Thank you very much for some comments there on the need for a robust regulatory framework, and that is certainly true. There has been a huge growth in bio fuels within the UK, particularly recycled cooking oil. However, some people found they could make home-made bio diesel in their garage, such as a person in Cardiff who was selling bio diesel to taxi operators. However, he was not doing it very well as the police tracked him down by the very strong smell of chips around Cardiff's streets.

Can I turn now to Nigel Scott, who is the Head of Structured Commodity and Environmental Products Energy, Metal and & Softs at JP Morgan.

MR SCOTT: When I looked at the title, which is even more of a mouthful than "cashew shells", I started with an approach from the market side of things and the carbon side of things and I just started thinking about what would be a normal chain of events for business as usual, if you like, for governments, multilaterals and the private sector. Normally, one would have expected government to provide policy and framework and set up the architecture for the price of carbon and then secondly, for the private sector to respond and execute carbon transactions and then deepen the finance channels for carbon transactions and the multilaterals to support the tough financing part of the equation.

Looking back, historically, this has been somewhat true but with marked differences. If you take a look at the starts, the multilaterals took a view on policy and particularly here I am thinking about the World Bank, which in 1997 through 2000 took a view on policy which was slightly different from their traditional role, and they looked at capacity building at origin under their mandate to assist developing countries, and of course, those developing countries will be most hit by climate change and secondly, are where there is expected to be the most increase in emissions. They sought to support the tough financing by aggregating government and private sector to make investments where otherwise they would not invest. That was pre-empting, really, regulatory framework and also pre-empting opportunities for markets, going out of their way to create this liquidity and this flow of finance into the carbon chain.

Then there was a step forward when globally, in part, governments began providing policy and framework and set up the architecture for a price of carbon and of course, the EU and Japan took the lead in this. Then privates finally participated more actively in trading carbon markets and that is really where I guess the Bank comes in, my bank, in actually executing transactions and other banks got much more involved in financing the supply chain, and that led to the supply of technology transfer through the CDM process and through, again, the CDM the net cash transfer of billions of dollars, 10 billion plus dollars.

Also here, I would just note that, looking back, although not the only reason, in many ways, CDM, through the work of the World Bank – and I make no apologies for being somewhat sycophantic here – and multilaterals stole the march on JI, on Joint Implementation. If you look at the pipeline of CDM versus JI – and I know this is only part of the reason – the size of it is still ten times Joint Implementation, meaning benefit to people who most need it in developing countries, exporting technology and finance to them.

If I look now from the market's perspective again at the changed landscape and look at smarter ways of getting finance into that carbon flow, I think multilaterals should continue to take this forward view on policy, which, again, is taking a bit of a step out, and stimulate debate in terms of policy but critically, invest in new methodologies. Here we really welcome the comments Mr Wolfowitz made about forestry and new forestry funds and the potential for forestry. It has to be a part of the overall wedges going forward, if you like, if you take the wedge approach. Secondly, capacity building should not be stopped; it should be maintained, developed, expanded in developing countries, a task that will get bigger as more methodologies and more operators are covered. There is a danger in potentially multilaterals thinking some of the capacity building has taken place and is over. I do not think it is over at all; we have just started. We have a pipeline of 1.5 billion in CERs; really, we need 10 or 20 times that pipeline going forward.

Thirdly, the role in terms of new funds, 2013 through 2020; new funds need to be discussed. Again, the new carbon partnership projects, all these funds that Mr Wolfowitz was talking about and others should look at, at least in my opinion.

In many ways, this will not be business as usual for multilaterals but, without this extension of their role, if you like, under their mandate to assist developing countries, the pump will not be primed for the privates to participate in developing countries. What then should the privates do? The privates should lobby for clarity of policy beyond 2012 and an ongoing price of carbon is important. The EU obviously leads in describing phase 3 EU ETS with a CDM component. This is critical to keep the pipeline building for CERs, CDM and Joint Implementation and the associated finance flow. But it is critical in building emission reductions in areas of the globe where the increase will be greatest without cost to developing countries but with rewards.

We really need here not only a statement of 20 per cent by 2020 but we also need a statement regarding the percentage of CERs that will be allowed into the EU ETS as the next step in that first putting the cards on the table, as was described earlier. That is really important so that we can actually establish the value of CERs and link it into the value of the cap and trade system that we have. The US bottom-up approach is to be applauded. We look at this as phase 1, pre-regi; phase 2, regi; and then phase 3, cap and trade possibly. Secondly, apart from lobbying, privates should develop carbon credit metrics. This is happening in developed countries. If we look at the change in the European power sector, the pan-European power companies that are evolving, carbon metrics are a very important part of mergers and acquisitions. It needs to happen more in developing countries and therefore more advanced finance products can be implemented. Thirdly, privates will have to take a view on policy, pre-empt phase 3 EU ETS, pre-empt regi, pre-empt Japanese announcements on emissions positions and finally develop markets.

MR MORLEY: Thank you very much, Nigel. Some interesting points there, particularly about privates developing carbon and credits metrics and looking ahead, trying to pre-empt, and of course, it also comes back to the point that Ben made about having some long-term signals that give some long-term certainty about which way the market is going. If I can now turn to Jean-Claude Steffens, who is the Senior Executive Vice President, Director of Environment & Innovation from Suez, France.

MR STEFFENS: Thank you. I think our Group, as a large utility group and environmental services group worldwide, has now decided to increase its investment capacity worldwide to € billion a year for the next three years, so giving you the idea that somewhere the money is there. These investments will happen mostly in energy projects in Europe and also elsewhere, and Latin America is one of our strategic regions, where we have already developed large electricity power stations.

We do have experience of working with MDBs, and we find that the rules for having good, sustainable projects are very helpful because they help to structure the market and to avoid free-riders having a competitive advantage by taking non-sustainable projects. However, we feel that a project is never good enough, so when you try to help the people around, for example, a new power plant or something like that in a poor region, it is clear that people always want more. We have experienced that in some cases, that the multilateral bank which was doing the lending was a weak link between the claims of the stakeholders and the developer of the project, who wants to have a certain structure; once the compensation package has been negotiated it should no longer be changed. In that case, we think more clarity on how the project can be discussed and built up before it starts might be helpful.

Another point is that MDBs are very useful in covering risks. This has also been said. I would like to draw attention to a specific kind of risk that has not been looked at very much, which is the weak counterpart risk. There are good projects where actually, the counterparty who is making the commercial relations with the project is nearly bankrupt, for other reasons, and this does not prevent the project being good, but the investor in the project cannot afford to invest the money if he has no certainty about the ability of the counterparty to make up his obligations. In that type of situation I think the MDBs could also help.

We have talked a lot about climate change, and I do understand that climate change is an essential issue we are now facing, but climate change is not the only way to have sustainable projects. We want to have a CO₂ market and a CO₂ price that is as wide worldwide and as liquid as possible but we see that, even in Europe, CO₂ is not able to pay for the renewable energy projects, so apart from the CO₂ market, Europe has built up special policies to support specifically certain renewable technologies which

need another structure. In that case too in developing countries the renewable installations are often just as available and as expensive as anywhere in the OECD countries. It is not quite clear if the renewables projects and the renewables policies can be supported by just the CO2 market as it now is, and when we look at the CDM we also see that there is a lack of renewables projects within the portfolio of technologies.

I would say the market is good, the market should be as wide and as liquid and as global as possible, but we still have other kinds of projects that need special help. This also deserves some attention.

MR MORLEY: Thank you very much. Thank you all for being so succinct and making the points so ably. I want to throw it open to the floor now. I will take a couple of questions at a time. If you want to direct your question to a particular member of the panel, please say so. Otherwise I will ask the panel to contribute generally.

QUESTION: My name is Ohashi Toshi from Tokyo Electric Power Company. I am not a specialist in financing. I am an engineer, so my question might be a very basic question. I would like to ask something about the situation in China, when the WBCSD had a meeting in Hong Kong earlier this month. Two representatives from the Hong Kong side told us about the Chinese situation, that now the Chinese people do not lack financing. They have lots of money, but still they are building many coal power plants with very low efficiency. The reason for that is very complicated but basically, it is a political issue. My question is how can MDBs help the Chinese people to build highly efficient coal power plants when they do not need any financial aid? If there is anyone in the audience from China, I would like to ask them.

MR MORLEY: I would certainly like to give an opportunity to the Chinese to say why they are so awash with cash that they do not need any assistance, if they are in the audience. Can I just clarify a point? You were saying that you think the reason why they are building low efficiency coal burning power stations in China is a political one. What do you mean by that?

QUESTION: Part of it relates to the employment issue. I suppose there are many small-scale coalfields, and they have to build their own coal power plant, and eventually a small-scale coal power plant cannot reach high efficiency. That is one of the reasons I have heard.

MR MORLEY: Thank you very much. Would anyone like to respond to that?

MR VAN GILS: Let us face it, even if the power plant is low efficiency, there is electricity in that area. Without the power plant, there would be no electricity at all. So the question is not should that power plant have been highly efficient and low on emission levels. I think you have to go further back into why electricity was necessary there. Very likely, it was in order to grow economic activity in that area. We have seen this in many emerging markets. Once you have economic activity in that market, there is more risk opportunity to be paid for, and then you come back to the risk again, and then in the second phase – I must say it is not ideal – you could try to have a better emission carbon type economy. But you have to start somewhere and I think that is exactly the problem on topics you are discussing, and it is the political drive and the international drive in order to form a platform so that in these sorts of economic regions local regional politicians are still stimulated to take risks also on their own. But again, they have to be stimulated to do that. Somebody has to promote that, both the investor and the politician who dares to take the decision.

MR MORLEY: Thank you. Any further questions, please?

MR LAWSON: Hello. Paul Dawson from Barclays. I just wanted to explore the renewables question a bit more. Jean-Claude said that the carbon price is not high enough to make us build renewables. You could approach that from the other direction, which is that the carbon price is the outcome of the constraint imposed and that if it is not high enough to make us build renewables, then we are actually achieving the reductions at significantly lower cost from other sources. If you follow that line through, at some point we are going to need to build renewables, so does that argument not lead us to the conclusion that the constraints are not tight enough nor long-term enough to impose the sort of constraint that is required to deliver the price

that will bring renewables through? I.e. we should be focusing on the reductions first, not the price, and saying that that price is not big enough.

MR LEES: Ian Lees from the European Council for an Energy-Efficient Economy. My question is very similar to the one asked in the previous session. In the developed world the biggest problem facing us in CO2 emissions reductions is (*inaudible – fault in recording*) whether it be household energy use or transport, particularly personal mobility. I think it is inevitable that energy demand from households in the developing countries will rise in the future, so how does the panel think that the multilateral development banks can tackle these sectors, particularly energy efficiency, which is the biggest short-term gain?

MR DE BOER: Ivo de Boer from the Climate Secretariat. Elliott, if you had given me the question about China, I would have answered that you can make more money buying off America's national debt than investing in clean coal technology. But I have a question for Jean-Claude on the fundability of renewables. My question is, if the Europeans, instead of setting a target for 2020, had set a target for 2050, how would that have changed the investment perspective in the context of renewables, in that a target for 2050, which presumably would have been much more ambitious, would have said more about the inevitability of renewables and changed the investment picture. Would you say that is correct?

MR STEFFENS: I agree that if we were sure that the price of the CO2 tonne would be around €80 for the next 20 years renewables would flourish everywhere in Europe. What the European economy would be like in that case is another question. However, my point is that the way you finance these investments, or the reasoning that is behind these investments in renewable technologies within Europe is different than the more short-term reasoning that we have seen on the carbon markets these last years. It is a good question to ask whether the structure of the European market really has triggered investment in low carbon technologies within Europe. I would say again, the market should be as big, as liquid and as wide as possible but an ill designed market will not help the environment very much.

What we have seen is that the structure, for example, of the buyback contracts for windmills has been a good structure, because we observe that the windmills have flourished where these buyback contracts have been put in place, and this is because these contracts were giving enough confidence to the investor that this would be good for the life of the installation. If you are looking, for example, at biomass, also in Europe, you see that you are building something or upgrading a power plant to burn biomass, and you have problems in the biomass feedstock because you do not find the biomass to run your power plant any more. These are things that have to be put in place in a more complex way than just having a CO2 market.

Responding to Ivo's question about would a target in 2050 be better than one in 2020, I will give you my personal answer to that, and it is no. We are now in 2007. We are talking about renewables on an amortisation period of about 10 to 15 years, so 2020 is a good thing; it is giving the impression that it is now that we have to work. If you give us an objective for 2050 we would just sit back, relax and wait.

What is more important than the target? Coming back to the target, it is important to have both sides. We have the long-term side. I was discussing the carbon capture and sequestration objective that the European has set for itself. This gives the direction. We are serious about it, we are doing something and you should expect us to move. That is good. It is not enough because what we need is to move now. What is important for renewables is that we have the right incentives now, so that we can see that what we are building today will be profitable in the years to come until the installation is fully depreciated, and at the same time, we know that if we build them this year, we shall have to build some more next year and the year after. So we need the two dimensions, the two landscapes at the same time.

MR MORLEY: Thank you very much. We have some other questions on renewables and how banks can tackle the issue of energy efficiency, particularly in the domestic sector, which is a very tricky one in which to bring about improvements. Would anyone like to comment on that?

MR MORENO: Clearly, for Latin American countries the question of energy efficiency is central, and part of our strategy is very much in line with what was

presented here by Paul Wolfowitz around basically, four pillars, one of which has to be around energy efficiency, another one around adaptation, in as much as agriculture can change and countries will have to adapt to the kind of agriculture they have. Of course, carbon credits is just as important. It is a holistic approach that you need, and in energy efficiency it is often after the debate when one talks about climate change, certainly in my part of the world, and it is one that we continuously want to raise precisely because at the end of the day, it is perhaps one of the most efficient ways to move in this area.

In terms of efficient producers of alternatives or renewables, clearly, the example of Brazilian bio fuels is amazing. Here they are, being able to export ethanol to the United States with the disadvantage that a farmer in Iowa is receiving between 54 cents a gallon as a duty and 51 cents as a direct subsidy, so it is \$1.05 that farmer is receiving before a Brazilian ships a gallon of ethanol to the United States. That tells you that efficiency is possible in renewables, and I think it is very much the case in many of the Latin American countries today. This is really a great opportunity.

QUESTION: My name is Paul Finn(?). I work at ABN Amro Bank. The point is made about the incentives that are given to the Brazilians and they can still produce very efficiently. I wonder if the panel can answer about the role of technology transfer to the developed countries or developing countries, particularly in areas such as solar, where we find that the cost in Europe is very high and as a stand-alone it is not as competitive. I can imagine that the Chinese have done wonders to manufacturing costs. I wonder if technology was passed to countries like India and China whether the cost of solar panels would be substantially reduced and how one might implement that.

MR MABEY: My name is Nick Mabey from E3G. There has been a lot of talk about liquidity and broadness and depth in carbon markets. One of the issues is how we deal with deforestation or avoided deforestation and other issues and whether we put that together with the rest of the carbon market, given the issues about driving changes in industry and investment as opposed to changes in forestry. I am interested in the panel's view, given that we are trying to drive transition to a low carbon

economy, not just set up a market, what is the best way of managing the difficult interface between these very different types of activity in very different markets?

MR MUNDY: My name is Justin Mundy. I work both for the UK Foreign Office and also DfID. This is really a question for Nigel Scott following up Nick Mabey's question. Given that at the moment a considerable number of sectors that we need to concentrate on – clean coal, forestry, transport, infrastructure – fall outside of the CDM and any carbon market value, and given that the private sector, particularly the capital markets are quite risk averse into moving into the emerging markets for these sort of commodities, what are the sort of structures that might be available from the IFIs to bear down the risk so that the private sector, particularly the capital markets, might feel more comfortable about moving into the investment, given the lack of any monetised carbon value in the near term?

MR MORLEY: Thank you very much. There are three questions there. The issue of technology transfer to countries where they could possibly turn them out at much lower cost and therefore develop a market in low carbon technologies; the issue of deforestation and how that can fit in with perhaps the CDM, and I know there is a lot of discussion going on at moment about this; and also, the problem of risk and risk aversion and how that can be addressed. Who would like to start with that?

MR MORENO: In the case that was mentioned here of solar, I can give you an example in Nicaragua, which is a country where roughly 53 per cent of the country has no access to electricity. We have developed projects with solar panels that are stored in one area. There is no connectivity or grid that connects one community to the next yet people can go and charge their battery and take it to their home and perhaps use two or three bulbs. It will not help to turn out any other uses but at least it begins to turn the lights on. It is things like that that can be done in an efficient way.

In the case of avoided deforestation, I think this is a very important question. We are looking for ideas as was well said here. There is no carbon credit market for this today and it is actually voluntary. We are looking for ways to team up with private philanthropy, with organisations that worry about conservation, as to how we can do

this because it is really by taking down the rainforests, one of the main sources of carbon emissions today, certainly in our part of the world and this is something that I believe is hugely important and, with the right incentives, would go a very long way.

MR MORLEY: Nigel, would you like to make a comment on technology transfer, an issue which in international discussions the issue of IPR often comes up on technology transfer?

MR SCOTT: Yes, I think there were two questions that perhaps I should come back on. First of all, the E3 question in terms of interface of activity between types of markets and forestry. I do not I think I have a silver bullet solution there. All I would say is that forestry, like CCS, is complex, and obviously forestry is incredibly complex. You have all sorts of issues there, a multiplicity of issues there, but some of those issues have been dealt with by some countries, for example, Japan, which has a history of looking at this particularly carefully under Kyoto. So there is a lot of experience to be mined and shared from their experience there. When and how you apply that to the Amazonas region and what happens and how you factor in potential destruction of forests or the death of parts of forests and yet get carbon credits coming out for avoided deforestation over time is a very complex issue. In terms of tackling the part of the equation that, for example, the Japanese have looked at, looking at the actual reduction by acreage of trees, managing that production, improving that reduction, that has been looked at. So there are areas which have been looked at and areas where there clearly needs to be a lot of work.

Secondly, the gentleman from the Foreign Office in terms of clean coal, forestry and infrastructure, how to engage the capital markets who apparently are risk averse. Multilaterals can help with the three major risks: credit risk, political risk and country risk. How do you put those three aspects of mitigation together and interface it in with a carbon market? You take away the regulatory risk part of the equation. I do not think that fully answers the question because I think, as we have heard from Mr Kuroda earlier, there is a massive problem here with scale. So I do not think I have the answer to that but those are part of the answers.

MR MORLEY: Thank you very much. There is an enormous debate going on about avoided deforestation because it does contribute about 24 per cent to global emissions but it is sometimes presented in terms of “Give us the money or the forest gets it,” and I think we need a bit more robust methodology than that. It must be possible to develop such methodology.

Ben, would you like to say a word on risk?

MR VAN GILS: Yes, because let us be careful. Risk is not a problem. Sometimes we get the impression that everything has to be low risk and a lot of security. Risk must be manageable. That is the most important thing. But we see, very obviously, in new developments of private equity investments and that sort of thing that now over the last five years have grown tremendously and taken really a position into all markets. Also, private equity houses do move into the area of renewables, into low carbon investments. Very often they do not do that directly, but we do see new players coming up, very often funded by these very special investors that traditionally, of course, try to be in a lower risk arena. It is about securing your risk, making it manageable, that is important, and I think that is where regulators have a big role and government have a big role, but also the industry as a whole has a big role to play.

MR MORLEY: Thank you very much. Any more questions?

MR TOZER: Bruce Tozer, JP Morgan. Absent a global cap for emissions, a clear policy, a long-term price for carbon, the logical reluctance of capital markets to engage in securitising assets for which there is no credit performance or long-term performance track record, do we see an expanded role and therefore more money and more resources required for multilaterals to fill that gap, to prime the pump, and would governments be prepared to actually make the investment in multilaterals? After all, they pay the bill.

MR MORLEY: I think it would be very unwise for me to speak for the Chancellor before he comes. That would be what they call a career threatening decision basically. Any further questions?

QUESTION: My name is Artur Runge-Metzger. I work for the European Commission. Some things that were said, particularly by my colleague from Suez, he hit the nail on the head, I think, in terms of the numbers and the figures, because they are not just coming together. If you look at the World Bank investment framework, I think they rightly say that if you want to clean up the world's electricity sector, you need something like \$25 billion every year. If you look at the carbon market and how it is developing, until 2012 we get something like maybe one, maybe \$1.5 or \$2 billion per year. So there is still huge gap. Then there are people who say we need to add deforestation into that bill in order to get going via carbon finance. The figures have been mentioned: 20 per cent of global emissions come from deforestation. The European Union at the present moment emits 14 per cent of global emissions, so if the EU does not reduce any emissions, just offsetting all of their emissions, we could not even save the forests.

There is a need for more public funding in this game and I am looking forward to hearing Gordon Brown, because he put on the table last year the proposal to come up with a fund of £25 billion, he said. That is certainly not sufficient if you do the calculations but perhaps it could be a start. Other people have to join in.

MR MORLEY: Is there a third question before I asked the panel to respond? No?

I think we can take those two questions then, the issue of the absence at the moment of a global cap and long-term market and the fact that there is a need for some financial stimulus. This is partly why in the Gleneagles action plan that came out of the Gleneagles meeting there was a proposal for the Clean Investment Framework that Mr Wolfowitz referred to earlier on. Is that a basis for trying to build on in terms of addressing these things, or is there a way of pulling together the various income streams from the international financial institutions? Who would like to respond to that? The other one, of course, is that the figures are not coming together on these issues yet in terms of the enormous gaps that there are, both in the current activity and in terms of the funding which is needed. Again, that is something which has been touched upon in the course of this session.

MR STEFFENS: About the enormous gaps, I can only acknowledge them, since I am looking at the energy outlooks of the IEA and under the thousands of billions that are needed to put this world right. I have made up my mind that, because that money was not there anyway, we should go as far as we can and I am not very much focused on all the money we do not have.

The need for more public funding: I think once we come into the Kyoto period governments will have to make some money available to fill the gap in their Kyoto targets and, in one way or another, this will have to flow to carbon markets which are not necessarily the same as the business carbon market.

I would like to address at the same time the question of Justin Mundy, saying that we have some important pieces of the market that are not really able to support the projects as they are defined in CDM and JI, and maybe it would be useful to convey part of this public funding that must become available to projects that are not going to be easily financed by the private sector because they lack the proper dimension. I think this is something we should think about, having the big projects where we can have a certain piecewise work, I would say, on each project and the projects that are too small to come then, and then we have to have a sort of policy approach to that. In that case, maybe, however, remunerate the countries and the institutions that are promoting these types of very small projects.

MR MORLEY: Think very much. Can I ask Luis if he would like to respond to the issue of deforestation. It is a big issue, of course, in Latin America as it is in some other regions.

MR MORENO: Briefly, I think you hit the nail on the head when you were talking about the type of dialogue that takes place, and Nigel made a very good point about the difficulties that exist in the forest. The point here is that even if you were to simply have carbon credits for avoided deforestation, prices of carbon could very well collapse because of a mismatch on the liquidity and the demands that exist, as has been espoused here. I think one of the ideas could be to create an ex-post fund that would create incentives for countries to preserve the forest and to do all the things that need to take place and then use that as an income stream.

MR MORLEY: Nigel, a final word on the funding.

MR SCOTT: On the funding, on Bruce Taser's point about the multilateral increase in funding that might be required, I think from a bank perspective, from a private perspective, obviously multilaterals have the leverage with origin developing countries and to some extent can assist in getting the private sector over the credit risk, political risk and country risk issues. If you scale up their funding, if you scale up their work, then of course there can be an increase in the scale of investment and capacity building as well critically, and hopefully, with an active search for building synergies across the multilaterals, but should only prime the pump, again, for the private sector to be taking over and running with that whole project.

MR MORLEY: Thank you very much. I see we have been joined by the Chancellor. I think the panel has done an excellent warm-up job for him.

Can I just say a word of thanks to our panel and also to the audience for their very perceptive and very detailed questions. We have covered a range of very difficult issues which do have to be addressed and thought about as we try to attain those aims of global stabilisation, global carbon markets, how we can try and strengthen the CDM, how we can lever adequate funding both from the public sector and the private sector and how we forge those partnerships. I think there have been some very good contributions from the audience today.

I would like to bring this to a conclusion. I was not aware that I would be introducing the Chancellor, and my colleague, to speak to this meeting but I am very pleased to do so. We have heard that there has been an enormous contribution in terms of thinking through the G8 process both in terms of what has been done for Africa and funding and it would be really nice to think that we could get a similar kind of public support and international buy-in for addressing the issue of climate change and international funding.

I would like to thank the Chancellor for coming and invite him to take the podium.

