

Political perspective: Kazunori Tanaka, Senior Vice-Minister of Finance, Japan

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

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(Interpretation): Good afternoon, everybody. I am Kazunori Tanaka, Senior Vice Minister of Finance of Japan. I am very pleased to see you. It is a great pleasure for me to speak on behalf of the Japanese Government at this conference.

Today's theme is a problem that transcends national borders. It affects developed and developing countries alike, and it is crucial that individual interests be set aside and that the problem be discussed together. Gleneagles-style meetings have already been held twice based on this understanding. The meetings have endeavoured to bring countries with large energy needs, not only the G8 countries, together to cooperate in efforts to tackle issues related to climate change.

According to the Stern review, the IEA report and other excellent analytical reports issued recently, massive capital investment will be required even in the short term if we are to achieve a low carbon society. The same applies to developing countries. Adaptation requires huge investment as well. From this perspective, I will raise three points. Firstly, on the need for developing countries to build a policy framework to achieve low carbon societies and the importance of the role of government, the private sector and MDBs in achieving that aim. To achieve a low carbon society each country must recognize that it has a responsibility to face the important challenges of saving energy and reducing greenhouse gases and be proactive in taking measures to achieve these aims. Also important is to construct an appropriate policy framework in European countries to combine regulations with incentives. In order to stimulate foreign capital investment and technology transfer in this field an investment climate in which intellectual property rights are protected must be developed.

Meanwhile, the financial resources and technologies of developing countries alone are insufficient to achieve energy savings and the reduction of greenhouse gases. It is essential to encourage large-scale capital investment and technology transfer from the private sector of developed countries to developing countries. To achieve this aim it

is extremely important that governments, the private sector and MDBs engage in close dialogue. Technologies that save energy and reduce the emission of greenhouse gases in developed countries can be adapted to circumstances in developing countries. It is also effective to introduce appropriate incentives to stimulate investment in energy-saving technology and the transfer of these technologies to developing countries, including the development of low-cost variants.

The accumulated know-how of the World Bank and other MDBs allows them to act as knowledge banks, offering more than just financial support. These banks are in a position where they can conduct a close policy discussion with the governments of the developing countries and they should make full use of this comparative advantage. Much is expected of MDBs in their support of efforts to construct policy frameworks for developing countries and develop a favourable investment environment.

Japan enacted a law on the rationalisation of energy use in response to the oil crisis of the 1970s, setting strict guidelines for energy consumption and introducing an appropriate regulatory framework. Private sector investment in more economical use of energy was encouraged and Japan has achieved a low carbon society with CO₂ emissions per unit of GDP or energy intensity of around half the levels of other OECD countries. Japan's private sector, in cooperation with the Japanese Government, is ready to transfer to developing countries the best energy-saving technologies that are available.

Next, on the necessity of finding innovative ways of financing low carbon societies and adaptation activities: financial markets are rich. The City here, which represents the pride of London, has throughout its history consistently generated innovative products and provided financing for important investment needs. Using methods of securitisation, the market has provided mortgages for homes and financing for enterprises. Derivatives are another example of financial instruments. In developed countries financing for technologies that save energy and emit less greenhouse gases is already provided by the financial markets. For instance, the development of wind power generation is financed by wind derivatives and eco-funds provide financing for environmentally friendly companies. The development of similarly innovative

financial instruments for developing countries is desirable in order for investments to be compatible with a low carbon society.

Thirdly, institutional stability is essential for promoting low carbon societies from the long-term perspective. However, since the Kyoto Protocol only covers the period up to 2012, in order to ensure institutional stability, it is the responsibility of all governments to establish a framework beyond 2012 which is consistent with the Kyoto Protocol. Commitments under the Kyoto Protocol account for only 30 per cent of global greenhouse gas emissions and, with emissions increasing in developing countries, this percentage is expected to decrease further.

Based on the principle of equity, the next framework needs to establish more effective measures for all countries and to encourage major emitting countries to maximise their reduction efforts. Based on the fact that current emissions are more than twice the global absorption capacity, a framework is obviously required to halve or at least lessen greenhouse gas emissions as early as possible.

We note that the EU has decided to reduce greenhouse gas emissions by at least 20 per cent by 2020 compared with 1990 levels. For the framework beyond 2012, however, it is important to discuss the most appropriate mechanism and commitment targets to effectively reduce greenhouse gases globally, taking pre-1990 efforts into account based on the principle of equity.

In conclusion, I wish to emphasise that strong environmental commitment and leadership are required in both developing and developed countries. Measures against climate change have a large impact on national economic activities in general and addressing climate change is conducive to long-term continued growth. While short-term economic growth is easy to see, the long-term damage from inadequate action is not. Governments should take responsibility for presenting their citizens with clear information concerning the need to address climate change and do their best to gain broad consensus to enact national measures. Such a leading role is necessary for governments. To achieve these objectives, leaders of both developed and developing countries need to engage in close dialogue, with a shared awareness that addressing climate change is the most important global challenge facing them today.

At the G8 summit in 2008 Japan will receive a report on the progress of the Gleneagles Dialogue. With the surefooted implementation of the Gleneagles plan of action and further developments, let us all join together in finding comprehensive solutions to environmental energy-related and sustainable development issues so that we can all enjoy the tangible results. Thank you very much for your kind attention.

(Applause)