



Opening Ceremony of Carbon Expo

Cologne, 10 May 2006

*Halldor Thorgeirsson
Deputy Executive Secretary
Scientific and Technological Advice
United Nations Framework Convention on Climate Change*

Dear organizers and participants,

I appreciate this opportunity to address the opening on behalf of the secretariat of the UN Framework Convention of Climate Change. The Carbon Expo has grown with the market it serves, a market that has grown from zero just a few years ago to US\$ 10 billion last year, and has established itself as an important event for the participants in the market, other stakeholders and policy makers. I congratulate the organizers for the success already achieved.

The carbon market does not exist in a vacuum. It has as its foundation decisions made by governments at national, regional and international levels. Parties to the Kyoto Protocol have created an international legal framework, which fundamentally changes key economic parameters by putting a limit on the access to the global atmosphere. This gives economic value to emission reductions, creates economic incentives for investment in mitigation technology and puts in motion innovation to minimize future cost of emission reductions. And this incentive is not confined to the industrialized countries; it has been extended to the developing countries through the Clean Development Mechanism.

Two years ago, the potential of the CDM to deliver was questioned. A year ago the picture started to change as 4 project activities were registered as CDM projects. Over the last 6 months this number grew from 40 to 176 registered activities, with some 600 activities in the pipeline for formal evaluation prior to registration. The Certified Emission Reductions or CERs estimated to be delivered by the CDM prior to the end of 2012 was estimated to be 800 million tonnes in February. Now, 3 months later, this estimate has reached more than 940 million - equivalent to the combined emissions of the UK and Spain in 2003 - with the threshold of 1 billion within reach.

Six months ago, 50,000 CERs had been issued, this figures now stands at 4.6 million and project participant are forwarding them to their accounts.

It is important to note here that the success of the CDM is in large measure due to actions taken by developing countries, which do not have specific emission reduction commitments under the Protocol. 78 developing countries have established national authorities (DNAs) to authorize CDM projects that will reduce emissions and support their sustainable development goals. 19 developed countries have done the same.

These developments are being delivered by a mechanism which is still in its infancy, and which has tremendous potential to grow. The first Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, in addition to adopting the Marrakech Accords, adopted an important decision aimed at stabilising, strengthening and streamlining the CDM. The secretariat and the Executive Board are actively engaged in implementing this decision.

I am happy to report that Parties have increased their financial support to the secretariat. This has resulted in vastly improved infrastructure to support the CDM Executive Board in its work. For the 2006-2007 biennium, the core budget of 4.6 million US\$ has already been supplemented by 7.4 million from voluntary contributions.

The required total budget for the operations of the CDM during the biennium is 22.6 million US\$ resulting in a gap of 10.7 million, which limits the implementation of some of the CDM activities. With the additional pledges for 6.7 million towards this remaining gap we expect to put in place all the support infrastructure that the EB requires for its work, including:

- Secretariat equipped to provide better support to the Executive Board, to allow it to operate increasingly in an “executive” mode
- Sufficient resources to cover the needed meetings of the Board and its panels and working groups, and to provide the required short-term expertise and consultants needed to support these activities
- Improved documentation of inputs and outputs to the Board
- Enhanced outreach from the Board
- Capacity building activities to better support designated national authorities

The CDM support structure is designed to become self-financing from the share of proceeds levy that has been placed on CDM projects. As projects are being registered, that levy is being collected, and is being set aside for 2008 by which time the CDM should be self-financing as decided by the COP/MOP. We are on track for this to be realized.

As opposed to the CDM - which had a prompt start after Marrakech in 2001, the other project-based mechanism - Joint Implementation or JI only started in earnest after COP/MOP 1 in Montreal. The Joint Implementation Supervisory Committee (JISC) has been established, and it has made a good start. It developed an ambitious work programme, aiming at agreeing on most important procedural issues by the end of 2006. By the third meeting at the end of this month, the JISC is expected to have agreed on its rules of procedure, establishment of accreditation panel, and procedures surrounding the project design documents.

Key countries likely to host JI projects are at the same time establishing their domestic JI procedures. This is expected to re-invigorate the interest and investment in JI. I know that this will be discussed at this meeting. JI outreach activities are also active and include the JI website and a successful JI technical workshop held in March.

However, the JISC and the secretariat are currently facing a severe resource deficiency. Compared to the necessary supplementary resources in the biennium 2006-2007, only 12% are available at the moment. With the first commitment period approaching, and a number of JI projects in the pipeline, contributions from Annex I Parties are urgently needed so that the necessary JI Track 2 procedure can be developed in time and cases of accreditation and review of projects can start as soon as possible.

I have focused on the project-based mechanisms this morning. Emissions trading is also an important component of the Kyoto Protocol. The UNFCCC secretariat is responsible for electronically tracking transactions involving the transfer of Kyoto Units between Parties by way of the independent transaction log or ITL. The ITL underlies the entire carbon market - both emissions trading and the project based mechanisms - as well as the assessment of the compliance of the industrialized KP Parties with their emission targets.

We are currently in the final stages of selecting and contracting a company to develop and operate the ITL and are engaged in in-depth discussions with companies to finalize the details of the leading options and expect successful conclusion of a contract and a public announcement later this month. Key deadline for linking Parties' registries to the ITL is April 2007. The secretariat is confident that this deadline will be met. It is in everyone's best interest to select the best candidate for the development and operation of the ITL. The secretariat is committing significant amounts of Parties' resources over a ten-year timeframe. The secretariat has therefore run a thorough and rigorous competitive tender process to select a company. Though the procurement and contractual processes are complex and challenging, the secretariat continues to give this work the highest priority.

Technology development and deployment is a critically important component of the effort to protect the climate. The climate change problem is a result of the use of inappropriate technology, and technology will therefore play an important role in the solution. Limits on emissions have stimulated the deployment of existing technology. Additional technology solutions will also be needed to move forward on mitigation.

The Convention is not in the process of picking winners when it comes to technological solutions but it can play a catalytic role and stimulate technology development and deployment. One example of this is carbon dioxide and capture technology. The IPCC special report on this option was presented in Montreal and at the upcoming session of the Subsidiary bodies starting next week in Bonn, two in-session workshops will be devoted to this technology. The first will address the technology in general and the second will focus on this technology in the context of the CDM.

You have called for clarity of the needed emission reductions beyond 2012. Significant step towards providing this clarity was taken in Montreal with the establishment of the Ad hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol – or AWG for short. The COP/MOP agreed that the group shall aim to complete its work and have its results adopted by the COP/MOP as early as possible and in time to ensure that there is no gap between the first and second commitment periods.

This Working Group will start its work next Wednesday, 17 May in Bonn. The submissions from Parties provide very interesting insight into the approach they are likely to take in this work and some include suggestions on the level of required emission reductions by 2020. The first meeting of the AWG is expected to focus on the development of its work programme. It is also likely that Parties will elaborate on their expectations for the outcome.

This is the track on the future under the Protocol. At the same time, Parties to the Convention resolved to engage in a Dialogue to exchange experiences and analyze strategic approaches for long-term cooperative action to address climate change. This Dialogue will focus on the attainment of development goals in a sustainable way as well as adaptation, technology and market-based opportunities. The Dialogue will take the form of four workshops before the end of the year 2007 and the first such Dialogue workshop will be held in Bonn 15-16 May.

This Dialogue process will be highly relevant for you in particular in terms of the focus on market-based opportunities, which will likely cover a broad range of approaches. It is also important to note that the COP agreed that the Dialogue should identify approaches which would support, and provide the enabling conditions for, actions put forward voluntarily by developing countries that promote local sustainable development and mitigate climate change in a manner appropriate to national circumstances.

I would also like to bring to your attention in this context that developing countries took the initiative in Montreal to initiate consideration under the Convention of ways and means of reducing emissions from deforestation in developing countries. Deforestation is a significant source of emissions, by some estimates 20% to global emissions, and for many developing countries far outweighs energy-related emission. Some developing countries look to the carbon market as one potential source of positive incentives and a way to value the ecosystem services provided by forests. Work on this within the Convention will start in SBSTA next week. There is a broad range of views on how to proceed in this area, making it difficult to predict the direction will take.

The Parties agreed in Montreal that the Dialogue would be informed by the best available scientific information and assessment of climate change and its impacts. The Intergovernmental Panel on Climate Change is now in the final stages of preparing its fourth assessment report. The scientific evidence on human-induced climate change is significantly stronger now than when the Third Assessment Report was completed.

It is therefore likely that decisions by governments on further action on climate change will be informed on one hand by stronger scientific evidence on the urgency of the problem and on the other by progress on developing solutions, including indications on the cost of mitigation, which can be gleaned from the carbon market.

- - - - -