

EU Roundtable
Environmental Protection and Climate Change
Cost, Opportunities, and the Role of Public Support
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Caio Koch-Weser
Vice Chairman, Deutsche Bank Group

A Global Finance Perspective

- Climate change is a serious challenge to policy and business community alike; rapid and fundamental strategy is needed to reduce carbon while sustaining growth
- Business and financial industry sees not only the risk of climate change for economic development but at same time vast opportunities; business drives technological innovation, financial industry invests directly and helps raising funds to invest in technology, products and projects – applies to developed and developing countries alike. Many investments in emission reduction are paying off quickly (McKinsey report for BDI shows numerous examples e.g. in construction activities); these can easily be realised by private initiative only, as they are a win-win-situation for both the companies and our climate.
- However, enabling policy framework is needed

- Only 18 months left before Copenhagen 09 to agree a new global deal
- From experience in World Bank and Government, and now in global investment bank, I believe more can be done to quickly mobilise private sector capital and innovation, with business
 - Demanding and enabling action by governments;
 - Helping build support among all stakeholders, and
 - Piloting demonstration schemes even before Copenhagen
- Let me also say that Deutsche Bank is a very active in the climate change space, various parts of the business already and building out range of activities. We are involved in some key M&A deals at the moment in the renewables space, we are the leading asset manager (Euro 10 billion AM und privatee wealth). We have been also a significant participant in the carbon market, of course ETS since. We have also engaged in substantive dialogue with the policy community in recent years, and look forward, of course to continue this dialogue including with the EU Commission.
- Seven proposals for action by the international business community to be pursued in partnership with Governments on road to Copenhagen: Some of these points require decisive support from governments, some can be addressed by business (financial services) alone
 - 1) The international business community to demand clearly and strongly in concerted fashion a new, long-term, comprehensive, market-based policy framework.

- Long-term: to provide continuity, stability and reduce uncertainty (uncertainty beyond 2012 already a problem for us in pricing);
 1. Meaningful short- and medium-term targets embedded in long-term envelop
- Comprehensive: prominently G8+5, all GHG, all relevant sectors (will come back to what relevant sectors means later).
- Equitable: Common but differentiated responsibilities.
- Foremost, framework should be market-based: introducing cap/trade system leading to international market and to global price for carbon, ETS a good experience and basis which could be globalized; Based on ETS experience:
 - In second phase of ETS (2008-2012) lower allocation that was also pushed by EU was successful.
 - Auctioning will be an important next step from 2013 onwards. Not only in energy sector but in growing number of other sectors
 - However, it is reasonable to be sensitive regarding potential impact on competitiveness for energy intensive sectors.
 - 2013: Rather EU-wide targets than national reduction allocations. It makes sense to lower caps to increase incentive to trade

- Banking of certificates makes economic and ecologic sense – being able to allocate certificates over an overall investment period allows not only efficiency gains between companies but also between time periods
- 2) Progressive companies in business community should speak with one voice – collaboration of various business is key and more effective than “going it alone” strategy; also active partnerships between business fora (national and international) and governments to redouble effort in support of political process of negotiation. Business fora such as TABD, WEF Gleneagles process, World Business Council for Sustainable Development to expand to corporate sector in the large Emerging Markets (G8+5) to broaden support. There exists empirical indication that existing energy efficiency networks in Europe, where companies share their knowledge, help to reduce energy consumption by 2-3% p.a.
 - 3) Private sector to call for Preserve flexible mechanisms such as CDM and JI and consider combining them into one framework with shared methodology and oversight to avoid duplication
 - 4) To focus on key greenhouse gas emitting sectors, ranging from industry-led international initiatives to develop common data and methodologies within a sector to inter-governmental agreements on sector targets, standards and other measures. Could be developed independently, but should ultimately be integrated in international framework.

- This approach might be feasible in limited number of energy-intensive industries that trade internationally and have competitiveness concerns.
- Driving some pilot projects and following this approach could generate momentum in short-term and could draw certain sectors of some countries into a reductions pathway, prior to those countries committing to national absolute targets.

5) (Clean Energy) Technology Leapfrogging: private sector to spearhead and support the critical priority of establishing mechanisms to leverage private financial markets and finance in order to accelerate clean energy investments in developing countries, and rapidly to catalyse demonstration projects.

- Finance Facility of World Bank (other MDBs) of \$10b, leveraging say \$100b of private finance for investment: equity, debt, innovative financial instruments. The Facility would
 - a. buy down incremental cost of such projects through grants and concessional loans, and
 - b. enhance creditworthiness of future revenue flows from carbon credits through partial guarantees.
 - This would help ensure rapid technology leapfrogging on major scale.

- Money from future auctioning of certificates could also be used to be invested in clean energy (R&D, Adaptation strategies, debt servicing). The German Climate Fund (Deutscher Klimafond as example, that money could be reinvested in PPP-strategies.

6) Private sector to pick-up on Bali progress on avoiding deforestation and work with Governments to facilitate international market-based mechanisms and finance flows to catalyse accelerated levels of avoided deforestation.

Sustainable forestry and non-timber forest product concepts should also be private sector concessions- and community-based. Strictly monitored.

7) Finally, business community to push for some enabling elements which are important to get right internationally.

- Common metrics: Common carbon accounting standards and methodologies, data calculation tools and disclosure processes.
- Periodic comprehensive and systematic review of collective progress, requiring strong monitoring and evaluation systems, and perhaps new institutional arrangements linked to post 2012 framework (in addition to IPCC and UNFCCC).

Deutsche Bank engaged in “carbon diplomacy” bringing product expertise as well as research and regulatory insight to various

players around the globe. We have been especially active in Brazil including around rainforests; United States (just leaving for California tomorrow), China; invited to advise India; and of course in Europe.

The international business community, particularly of the G8+5 countries should join us in these efforts. Together we can lead on the road through Poznan to Copenhagen with such an agenda.