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Financing for Climate Innovative Solutions and New Markets

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Opening Remarks

Ladies and Gentlemen

It is a great pleasure for me to be here and to welcome you to this conference. Climate Change is a global challenge that requires a worldwide and concerted response. Neither the private nor the public sector can provide all of the assistance (financial, technical, advisory) needed. Working in partnerships will be crucial. This conference is an excellent platform to discuss options on how the private and public sector can join forces and collaborate effectively on climate-friendly financial solutions.

In the following, I would like to focus on three topics: (I) Swiss Climate Policy; (II) the main activities of my ministry in the field of climate change; (III) Government's contribution to mobilize private sector investment.

1. Swiss Climate policies

In the global framework, each country has to play its role according to its "common but differentiated responsibility" as it is called in the jargon of the UN convention on climate change. In the current Kyoto-Protocol, Switzerland is committed to reduce emissions by 8 % by 2012. In order to achieve this, Switzerland implemented several measures:

- A CO₂ tax was introduced in January 2008. The proceeds are not taken as fiscal revenues for the government but are fully refunded to the population and private sector through health insurance and labour cost rebates.
- Companies can be exempted from the tax if they legally commit to substantially reduce their emissions. Emission allowances, which can be traded within Switzerland, are allocated to these exempted companies. Switzerland intends to link the Swiss emission trading scheme to the European emission trading scheme.
- To offset transport emissions, a privately administered Climate Cent Fund was established in October 2005. It is funded by a levy on transport fuels of 1½ Cent per liter. The Climate Cent Fund finances emissions abatement projects in Switzerland and abroad.
- The Swiss Federal Council adopted in February 2008 an action plan on energy efficiency and on renewable energy. The adopted measures aim at reducing the demand for fossil energy, increase the supply of renewable energy, stabilising electricity consumption and creating incentives for energy efficient investment and consumption patterns. We want to achieve this by means of incentives instead of interdictions.

In parallel to the ongoing international climate change negotiations, the Swiss government is currently evaluating options for the further development of Switzerland's climate change policy. We still have a potential to reduce our CO₂-emissions, especially in the field of building standards and traffic.

However, due to the small number of energy-intensive industrial plants and a CO₂-free electricity generation, Switzerland's domestic potential is relatively limited. Accordingly, it is more efficient to invest in CO₂ abating projects abroad.

Our contribution to the global climate regime can become even more effective and cost efficient, when we actively support emission abatement abroad and especially in developing countries.

One prominent way to do this are the international emissions trading mechanisms. The beneficial effects of such foreign investments is amplified by emission prognoses, which assume important increase in emissions especially in developing countries. The Swiss Federal Government is actually evaluating even a complete carbon neutrality of Switzerland.

For Switzerland, the use of reliable and efficiently working emission trading mechanisms is important. The flexibility mechanisms of the current Kyoto-Protocol have to be further developed and enhanced. Their ecological integrity must be guaranteed. These mechanisms then also provide reliable business opportunities for the private sector.

From my point of view as minister of economy, it is key to recognise that mitigation of climate change as well as adaptation are of high economic relevance. Successful climate policies should therefore be based on sound economic strategies:

- In order to reach ambitious reduction goals, mitigation has to be undertaken where it is cost effective. We have to strengthen price signals that mobilise investments in emission reductions and new technologies in Switzerland as well as abroad.
- A successful post-2012 international climate policy framework must involve all the major emitting countries - both developed and developing countries.
- The global climate regime must stimulate climate friendly growth in developing countries. That requires substantial financial- and technology- transfers including capacity building from developed to developing countries. Climate change policy can and should be part of our efforts to reduce poverty in developing countries. In this environmental but also economical global process we have to help these countries to industrialise with clean technologies.

2. Activities of SECO's Economic Cooperation and Development Division in the field of Climate Change

In addition, the State Secretariat for Economic Affairs (SECO) in my ministry is going to strengthen its climate related activities under the new framework credit 2008-2012 for the economic development cooperation: "Climate, energy and environment" is going to be a cross-cutting issue for SECO's future interventions. The focus will be more on mitigation than adaptation measures.

There are three fields in which economic development cooperation can make a difference in the area of climate change:

(i) technology transfer and investment for clean technologies

An accurate overview of existing clean technologies, and access to financing them are crucial for low and middle income countries' development: Usually, such technologies increase the industrial competitiveness thus creating demand. For this purpose, SECO has created – together with UNIDO – a network of National Cleaner Production Centers. These service centers offer assessments and training to small & medium size enterprises (SMEs) in the field of eco-efficient and clean technologies.

Once technological options are identified, sustainable finance to SMEs must be structured. On the one hand, SECO invests in dedicated development private equity funds operating in developing countries through its investment arm SIFEM (Swiss Investment Fund for Emerging Markets). On the other hand, SECO introduced so called "green credit lines" in Colombia, Peru and Vietnam where SECO shares risks with local commercial banks extending loans to SMEs investing in clean technologies.

Technology transfer can be best achieved if technology advice and innovative financing tools – such as the green credit lines - go hand-in-hand.

(ii) establishment of the carbon emission reduction market

SECO has been a pioneer in supporting the establishment of the international emission reduction market. Already in the late 1990s, SECO financed a series of National Strategy Studies, showing the partner countries' potential in climate change mitigation projects. Today, as a core donor of the World Bank's Carbon Finance Assist Trust Fund, we help partner countries to make use of the flexible mechanisms under the Kyoto protocol. Switzerland is also an active donor in the recently created Forest Carbon Partnership Facility of the World Bank. This facility will enable developing countries to quantify and monetize the climate protection effect of sound forest management, and integrate this important field into the global carbon market.

Furthermore, the new “Climate Investment Fund” will scale up financing for investments in developing countries that achieve sustainable development goals and contribute to a low carbon development path and a climate resilient economy. We are currently examining a financial contribution to this fund earmarked for investments in renewable energy projects in poorer countries.

Donors have an important role to play in removing bottlenecks to the young CDM market. Sectors with particular interest for poorer countries – such as transport, or forestry – must be opened up for the CDM. On the other hand, it is key for private investors to be fully aware of the potential of CDM and to factor it into their investment decisions.

(iii) innovative financial solutions for climate change adaptation

Knowledge and tools of the financial sector are urgently needed to enable climate change adaptation. This is even more true in poorer countries, which are more vulnerable to climate change. Therefore, in the field of weather risk management, SECO supports the World Bank’s Commodity Risk Management Group. The Bank is currently testing the use of innovative index-based weather insurance products in the agriculture sector of several countries (India, Malawi, Nicaragua) in partnership with farmers’ associations, commercial banks and the insurance industry.

The rising impact of natural disasters is driving up the cost of disaster relief and reconstruction, in particular in poorer countries where insurance penetration is still low. It is key to ensure that innovative financial risk transfer solutions are also applicable in developing and emerging countries and I am glad to see that important steps in this direction have already been undertaken.

3. The Government’s contribution to mobilize private sector investment

In the fight against climate change, not only time is the essence but also successful partnerships between public and private actors. As for dancing tango, it really takes two to win the competition, with clearly defined roles and comparative advantages.

I would like therefore to insist on three key messages from a public perspective, hopefully shedding some light on the role governments can play to help mobilize further private investment for climate change mitigation and adaptation.

My first message is that more should be done to provide a regulatory environment conducive to attract investments and innovation in sustainable projects or technologies. Regulatory actions can significantly stimulate demand for green products and services as well as investments in emission reductions and new technologies. As an example, we expect significant increase in the supply of renewable energy

supply in Switzerland due to the recently introduced feed-in tariffs for electricity from renewable sources. Furthermore, we aim encourage farmers to use so far unexploited sources of renewable energies on agricultural farms by supplementary subsidies.

My second message is that we need to forge more partnerships between governments, multilateral agencies and the private sector that can pool technical and financial resources to address both mitigation and adaptation. Tariff reductions on environmental goods, as stipulated in the Doha Ministerial Declaration of the WTO, would certainly be a step in the right direction.

Lower tariffs would help to stimulate technology transfer in the field of energy and infrastructures, and thus avoid a “carbon lock-in” effect and the associated climate-related natural disasters in those regions. This event provides the perfect platform for discussing innovative ideas and solutions.

My third message is that public and private investors are highly complementary in the fight against climate change. Development finance institutions such as the IFC as well as bilateral development finance institutions have a key role to play in gradually building up a track record in investing into new technologies, energy solutions and infrastructures, particularly in non-traditional markets.

The basic idea here is to be fully subsidiary to the market and take upfront risks which private investors could not normally take alone, and to act as a catalyst in order to mobilise private funds either locally or internationally.

We take this responsibility very seriously in Switzerland and recognize that this is a challenging task. We should therefore remain both realistic and ensure strict adherence to financial best practices in order to create a sound track record in this area.

Let us not forget that sustainability encompasses not only the environmental dimension, but also the financial dimension. New generations of venture capital funds or growth capital funds are emerging, and this is our responsibility to assess risks and opportunities in factoring in the lessons from the past and the best practices of the industry.

This is how we can jumpstart the market and step back when private investors lead the show.

4. Conclusion:

Let me conclude by emphasizing the key points:

- Markets play an essential role in ensuring sustainable development. Leading financial institutions have been supportive in addressing climate change. However, more can and should be done. I encourage financial institutions to integrate climate change related risks and opportunities into core financial operations and to engage with private sector partners and governments to optimise the allocation of available funds to combat climate change.
- International financial institutions (IFIs) such as the IFC have a key role in supporting low-carbon development in developing and transition countries. IFIs need to be at the cutting edge to ensure that climate change becomes an integral component of their efforts to support sustainable economic development and poverty reduction.
- Governments, multilateral agencies and the private sector must forge partnerships. I encourage that your institutions focus on priority areas based on their comparative advantages and to ensure that this approach is aligned and coordinates with other relevant actors.

This conference is pioneering and catalyzing the collaboration among these three forces (the government, the private sector and the multilaterals). Your efforts in your particular field and our efforts in ours' will bring this important agenda forward. I wish that the conference brings the desired results.

Thank you for your attention.