



## The Ministerial Conference on Global Environment and Energy in Transport

Keynote Speech by

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Your Excellency, Honorable Ministers, Distinguished Delegates and Guests, Ladies and Gentlemen,

I am particularly honored to be given the opportunity today, on behalf of the World Bank, to address such an important meeting. I would like to start by thanking the Government of Japan for hosting this event and for this joint effort undertaken with many governments, organizations and agencies.

Ladies and gentlemen, as we assemble here today, profound and radical changes are taking place all across the world that are altering the structure of the world economy, our financial and energy landscape and our environment — changes that will continue to do so throughout the rest of the 21<sup>st</sup> century.

As we all know, climate change is a global challenge, but one which will affect even more drastically the growth prospects of the most vulnerable countries of the world. And among many sectors contributing to the problem, transport is one of the most significant, both because of the sheer magnitude of its impact, and even more so because of its fast increasing emissions growth rate. Let me briefly outline now the World Bank's approach to tackle this global environment and transport agenda.

**First, climate change will negatively impact on economic development in poor countries.** Increased Greenhouse Gas (GHG) emissions will increase temperatures and the frequency of extreme weather events. They will in turn reduce agricultural productivity, destroy infrastructure facilities, spread diseases, and irreversibly reduce bio-services. The reduction of GHG emissions will reduce development risks, damages to the outcomes of development efforts and the need to cover enormous adaptation costs. Costs to adapt to climate change will disproportionately fall on poor countries. Policies to induce low-carbon growth provide a global public good and help the poor.

**But simultaneously, the expansion of the transport sector and the reduction of transport costs are basic, general drivers of the development process.** At the same time, the transport sector is one of the main emitters of GHG and its role is likely to increase. Low transport costs

create markets in rural areas, bring about gains from interregional and international trade and are the prerequisite to associate agglomeration economies with the urbanization process. With current opportunities and relative costs of technical substitution other sectors are expected to be more successful in reducing their carbon intensity.

**Climate-related transport sector activities by the Bank are based on the Strategic Framework for Climate Change endorsed by the Board of the World Bank in 2008.** It recognizes that global efforts to overcome poverty and advance development have to take account of the urgent need to address climate change. In accordance with the UNFCCC Bali Action Plan it agrees that developing countries need to take nationally appropriate mitigation actions in the contest of sustainable development without compromising growth, by transferring finance and technology from developed countries in a measurable, reportable and verifiable manner. A strengthening of the financial architecture for development is required at a scale not seen before.

**The global overall reduction targets in terms of the long-term GHG stabilization levels define the scale of the overall policy efforts to contain climate change.** The importance of the transport sector for economic development and the technological opportunities to reduce the carbon-intensity of transport services determine the costs of reducing the emissions of the sector. These costs, relative to those in other areas of economic activity, decide the sector's contribution to the overall reduction targets.

**The opportunities to reduce the emissions in the transport sector by direct technology substitution are currently limited.** According to the IPCC Working Group III substantial reductions of the GHG emissions depend on biofuel feedstocks and vehicle technologies that are not available yet. Currently available biofuels and advanced vehicle technologies do not yet provide necessary reductions of lifecycle emissions. Hybrid and diesel cars do not achieve deep cuts in GHG emissions, and electric cars so far offer little progress over hybrid gasoline cars due to GHG emissions in production. Moreover, transport services have many quality attributes valued by consumers (speed, comfort) which conflict with the reduction of energy use. Specifics of transport infrastructure limit the carbon saving potential of modal shift. The very long durability of transport infrastructures and the fact that they are sunk (or not recoverable on resale markets) means that infrastructure policy decisions strongly impact on the long-term modal structure and carbon intensity of the sector.

**But the reduction of GHG emissions in the context of an overall transport sector reform substantially reduces its cost.** The co-benefits of addressing congestion, transport safety, local air pollution and energy security strongly increase the opportunities for reducing GHG emissions. Moreover, packages of sector interventions facilitate policy decisions at the local level whose costs are local and benefits in part national or global.

**1. So policy measures should be chosen as to minimize costs in terms of economic development to achieve the emission reduction targets.** A first level of interventions focused on knowledge transfer and organizational changes can reduce emissions, in particular by improving traffic management as well as intermodal coordination and logistics.

**At the sector level, the main instruments to achieve the transition to low-carbon will be fiscal incentives (pricing, taxes, and subsidies), tradable emission quotas and regulatory standards.** While standard economic arguments suggest that fiscal incentives achieve reduction targets at lower costs, policy discussions focus on emission permit trading schemes and technical standards. The higher costs earn certainty about policy outcomes and exclude the misunderstanding of a fiscal motivation. Technical standards raise the expectation of directly accelerating technical progress and leading to a sharing of the burden of adjustment between users of transport systems and firms. It is an open question whether emission reductions can be achieved without measures to increase fossil fuel prices: Successful non-price measures would lead to a reduction of fossil fuel demand and decreasing oil prices. The last months have shown that demand for fossil fuels and efforts to substitute high-carbon technologies react to falling oil prices, in particular in the transport sector.

**Fiscal and regulatory incentives will lead to a shift in modal demand.** The integration of demand management and infrastructure policies is required to achieve the match of demand and modal capacities. It avoids the misalignment of isolated supply side measures which are common and less problematic in other sectors. At the urban level transport systems shape the density and area size of settlements. At the same time intra-city congestion endangers productivity effects from agglomeration. To reduce the carbon-intensity of cities, land use planning, housing and energy infrastructure has to be designed in a systemic approach.

**Additionally, in many cases, effective policy making will have to be based upon institutional reform.** With decentralized transport policy making fueled by decentralization reforms, competition between cities or regions may work against action to reduce emissions in the transport sector at the national level. National frameworks for sectoral policies are instrumental to avoid failures of coordinated action in these situations, and to avoid local inaction due to a competition trap. Local costs and local benefits have to be aligned to motivate policy action at low level jurisdictions. A federal system of fiscal redistribution to ensure a fair sharing of the burden to achieve reduction targets will increase local motivation for joint climate change action.

**Moreover, a second dimension of institutional reform to make climate change action more effective concerns the reduction of the horizontal fragmentation of policy making into isolated departments.** The harnessing of co-benefits and the interrelationships between the different infrastructure subsectors at the urban level are the most obvious policy domains requiring coordination across departmental boundaries.

**Another crucial dimension is financing.** The Climate Investment Funds have been established by the World Bank jointly with the AfDB, AsDB, EBRD, and IDB, with the aim of promoting international cooperation on climate change and supporting progress towards the future of the climate change regime. The total pledges are so far around \$6 billion. The CIFs seek to utilize the skills and capabilities of the multilateral development banks to mobilize new and additional resources at significant scale. The CIFs have the objective of providing experience and lessons in responding to the challenges of climate change through learning-by-doing. These new funds build on the experience gained from the World Bank's Clean Energy Investment Framework, which identified the need for increased financial resources and instruments to fill the financing gap to scale up clean energy investments and to integrate climate resilience into development assistance.

The CIFs consist of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The CTF seeks to fill a gap in the international architecture for development finance available at more concessional rates than standard terms used by the multilateral development banks and at a scale necessary to help provide incentives to developing countries to integrate nationally appropriate mitigation actions into sustainable development plans and investment decisions. The CTF is designed to promote scaled up demonstration, deployment and transfer of low-carbon technologies in power sector, transportation, and energy efficiency in buildings, industry and agriculture.

The SCF will provide financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge through targeted programs.

**In conclusion, The World Bank Group is adjusting its transport sector agenda to the strategic perspective I just outlined.** In May last year the Bank issued a new Transport Business Strategy, under the title *Safe, Clean, and Affordable Transport for Development*, which makes addressing the transport and climate change challenge one of its key objectives, both on the mitigation and adaptation sides. It also recognizes that programmatic support will have a greater importance, together with a deepened effort in expanding the transport infrastructure in developing countries, in achieving a sustainable development path. This is the journey the World Bank and all its development partners are now embarking on. This Ministerial Conference is at a critical moment in helping move this process forward.

Thank you for your kind attention.

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