

Low Carbon Technology Alliance Statement of Intent and Principles

**UK Carbon Trust
Clean Energy Group
Federation of Canadian Municipalities**

September 2003

Purpose

This Statement of Intent is designed to establish a working relationship between the UK Carbon Trust (Trust), a nonprofit government-funded clean energy investment company working in the UK; Clean Energy Group (CEG), a nonprofit US based non-governmental organization, and the state clean energy funds that work with CEG; and the Federation of Canadian Municipalities' Centre for Sustainable Community Development (FCM), which manages the Green Municipal Funds and supports municipal government action to cut pollution, reduce greenhouse gas emissions and improve quality of life in Canada. It is anticipated that other organizations will join this effort in the coming months.

The purpose of the Statement of Intent is to establish the framework for a dialogue among the three organizations and future participants from other countries. It should be seen as a modest effort to begin the debate among these organizations that have similar low carbon technology deployment goals, and to bring together the range of international practitioners who are on the leading edge of fielding practical deployment programs in this new area.

This Statement is only the first step in this process, an initial effort to begin a discussion about how best to structure and carry through an international, multi-party effort to accelerate low carbon technology deployment. It recognizes that all countries are at different stages of maturity in their markets for these technologies; each will have something different to offer and to learn.

This Statement in the first instance, in parallel with any substantive exchanges, will address these challenging organizational issues:

- To identify the advantages and disadvantages of such collaboration, including the competitive issues that can adversely affect collaboration;
- To define and structure an ongoing, effective working relationship across borders, while recognizing the different goals and mandates of the respective programs of the participants;
- To allow for and encourage multi-party as well as bilateral arrangements;
- To define the range of new participants that will benefit from this effort and to work to bring them into the discussion as full participants;
- To structure this discussion so as not to duplicate parallel efforts;
- To clearly define the goals and purposes of this exercise to all parties;

- To build trust among the parties so that this process will be sustained, expanded and funded; and finally,
- To build the early capacity for sharing so that sophisticated and durable levels of collaboration can produce the needed reforms and practices to bring about the carbon emission reductions to achieve a sustainable environmental system.

The opening round of work under the Statement likely will focus on the best means to share information and otherwise work together on near term market opportunities, including energy efficiency, clean energy and low carbon technology development. How to identify and share the most “innovative” practices in these and related areas, so that the parties can learn about the most effective strategies that have worked, and those strategies that have not worked as well, will drive the early phases of the work. Which subsequent, longer term substantive areas to focus on will be up to the parties to decide; that is the benefit of such collaboration and cooperation.

The Organizations

UK Carbon Trust. The Trust was set up in March 2001 as part of the UK’s Climate Change Programme. It is tasked with using various tools to create a low carbon economy, including energy efficiency, and renewable and clean energy investments in projects and companies.

Clean Energy Group. CEG is a US based nonprofit organization dedicated to accelerating the commercialization of clean energy technologies. Among its projects it manages is the Clean Energy States Alliance (CESA), another nonprofit organization that works with various state level public funds that invest in clean energy technologies, projects and infrastructure.

FCM Green Municipal Funds. The Green Municipal Funds were established in 2000 through an endowment to the Federation of Canadian Municipalities (FCM) by the Government of Canada to stimulate investment in innovative environmental infrastructure projects for Canadian municipal governments and their public or private-sector partners.

In the last few months, as a result of ongoing meetings and discussions, the three organizations began an informal dialogue on ways to work together to advance their mutual interests. This statement of intent grew out of those discussions.

Background

The Kyoto Protocol is fundamentally changing the way governments, business and civic institutions view low carbon technologies. In the EU and in Canada, which have adopted Kyoto, there is the opportunity to create systematic models for delivering emissions reductions. In the US, which at present will not be adopting Kyoto, there is nevertheless tremendous activity involving state-based investments in renewable energy and energy efficiency in new markets.

There is a unique opportunity to take advantage of these complementary approaches to delivering change, to identify the best practices from each -- the civic programmes of the EU and Canada and the market approaches of the US -- to understand them, share them and advocate for them on either side of the Atlantic. As in many other areas, the challenge is to develop new ways of closing the gap on the ground between the private market and government.

Context for Collaboration

On both sides of the Atlantic, innovation and investment is the key -- to bring forward the new low carbon technologies and drive them to market. The potential market is large -- potentially of the same order as pharmaceuticals or aerospace. There are early signs, particularly in the EU and Canada that Kyoto and the prospect of emissions trading are beginning to stimulate change and investment by business. In the end, the need is to convert this environmental problem into an economic development opportunity for all countries.

Need For Increased Private Investment. One key challenge is significantly to increase the scale of renewable and clean energy investment by the private sector, which is critical to build large, durable and sustainable markets for these technologies. How to leverage public capital to bring about this step change in private investment in the energy sector is a critical challenge facing the public funds. There are several reasons why the private sector is reluctant to invest.

In many cases there is not enough experience with the technologies or their use for manufacturers to experiment, or for investors to have confidence. The industry is too small, too little innovation occurs, and the markets remain immature. Also there are numerous behavioral and organizational barriers to investing in otherwise cost effective measures.

Key Role of Public Funding. That is why the new public funding mechanisms are so important -- to jumpstart market activity in the private sector, and to create more public demand for cleaner technologies. There are signs of a new collaboration between governments, their agencies, NGOs and business to stimulate the market development and deployment R&D that this fledgling industry cannot afford to do on its own. If these public funding agencies begin to work together, they could create a structure for a global marketplace for clean energy investment attractive to private capital.

Link to Climate Change Efforts. Several EU countries are now developing comprehensive climate change policies and measures to overcome barriers to investment. The same kind of innovative government practices are underway in Canada.

These take a variety of forms depending on circumstance: research and development, public procurement, technology benchmarking and standards, training and awareness

programmes, taxes and regulations and financial incentives. This activity will accelerate now that Kyoto has been adopted in these countries.

While the EU and Canada are leading the way on policies and measures on climate change, the US is forging new ground on low carbon technology investment strategies, even though many of the US programs are not “climate change” programs in the normal sense of that term. These programs are designed to build markets and applications for clean energy technologies for environmental and economic development purposes; nevertheless these practices constitute a low carbon technology approach.

On clean energy alone, 12 states have created dedicated programs that total over \$3 billion toward financing projects, companies and markets. The funds for energy efficiency are several times this figure. These are market based, public financing programs targeted toward low carbon technology deployment. In some cases, states are enacting climate change plans, but the activity proceeds in most places without an explicit climate mandate.

There is some limited, investment crossover activity in Europe. The Carbon Trust in the UK, ADEME in France and organizations in the Netherlands are developing investment-based approaches to public policy. Similarly, there is limited cooperation and information sharing between Canadian funds and their US counterparts.

Value of Collaboration. But in general the three economic blocs are developing very different models with the EU focusing on policies and measures, with Canada developing a hybrid of policy and investment, and the US focused principally on economic development investment without a strict climate change policy dimension.

Even with these differences, there is already a great deal of beneficial information on both sides of the Atlantic that is of value to share among the three organizations (and others that could join in the future).

The time is right to concentrate on shared experiences with public funding of low carbon technology to take advantage of these activities.

Need for Transfer of Information, Analysis and Best Practices

To date, there is little sharing of key information among local and regional governments, public funders, companies and NGOs in Europe, Canada and in the US. And there is virtually no sharing of knowledge among European, Canadian and US institutions that are working on key technology implementation mechanisms. The only information that is shared is usually among national governments, at a broad policy level.

Collaboration Gap on Deployment. As a result, there is a serious “collaboration gap” among real practitioners who are deploying public investment programs. They are on the front line of making public capital work to accelerate low carbon technology

commercialization. Their jobs can be made more effective if they, like private investors, work together to bring about significant market change.

To fill this gap, the Trust, FCM and CEG plan to establish a new Low Carbon Alliance to advance the collaboration between Canadian, US and EU climate change implementation agencies.

This Alliance is to be nimble, non-bureaucratic, and market-based: a clearinghouse and network that would produce real value to all participants with minimal staffing, funding and time.

Focus of Early Stage Collaboration. Acknowledging that we need to address the organizational issues as the first step in our work, we envisage that, initially, this collaboration could involve, *inter alia*,

- Networking
- Peer to peer exchange of information and best practice
- Strategic planning to include analysis and development of new approaches to low carbon technology deployment
- Exchange of best practices on technology diffusion and innovation, including private and public finance mechanisms, and
- Communication of its findings and opinions to sponsor Government and international bodies.

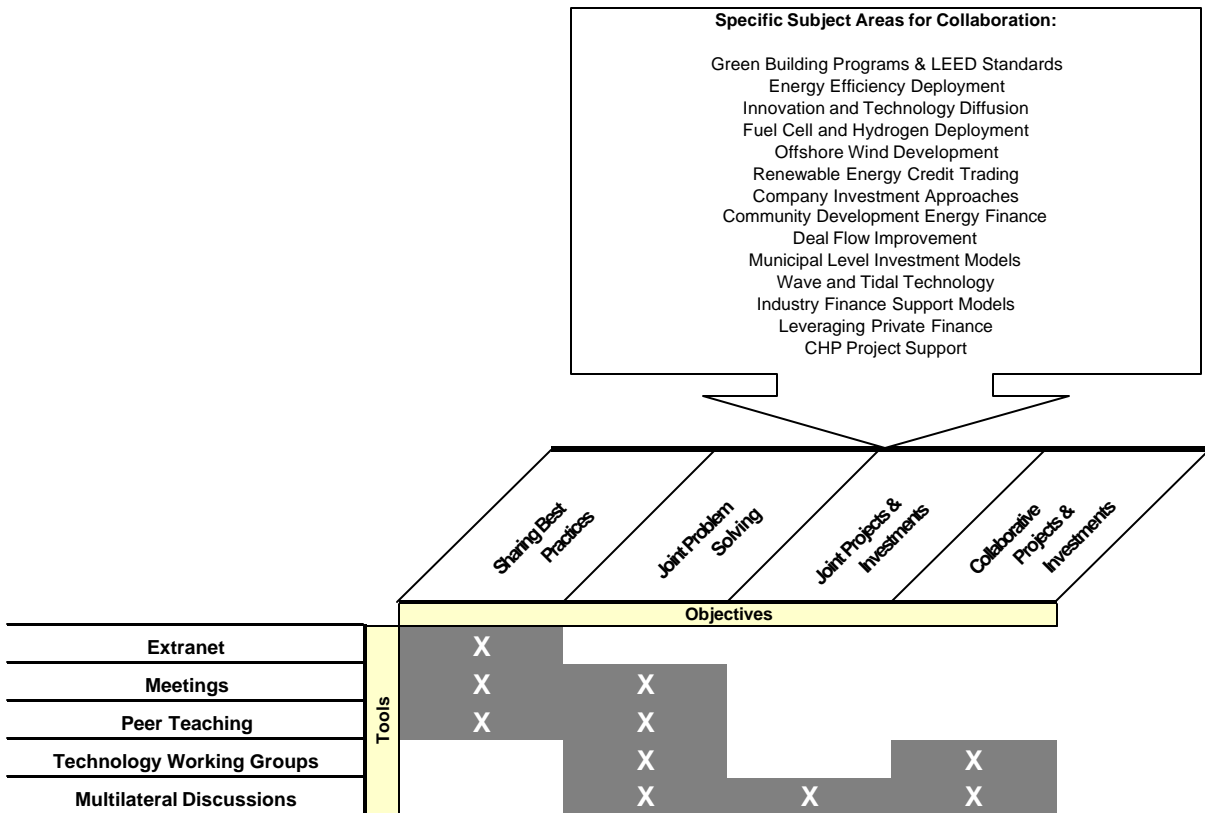
In particular, it is important to define the objectives and the tools that would be employed to implement these objectives. This is described in the next section.

Delivering a Low Carbon Alliance

Collaboration among like-minded organisations with overlapping agendas across international boundaries makes sense. However there are sensitivities, particularly in technology areas that have global reach, and the intellectual property rights (IPR) associated with this, and in ensuring that the benefits of collaboration return, and are seen to return to the participants.

This agreement demonstrates that developing such a relationship is possible in the common interest. But delivering an effective and self-sustaining alliance will take time and care.

The following diagram is a possible framework that the Alliance could use to help define its workplan and priorities. It attempts to draw together possible areas for collaboration, the value-added objectives of collaboration, and the tools for making it happen.



The Alliance with its constituent members, jointly or severally, to enter in to other involved relationships, including *inter alia*, co-funding and joint investment projects, collaborative research and development programmes, and exchange of personnel.

In addition, it is important to identify appropriate ways to engage private industry and governments in this effort. The private sector controls enormous sources of capital that is

needed to invest in these technologies. The governments make policy that could affect the deployment strategies of participating agencies. In both instances, dialogue and cooperation will produce mutual benefits.

Next Steps, Meetings and Conference

We are eager to begin to work together now to discuss and build on the above collaborative framework, and to expand our activity over the coming months and years.

We have already begun collaboration on key elements through various meetings held in the spring of 2003. A number of collaborative topics have been developed that informed the creation of this statement.

- **Work Plan.** Based on these and future meetings, we will develop a specific work plan to better define the detailed scope of work under this statement.
- **Future Funding.** The current activity is partially funded by US foundations such as the Oak Foundation; in order to pursue this work aggressively, we will, on a project by project basis, identify deliverables and appropriate supporting budgets, recognising, however, the funding constraints on participants. Some funding will be targeted for specific deliverables while some resources for organisational and support activities could derive from contributions in kind. This Statement is a commitment to work together on a joint approach. Once we have identified particular value-added projects and their deliverables, we will work to reach individual project agreements that outline objectives, outcomes and resource contributions and clarify how each organization could support a project in terms of financial and in-kind resources. This approach is based on the project-based consensus method that CEG has used with the state members of the Clean Energy States Alliance.
- **Meetings.** We have identified several meeting opportunities to exchange information and do peer to peer work; these include an upcoming meeting of the CESA state funds and Canadian counterparts in late 2003, and a possible meeting in London around the Grove fuel cell conference.
- **Innovation Work.** If we can identify the appropriate structure, we will look for opportunities to share practical experiences about innovation theory and application, respecting any intellectual property rights or duties of confidentiality binding participants.
- **Other Members.** We agree to work collaboratively to expand the Alliance to other private and public funding agencies dedicated to low carbon technology investment. In particular, this work will be coordinated with the other parties to the meeting in The Hague in early May 2003 that committed many international players to a Kyoto “implementation on reduction” agenda that involves finance, policy and innovation.

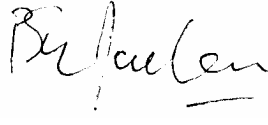
This Statement is designed to be a flexible document, not legally binding and not intended to create any legal relationships amongst the participants, but under which the

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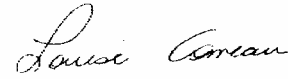
parties confirm their intention in good faith to work together on these and other new issues that will be developed through an ongoing alliance.



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