



## **U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS**

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### **UNDER SECRETARY FOR INTERNATIONAL AFFAIRS DAVID H. McCORMICK TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES, SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE, AND TECHNOLOGY**

**Washington, D.C.** – Chairman Gutierrez, Congressman Paul, Members of the Committee, thank you for the opportunity to discuss an issue of global importance with you today – the Clean Technology Fund (CTF).

The CTF is a new multilateral effort to reduce the growth of greenhouse gas emissions in developing countries by helping to finance additional costs of deploying clean energy technologies over dirtier and usually cheaper alternatives.

The President's Fiscal Year 2009 budget includes a \$400 million appropriations request for the initial U.S. contribution to the CTF, which will be housed at the World Bank where it will leverage the capital bases of the multilateral development banks (MDBs) and the donations of other contributing countries. The Administration has requested authorization from Congress to commit \$2 billion to the multilateral fund over the next three years. We are aiming, along with our donor partners in the G-8 and beyond, at a global effort of up to \$10 billion over the next three years with the U.S. as the lead donor.

#### **What Is the Problem?**

Let me outline for you the magnitude of the problem that the CTF aims to address and why it is so critical that the United States Government support it.

Since 2002, emerging and developing economies have been responsible for about two-thirds of global GDP growth. While this unprecedented expansion has brought economic

opportunities and higher standards of living to these previously impoverished countries, it has also led to surging demand for energy in the power, transport, building, and industrial sectors.

In addition to contributing to higher global energy prices, this accelerating increase in energy demand has led to an alarming growth in greenhouse gas emissions in developing countries. In fact, the greenhouse gas emissions of emerging and developing economies are rising more rapidly than the emissions of developed countries and will soon surpass them. According to the International Energy Agency, by 2030, global demand for energy will increase by over 50%, with almost three fourths of this increase coming from a handful of developing countries (Brazil, China, India, Indonesia, Mexico, and South Africa).

Currently, most developing countries are focused on pursuing the most cost-effective way to grow their economies, feed their citizens, and raise their standard of living. Thus, they tend to invest in the available energy technologies that can provide them the most economic output at the least cost. However, each time they invest in a dirty technology, such as a sub-critical coal plant with a 30 year life span, the harder and more expensive it will be for them to mitigate the resulting climatic effects in the future.

Estimates of the cost to encourage investments in lower carbon energy technology and infrastructure could be enormous. The World Bank estimates that the price tag to pay for the incremental costs to deploy clean energy technologies in the power sector alone in the developing world will be \$30 billion annually.

If we take no action to provide developing countries with the right incentives, their investments today could lock in a legacy of highly-polluting, less efficient technologies for which we would all eventually pay through the accelerated effects of climate change.

### **What is the Response?**

In response to this growing global challenge, the United States, UK, and Japan, have been working multilaterally with other G-8 countries and other potential donor and recipient countries to create an international clean technology fund to help developing countries deploy clean energy technologies. Since September 2007, Secretary Paulson, at the request of President Bush, has led U.S. efforts to negotiate the development of the Fund with our international partners. In his 2008 State of the Union, President Bush highlighted the fund.

The proposed Fund has three major objectives: first, to reduce emissions growth in developing countries through the accelerated deployment of clean technologies; second, to stimulate and leverage private sector investment in existing clean technologies; and third, to promote international cooperation on climate change in the context of pursuing a future climate change agreement.

### **How Will the CTF Work?**

The CTF will help developing countries finance the additional costs of deploying clean technologies over dirtier alternatives. In short, the CTF will help developing countries make the choice between deploying clean technologies and conventional technologies economically neutral. The CTF will not cover the entire cost of any project. It will help cover that portion of a project cost needed to reach the point of economic viability. National governments and private sponsors will be responsible for the bulk of project financing.

The CTF will be a multilateral trust fund administered by the World Bank, and implemented through all of the multilateral development banks (MDBs). It will be able to leverage the resources of the MDBs--which collectively lent over \$55 billion in 2007 for international development--and the private sector to finance clean technology projects.

The Fund will invite developing countries, with an emphasis on those with high expected emissions growth, to submit requests for CTF support to finance energy, transport or other projects with significant emissions reduction potential, including large-scale energy efficiency projects. To be eligible to receive funds, developing countries will be required to work with the World Bank to develop investment strategies that are based on national plans for low carbon growth.

The Fund will use a mix of concessional loans, grants, equity investment, and credit guarantees to finance any additional cost of deploying clean technologies. For example, if the difference between building a traditional fossil fuel power plant and a wind farm in a recipient country were \$10 million, the CTF could help the recipient country finance the additional cost associated with the wind farm. This support would come as part of an overall financing package for the project that would involve MDB loans or guarantees as well as international private financing and local resources.

### **Status of the Fund**

The United States, the United Kingdom, and Japan are currently working with other potential donors in the G-8 and beyond to launch the CTF later this summer with project funding likely beginning by the end of the year.

Most recently, on May 21 and 22, representatives from the Treasury Department participated in the final design meeting for the CTF hosted by the World Bank in Potsdam, Germany where potential donor and recipient countries reached agreement on general parameters of how the fund will work and how it will be governed. There is now broad support for the CTF among donor and recipient countries alike.

I want to underscore the significance of this broad support. Given the very different views in the developed and developing countries on how to address climate change, I believe that this support for the CTF presents the United States with a unique opportunity.

Through U.S. leadership and involvement, I believe that the CTF will do more than make an immediate impact on emissions growth in the developing world. I believe that it will contribute to building the kind of trust between developed and developing countries that will be necessary if a new UN climate arrangement is to be reached.

### **Conclusion**

The CTF is one important step that the United States can take along with the other developed countries to demonstrate leadership and to contribute constructively to broader international efforts to mitigate the effects of climate change on our planet and its people.

I look forward to working with Congress on this effort and welcome your questions.

Thank you.