

Stakeholder Consultation

with

Private Sector

FAO Headquarters, Rome, 27-28 March 2008

Introduction

Stakeholder consultations were held as part of the process of preparation for the High Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy, Rome on 3-5 June 2008. The stakeholder consultations solicited broad views and experiences from civil society organizations and from the private sector on the impact of climate change and the growth of bioenergy on food security.

The private sector consultation was held from 27 to 28 March 2008, under the umbrella of the *Rome 2007 Initiative*, a public-private sector working group initiated in 2007 by FAO, IFAD, World Food Programme (WFP) and the Global Mechanism. It was attended by representatives from these Rome-based agencies and several private sector companies.

Context: security and the challenges of climate change and bioenergy

In 2007, the UN Secretary General called for a joint response by the UN system and its agencies in contributing to combating climate change, conscious that such change will drastically impact the agricultural, rural and land-use sectors, with especially severe consequences for developing countries and food security. Therefore, FAO, IFAD, WFP and the GM have initiated the *Rome 2007 Initiative* in order to engage in global, large-scale activities to reduce emissions from the agriculture, rural and land-use sectors, so that the thus far under-represented sectors can benefit from the emerging carbon markets and related investments, while at the same time assisting with the development of urgently needed adaptation measures. Participants have included representatives of the Rome-based UN agencies and institutions and members of selected private sector companies. This public-private sector working group includes the proposal for a Centre of Competence for Climate Change and Rural Development for the promotion of climate change mitigation and adaptation projects in the agricultural, rural and land use sectors.¹

Ensuring energy security without compromising food security

As the world faces a dilemma between producing food or producing bioenergy, it is necessary to address both issues and give them similar weight. The world population is growing, and it is growing most significantly in urban areas of developing countries. This, coupled with changes in consumption patterns, such as increased consumption of meat, is leading to an increase in food and energy demand. Climate change will not significantly affect agricultural outputs in the northern hemisphere, but it will have huge impacts on areas in developing countries that are already food constrained. In addition to problems related to decreased production of food, food has become increasingly expensive.

To ensure food security, adaptation strategies are needed that will reduce the risks of climate change, as well as options to mitigate agricultural emissions and determine ways to produce more food with lower climatic impact. Both food security and bioenergy are needed just as both mitigation and adaptation are needed. The challenge in the coming years will be to create a carbon market that brings

¹ The Rome 2007 Initiative introduced its activities to the consultation participants.

together all those issues and couples them with sustainable development to ensure that the money available reaches the developing countries and the world's most vulnerable people.

Appropriate platforms are needed to discuss issues such as standard setting and to bring the issues of mitigation, adaptation, food security and bioenergy together at international level. For example, the carbon market will have an important role to play, but how it can address all of the relevant issues remains to be elaborated. What is sure is that, if not dealt with appropriately, the combination of food insecurity and climate change could lead to much social instability, with people migrating because of lack of food and land degradation.

Public and private sector representatives recognize the need to increase agricultural productivity and optimize the production of raw materials in order to minimize the competition between food and bioenergy production and, therefore, mitigate the dilemma between the need for food and energy. At the same time, the use of other raw materials for fuel production, such as agricultural waste, should be encouraged. While the willingness exists to invest in such projects and the necessary technologies are available, governments and policy-makers will need to put appropriate policies in place by to provide the private sector with incentives to act.

Agriculture and changes in land use and forestry are responsible for approximately 30 percent of global GHG emissions, yet these sectors have not been appropriately addressed in the global climate change regime. It is essential to include these sectors in the global efforts to reduce emissions by providing the kind of incentives to make this happen, such as inclusion in the global carbon market, without losing focus on rural development and poverty reduction.

In the context of global carbon markets, it is important to note that the Clean Development Mechanism (CDM) is not directly aimed at poverty reduction although poverty reduction has resulted as a "side effect". Through the CDM's sustainable development component, projects with development or biodiversity co-benefits are often able to generate credits that are sold in the market at higher prices. This is more the case in the voluntary market than the CDM or compliance market. In the post-2012 regime, discussions on potential CDM reforms include establishing mechanisms to take more small-scale activities through the process. This was initiated through the CDM Programme of Activities.

Instances of "avoided deforestation" will benefit from carbon finance, although it remains to be seen whether that will be through the carbon market, a public funding model or an interim hybrid model. NGOs that historically have been opposed now also advocate the carbon market solution. However, the sustainable development component of the carbon finance mechanisms could be further improved. About 85 percent of farmers worldwide are small-scale farmers. It will be crucial to raise their awareness of and their capacity to tap into the carbon market so as to maximize their ability to benefit from climate change-related funding.

Bundling of small-scale activities in the rural, agriculture and land-use sectors is one concrete example of where the private and public sectors could collaborate on and contribute to accomplishing their missions. While the private sector could provide investment and other resources for bundled activities, the public sector and international (UN) organizations could provide or support the bundling itself.

Identifying opportunities in agribusiness, finance and technology transfer

Three working groups conducted during the stakeholder consultation offered an opportunity to discuss policy options and recommendations and the potential of public-private sector partnerships in response to the food security challenges posed by climate change and bioenergy. The topics covered were: i) agriculture and agribusinesses, ii) financial sector and iii) technology transfer and energy needs. Focusing on identifying opportunities to use existing and emerging climate change finance mechanisms, each group identified:

- policy options for national, regional and international action in the context of the post-2012 negotiations;
- areas of common work, proposals for cooperation and partnerships, and possibilities for further areas of collaboration among the private sector and the Rome-based UN agencies and institutions and other UN system partners.

This section highlights the discussions and suggestions of each group.

Agriculture and Agri-business

The agribusiness working group focused on the issues of food security, bioenergy and climate change as relating to the agriculture sector and agri-businesses. Discussion topics included the role of biofuels in future energy mixes, perceived competition between the production of food crops and bioenergy crops, the role of markets and trade, and areas for further collaboration between the public and private sectors.

Identify role of biofuel in future energy mixes. Though there was disagreement as to the role of biofuels, most agreed that future generations of biofuels will likely be more efficient than those available today. Governments should be involved in the maturation of the biofuels sector, through effective allocation of funds for development of new technologies and approaches to production. Most of the group agreed that to exclude biofuels from government funding because it is not economically feasible today would be dangerous for the viability of the next generation of biofuels. Participants felt that the biofuels sector should be brought into the emissions reduction equation in some way. With carbon markets developed to reduce net global emissions, and with biofuel production representing both emissions generation and reduction, there should be an overall assessment of the carbon consequences associated with the biofuels sector.

Increase understanding of energy crop and food crop competition. While it seems obvious that there is a conflict between biofuel crops and edible crops, as they are competing for the same available land, greater understanding of the relationship between food production and energy production is necessary. An investigation of what kinds of bioenergy crops could be grown on drier, more marginal land less suited to the production of food crops could help answer the question as to how much of the finite stock of available land globally could be used for biofuel production without creating conflicts with food production. While FAO has existing data that could help answer these questions, a critical component of this analysis would include potential impacts on rural farmers. The group agreed wholly that UN agencies should not act in a top-down manner to dictate what lands should be used for what cultivation, but instead should promote responsible discussion among governments on the issue. International organizations also should seek to organize consensus on energy and land-use issues globally, as the UN does not possess the political power to do so.

Determine role of markets and trade. Markets play a key role in decision-making on land use. Participants agreed that protection and subsidization of rural farmers is warranted, but they were less certain as to the role of trade markets and actions needed. Deregulation of markets has the potential to create favorable trade conditions for rural farmers and pressure on such trade markets from policy-makers and from the private sector could lead to successful technology transfers. Regardless, participants agreed that further discussion is needed on how global markets set the price for material inputs and opportunities to set criteria. Also, other solutions included addressing poverty as a market failure and valuing common-owned natural resources within the marketplace. Although not all participants agreed on the role of biofuels, they did agree that both the private and public sectors should work together to share platforms of technology and experience. This contribution to a common knowledge base could serve to drive informed policy-making.

Financial Sector

The financial sector working group discussed current financial barriers to the implementation of climate change mitigation and adaptation activities and potential financial and operational solutions to such barriers.

Coordinate research and analysis. There are several areas in which further research and analysis is needed. This calls for identifying an agency to act as a centre of knowledge to warehouse existing data, provide analysis, support related capacity building, facilitate the development of test or showcase projects and the underlying project methodologies, and funnel intelligence into the policy-making

process. FAO and the other Rome-based UN agencies and institutions are potential candidates for housing this centre of excellence because of their existing mandates and competencies.

Develop and test new technologies: The lack of proof-of-concept cases is a barrier to further development of emission reduction projects within the agriculture sector. FAO and private sector stakeholders could collaborate on test cases to develop new technologies and methodologies for such projects. These test cases would also be important in the development of standards for project design within the voluntary carbon market and in the identification of bundling mechanisms for grouping small projects. Such bundling should be a priority, as it will contain costs and thus provide greater access to technology and financing. Finally, such test cases would also help distinguish the carbon financing options that are most appropriate in different situations.

Gather multi-level data. Increasing climate change mitigation efforts requires highly detailed research into the sources of emissions within the agricultural sector by activity and on a country-by-country basis. Mapping of the marginal cost of abatement from low cost to high cost for agricultural sector mitigation opportunities would allow for more efficient reduction of emissions within the sector, including an assessment of where project-based mechanisms are suitable, where they might need to be reformed or where other approaches need to be developed and deployed.

Determine actual costs of emission reduction. Discussion of emission reduction opportunities within the agricultural sector falls into two categories: those that are cost-positive and those that are cost-negative. It is always necessary to be aware of key barriers and constraints to implementation, such as access to capital, partners, know-how, and technology, as well as the existence of technologies or methodologies and existing regulations. Activities that are cost-positive (or have a net benefit) are essentially “low-hanging fruit” – they do not necessarily need incentives but rather just access to capital or the means of overcoming another barrier. For example, the cost of installing a biodigester at a livestock farm would be out of reach of many rural farmers. However, once installed, it would pay for itself over the course of some years due to the benefits associated with its use, such as management of a waste stream (manure), production of heat and production of methane gas that could be used to generate electricity, either for use on-site or for sale. Despite the resultant benefits of installing a biodigester, many farmers cannot overcome the initial hurdle of financing the cost. For this reason, once cost-positive activities are identified, they should be paired with an inventory of financing options (e.g. grants, CDM financing, etc.) as well as policy options for promoting them within the market (e.g. carrots, such as subsidies and grants, or sticks, such as taxes and penalties).

Address drivers of commodity price inflation. Addressing the issue of mitigation of food price inflation must start with research on the drivers of the inflation and then proceeding to develop a plan to address each driver individually. Some drivers, such as subsidization of specific agricultural sectors, would be difficult to address, while others, such as the role of bioenergy production or demand, potentially could be more easily addressed by the public and private sectors.

Map funding and adaptation project opportunities. Addressing climate change adaptation requires mapping of existing funding opportunities as well as developing mechanisms for providing incentives for private sector investment in adaptation activities. Research into existing and emerging opportunities for combining mitigation and adaptation activities would help drive development of adaptation projects, as would the development of project standards or a rating system. For private sector organizations already involved in adaptation activities, a mechanism could be developed for applying available adaptation funding to such entities if the funds could be funneled into rural community development. With respect to adaptation, the private sector would be an important actor in developing new products, services and technologies with adaptation benefits, while the public sector could provide research on the quantification of necessary funding for certain adaptation activities, as well as facilitation of adaptation-related technology transfer. Finally, the group felt that a constraint to developing adaptation was the current sentiment that adaptation activities would act only as a cost centre, and that the public sector could provide information on potential profitable opportunities, highlight best practices, and facilitate greater investment and/or research and development into adaptation technologies.

Technology Transfer/Energy Needs

The technology transfer working group focused on the issues of technology transfer and growing energy needs, looking at ways to reconcile the latter with the need for food security in a climate-constrained world.

Develop more efficient production to address the shortage of agricultural materials. While the political push for biofuel production has been considerable, there are no overarching incentives or standards to make sure that new, innovative technologies are used to avoid replacing food crops.

Encourage private sector participation in consultations. Incentives are crucial to bringing about needed changes, but making sure that change is positive requires the development of standards and premiums. International standard and premium setting must go through multiple stakeholder consultations that involve the private sector.

Provide incentives for developing national standards. There is a risk that a lot of work is going on for international standards, while standards at national level are being neglected. Incentives for national standard are urgently needed. A strategy of standards and premiums should also apply at national level. Even if a product is for the national market, it should respect the standards used for export products. However, it is recognized that OECD and non-OECD countries have different priorities and there would be problems in applying national standards within the poor governance structures of many developing countries. Financial incentives should be linked to the application of standards. Overall, the UN agencies could be facilitators of a global dialogue on application of standard principles, in order to tailor them to local circumstances.

Recognize biofuels in the context of a larger cycle. In the big picture, biofuels are and should be just one part of a solution towards energy security. Their development and production should go hand in hand with other alternative energy measures such as reducing consumption and technology improvements. Participants agreed that efficiency of biofuels should be promoted while bearing in mind that they are at the beginning of a cycle of improvements. The time that this cycle of improvements may take should not be underestimated.

Support technology transfer from developed to developing countries. There are significant opportunities for developing countries to leapfrog the development process by having technology transfer from developed countries which, in turn, highlights the importance of technology transfer. Pilot projects and precedents should be used to set clear examples. While technology transfer should be encouraged, having the capacity to adopt it is just as important.

Encourage private sector collaboration in technology transfer. The private sector can strongly contribute to technology transfer, one of the four pillars of the Bali roadmap. The private sector should also be involved actively in negotiations for the post-2012 climate regime. Collaboration between the private and public sectors is needed since neither of the two will be able to solve the existing problems on its own. Both sectors are intrinsic parts of the solution.

Recognize the broad potential contribution of UN agencies. In addition to partnerships already in place, UN agencies can play unique convening and brokering roles in bringing many different stakeholders together. UN agencies could be a knowledge centre for different crops and, through this, engage the private sector. It would be extremely useful if the UN agencies could engage with the local governments to inventory potential feedstock for biofuel production, so as to take pressure off the limited number of crops currently being used for fuel production. Given that the UN agencies have local presence and contacts within governments, they can be the contact link between local governments and the private sector. Furthermore, the UN agencies could play a key role in identifying and promoting investment opportunities and also in “advertising” these opportunities to the private sector.

Overall, the UN agencies have an important role in facilitating the dialogue process with other stakeholder groups and civil society. UN agencies should promote territorial planning and clarity on ownership rights as a basis for investment and provide support to capacity strengthening to that effect.

Options, recommendations and key messages

Policy options and recommendations for national, regional and international action in the context of the post-2012 negotiation

Private sector stakeholders are part of the solution to the issues of food security, bioenergy and climate change and, thus, both the private sector and the UN agencies need to be involved proactively in the post-2012 negotiations. However, it is important to note that the private sector represents a diverse group of stakeholders with divergent interests. Technology transfer is one of the pillars of the Bali roadmap and private-public sector collaboration can contribute to make technology transfer more efficient. Technology transfer is critical to sustainable yield improvements, and all stakeholders should have access to such technologies, especially smallholders.

Centre of Excellence role in supporting energy security. A knowledge base should be established in support of informed policy development at the national and international levels. It should reflect the need to integrate food security, energy and environmental policy against the background of climate change. The Rome-based UN agencies and institutions, in collaboration with other relevant inter-governmental agencies, are uniquely positioned to act as this knowledge centre or centre of excellence by providing data warehousing, capacity-building services, field presence and support for development of relevant methodologies. The centralization of data in one place will facilitate analysis of (annual) assessments of food and water potential and needs and of rural energy needs during the next 20 years. Using data from sources in both the public and private sector will address current information gaps. These analyses should take into account new technologies, efficiency improvements and emerging policies. Research, data analysis and best practices information should be fed back into ongoing policy processes, especially with respect to post-2012 negotiations.

Important areas of research and analysis to be addressed by this centre of excellence include:

- determining underlying drivers of food price inflation, followed by development of feasibility plans for addressing each driver individually;
- ensuring existing carbon finance opportunities in the agriculture sector as well as underdeveloped opportunities and categorizing them with a view to identifying where existing mechanisms such as CDM can be applied, where reform of mechanisms is needed or where new approaches should be formulated;
- undertaking a full carbon assessment of the generation and reduction of emissions associated with the agriculture sector, including the production and combustion of biofuels; and
- developing standards for adaptation projects and a rating system for best practices.

The private sector representatives endorse FAO's call for an international instrument or standard to be developed in consultation with public, private and civil society stakeholders to guide sustainable bioenergy production, with a view to minimizing conflicts between food and fuel production. The group invites FAO to take the lead in a UN process to develop such an instrument or standard. In addition, there could be need for national standards that would provide a way to take the national context more into account. Furthermore, the application of standards should be linked to financial incentives.

Bioenergy role in energy security. Bioenergy, as one part of the solution towards energy security and climate change mitigation, should go hand-in-hand with other alternative energy measures, such as reducing consumption and increasing efficiency. The bioenergy sector needs a supportive policy framework and a realistic time frame to develop greater economic efficiency, improve technology and arrive at a general sector maturation. However, the term "supportive policy framework" could not unilaterally be agreed upon since some of the private sector stakeholders present raised concerns about it being construed as "subsidization". To minimize conflicts over the use of land for growing food and biofuel crops, the range of lands more suitable for growing biofuel stocks should be identified. Also,

guidance should be provided to farmers regarding the range of crop options on their particular type of land while avoiding a top-down approach of dictating what farmers may grow.

Public sector role in energy security. Public funding should be made available to identify the most efficient energy security policies or technologies and climate change mitigation opportunities with respect to agriculture. These should then be compared with the best opportunities for mitigation across sectors. Best overall opportunities for mitigation should be analyzed through a more holistic approach. The role of global trade and markets needs to be considered with respect to climate change mitigation and adaptation, particularly with a view towards growing national and international carbon markets. Deregulation of trade and protection of small farmers must be taken into account as an important method of reducing poverty. Discussion should be instigated on the possibility of market formation for ecosystem services, especially water and biodiversity.

Areas of common work and proposals for cooperation and partnerships

Possibilities for further areas of collaboration between the private sector and the Rome-based UN agencies and institutions and other UN system partners was discussed.

The UN system can offer the following to the private sector:

- neutral broker acting in interest of member states;
- centralized knowledge centre;
- local presence and contacts with governments;
- facilitation for bringing stakeholders together;
- assistance or collaboration with the identification and promotion of investment opportunities;
- global facilitation for dialogue on standards;
- promotion of territorial planning and clarity and ownership rights as a basis for investments.

The private sector – which also includes small-, medium- and large-scale farmers – can offer the following to the public sector:

- implementer role for specific agricultural practices;
- investment capital;
- risk management;
- interface at which shifts in business behaviour happen;
- research and development;
- technical development;
- data.

The following suggestions are made with this potential synergy in mind.

Develop a public-private sector investment facility to pull resources together from all public and private sector stakeholders, including international organizations, governments, NGOs, investors, carbon buyers, technology providers, technical experts, researchers and farmers. This combination of the different and often complementary resources, expertise, skills and capacities needs to be coordinated while engaging the rural communities and the rural poor in the facility development process from the beginning.

Provide bundling services for several dispersed and small projects beyond the opportunities offered by the programmatic Clean Development Mechanism (CDM).

Investigate viability of agriculture activities in the context of climate change mitigation, categorizing them according to those that are cost-positive (have a financial benefit) and those that are cost-negative (represent a net financial loss). Activities that are cost-positive are essentially low-hanging fruit and often the only or major barrier to implementation is access to capital. An example of a cost-positive activity is the installation of anaerobic digestion technology, an activity that activity has value from management of the waste stream (manure) to the generation of electricity, heat, etc. for sale or for use. For activities that have a net benefit, the removal of barriers should be facilitated by development of a list that pairs them with different financing options.

Enlarge the scale of mitigation and adaptation activities through increasing funding. IFAD should look into its loan programmes with an eye towards identifying how it can contribute to mitigation and adaptation projects in the agricultural sector, as well as how it can develop a new funding window for climate change, also taking into consideration co-funding opportunities with the private sector.

Facilitate increase of public-private sector collaborations and partnerships that contribute to development and implementation of adaptation activities, such as development of drought-resistant seeds, insurance and risk mitigation products and land management approaches. Awareness of these potential opportunities is needed, as is education on best practices and facilitation of greater research and development.

Develop an inventory of available grants and donor opportunities for adaptation activities. To some extent, the Global Mechanism has already initiated this activity. This should develop in concert with efforts to quantify necessary funding and investment needs for specific adaptation activities, in as much detail as possible. There should be investigation of the potential to funnel adaptation funding back to rural communities in those cases where activities by private sector entities generate adaptation benefits. Research into opportunities to combine mitigation and adaptation activities should be pursued with the aim of identifying opportunities for collaboration between the public and private sectors in the implementation of such activities.