

2010 Investor Statement on Catalyzing Investment in a Low-Carbon Economy

Investors Urge Policymakers to Act Swiftly

Summary

Despite the clear policy recommendations in the *2009 Investor Statement on the Urgent Need for a Global Agreement on Climate Change*,¹ policymakers made only incremental progress in Copenhagen, leaving a great deal of work to be done to address the risks that climate change presents to the global economy and to investments. Meaningful policy progress is required to accelerate private investment in a low-carbon economy.

On the global level, it is imperative that efforts advance this year to negotiate and conclude a legally binding agreement with ambitious greenhouse gas emission reduction targets.

But investors, businesses, and governments cannot wait for a global treaty before taking action. Countries must take steps now if they are to attract the sizable amount of private investment needed to be competitive in the global race to develop and transition to low-carbon technologies. Investors and businesses have been and will continue taking significant action to address climate risks and opportunities, but to enable the necessary flows of private capital and allow us to fully assist in achieving a low-carbon and sustainable global economy, policymakers around the world must take rapid action at national, regional, and international levels.

The following measures are critical:

- ◆ Short- and long-term emission reduction targets
- ◆ Policies that put an effective price on carbon such that businesses and investors reassess investment value and redirect their investments
- ◆ Energy and transportation policies to vastly accelerate deployment of energy efficiency, renewable energy, green buildings, clean vehicles and fuels, and low-carbon transportation infrastructure
- ◆ Financing mechanisms that can mobilize private-sector investment on a large scale, particularly in developing countries
- ◆ Measures and financing to support adaptation in developing and developed countries
- ◆ Policies requiring corporate disclosure to investors of material climate-related risks and programs to manage those risks.

Investors remain committed to taking action. For us to deploy capital at the scale needed to truly catalyze a low-carbon economy, however, policymakers must act swiftly.

1. *2009 Investor Statement on the Urgent Need for a Global Agreement on Climate Change*, September 2009, <http://www.ceres.org/Document.Doc?id=495>

Though we are sobered by how much still remains to be done after Copenhagen, we nevertheless are encouraged by the incremental progress made. Achieving some level of commitment from the United States, China, and India is a crucial and unprecedented step, and we urge nations to submit ambitious greenhouse gas (GHG) emission reduction commitments as part of the Copenhagen Accord before the end of this month. In addition, the commitment by developed countries to provide billions of dollars in financing for developing countries represents an important start. As an international coalition of investor groups, we underscore the importance of concluding a legally-binding agreement **this year** with comprehensive long-term measures for mitigation, forest protection, adaptation, finance, and technology transfer, including a **global emission reduction target of 50–85% by 2050**, consistent with estimates from the Intergovernmental Panel on Climate Change. Investors have made repeated calls for such an agreement over the past few years, including the *2009 Investor Statement on the Urgent Need for a Global Agreement on Climate Change* released in September 2009 and endorsed by 191 institutional investors managing more than \$13 trillion.

While we will continue to press for an international agreement, we come to the United Nations today to collectively say that **investors, businesses, and governments cannot wait for a global treaty before taking action**. In particular, countries can act now to catalyze development of a low-carbon economy and to attract the vast amount of private capital necessary for such a transformation.

Some countries have already started positioning themselves to capture the economic, investment, and job creation opportunities that will flow to early movers in a low-carbon economy. Germany's comprehensive policies, for example, have sparked significant private investment in industries focused on addressing climate change, leading to eight times more renewable energy jobs per capita than the United States. Clean energy investment is flowing to other European countries with supportive policies as well, and clean investment and job creation in China are also surging. But most countries still lag in establishing such policies, stifling capital flows. **Governments must provide clear and ambitious policy signals to attract international investment and be competitive in the global race to develop and transition to clean energy and other low-carbon technologies.**

These policy signals will help investors scale up investments in climate solutions. We have not been waiting, however, for a treaty or for government action. As fiduciaries entrusted with trillions of dollars of people's savings, **we remain firmly convinced that climate change presents both material risks and significant opportunities for investment portfolios**, and we have acted accordingly. Prudence and fiduciary duty compel us to continue our efforts to scrutinize investments vulnerable to climate-related risks (regulatory, physical, competitive, and others), to search for sound investment opportunities in clean technologies and adaptation, and to work with the companies in which we invest to boost their attention, preparation, and response to climate-related business impacts, challenges, and opportunities. Investors have taken and will continue to take significant action.

Without government actions, however, private-sector investment will not reach the scale required to address climate change effectively. While leading studies indicate that the costs of action to reduce GHG emissions are both affordable and significantly lower than the costs of inaction,² developing a global low-carbon economy will nonetheless require substantially increased levels of investment from the private sector. For example, the UNFCCC Secretariat estimates that more than \$200 billion in total additional investment capital for mitigation is required each year by 2030 just to return GHGs to their current levels by then,³ while the International Energy Agency estimates that additional investment of \$10.5 trillion is needed globally in just the energy sector from 2010–2030 to stabilize GHG emissions at around 450ppm.⁴ This equates to roughly 0.1% of the total value of world financial assets and approximately 0.23%

2. See, e.g., Stern Review of the Economics of Climate Change, 2006.

3. United Nations Framework Convention on Climate Change (UNFCCC) Secretariat, *Investment and Financial Flows to Address Climate Change*, August 2007, http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/background_paper.pdf

4. International Energy Agency, *World Energy Outlook 2009*, November 2009, <http://www.worldenergyoutlook.org/>

of the total value of debt and equity securities,⁵ so this is certainly an achievable level of investment – and one that would yield returns in terms of energy savings, energy security, reduced capital expenditures for pollution control, and avoided climate damages. But it is also well above current investment levels. Although public spending in this arena has increased recently to hasten recovery from the global recession, more than 85% of the total investments needed to meet the climate challenge will likely have to come from private capital.⁶

Investors will seek every sound investment opportunity, but until governments establish policies and rules that make low-carbon strategies the clear strategic choice for all businesses, we will not be able to deploy capital into low-carbon investments at the scale required. Until then, our billions of dollars in investments will remain a ‘drop in the bucket’ compared to the trillions of dollars needed. **To enable the necessary flows of private capital and allow us to fully assist in achieving a low-carbon and sustainable global economy, policymakers around the world must act swiftly.**

National policies are needed that provide greater certainty about the direction of climate and energy regulation, ensure transparent markets, facilitate wider and more open capital flows for carbon trading and investment, and benefit consumers and workers as they transition to a low-carbon economy. Accordingly, **we see the following measures as being critical for unleashing the volumes of private capital urgently needed to meet the challenges of climate change:**

I. Emission Reduction Targets

Greenhouse gas emission reduction targets in line with the most widely accepted science are essential to accelerate low-carbon deployment and affirm investor confidence in the future direction of climate policy.

- ***Short- and long-term GHG emission reduction targets*** are vital. We call on **developed countries to establish emission reduction targets of 80–95% by 2050**, with interim targets of 25–40% by 2020. **Developing countries should have clear action plans** that deliver measurable and verifiable emission reductions compared to projected levels.

II. Price Signals on Carbon

As global investors, we manage diversified portfolios that invest in a cross section of assets, companies, sectors, and markets. In order for investors to integrate climate change considerations into decision-making processes, to engage more effectively with the companies we own on climate strategies, and to reallocate capital toward a low-carbon economy, clear and appropriate long-term price signals are critical.

- ***A price on carbon emissions*** would establish the critical long-term price signal necessary to cause businesses and investors to reassess value, redirect their investments, and accelerate the transformation to a low-carbon economy. We call on governments to put in place market-based policies to **establish a carbon price** that will signal that investments in carbon-intensive projects may yield lower returns, that new and established zero- or low-carbon technologies can be deployed profitably, and that investment in clean energy infrastructure will yield sound returns.
- ***Well-designed carbon markets*** provide a cost-effective way of achieving emissions reductions. We call on governments to support **robust, transparent, well-governed markets** that include mechanisms for directing private financial flows to low-carbon development in developed and developing countries.

5. Comparing \$200 billion with the \$178 trillion value of world financial assets and the \$85 trillion value of debt and equity securities. McKinsey Global Institute, *Global Capital Markets: Entering a new era*, September 2009, http://www.mckinsey.com/mgi/reports/pdfs/gcm_sixth_annual_report/gcm_sixth_annual_report_full_report.pdf

6. UNFCCC, *Investment and Financial Flows to Address Climate Change*, 2007, http://unfccc.int/files/essential_background/background_publications_htmlpdf/application/pdf/pub_07_financial_flows.pdf

III. Energy and Transportation Policies

National policies (in both developed and developing countries) that commit to significant increases in renewable energy and energy efficiency are a critical driver of private investment. Such policies must complement market-based policies; establish adequate long-term incentives, subsidies, and requirements for clean technology, renewable energy, and energy efficiency; provide increased funding for research, development, and deployment; and phase out fossil fuel subsidies.

- **Energy efficiency** is the fastest, easiest, and cheapest way to significantly reduce greenhouse gas emissions and improve bottom lines for companies and investors alike. The McKinsey Global Institute estimates that energy efficiency investments could cut global energy demand growth by at least half by 2020.⁷ We call on governments to adopt measures to **accelerate deployment of technologies and practices that substantially improve energy efficiency**. Such measures should include adopting state-of-the-art **building codes** and **equipment/appliance standards** for energy efficiency and **changing economic and regulatory signals** that deter electric utilities from investing in energy efficiency. In addition, we call on governments to **develop and enable financing strategies** — such as loan guarantees, revolving loan funds, and “green mortgages” — to help businesses and individuals pay the costs of efficiency investments over time with the energy savings that accrue.
- **Renewable energy** at the scale necessary requires forceful national policies to drive both near-term development and long-term investment. Investors need clear national incentives that give them confidence that they can build and sell renewable energy at a sound rate of return. We call on governments to adopt measures that facilitate **rapid deployment of existing and emerging renewable energy technologies**, such as through Renewable Portfolio Standards and policies that require utilities to buy renewable energy at a guaranteed price and to connect new clean energy producers to the grid. While these policies will provide powerful incentives to private investors to quickly deploy capital towards renewable energy investments, governments also need to direct private capital away from high-carbon energy investments. As G-20 countries pledged in September, we call on governments to **phase out fossil fuel subsidies**, which tilt the playing field toward GHG-intensive energy use to the detriment of cleaner alternatives.
- **Transportation** is the fastest-growing source of GHG emissions in many countries. We call on governments to institute policies that prepare transportation infrastructure and the transportation companies in which we invest for a low-carbon economy, encourage **investment in new vehicle technologies and associated infrastructure**, promote **transportation efficiency** (e.g., support of public transit and smart growth practices), and provide incentives such as low-carbon fuel standards to drive **robust clean fuel markets**.
- **Government procurement policies** can play a significant role in driving innovation and large-scale deployment of energy-saving and renewable energy technologies, particularly with regard to buildings, power supplies, and transportation.⁸ We call on governments to **prioritize energy efficiency, renewable energy, and clean fuels in their procurement policies**.

7. McKinsey Global Institute, “The case for investing in energy productivity,” February 2008, http://www.mckinsey.com/mgi/publications/Investing_Energy_Productivity/

8. See Tomlinson, Zorlu, and Langley, E3G, “Innovation and Technology Transfer: Framework for a Global Deal”, November 2008, http://www.e3g.org/images/uploads/E3G_Innovation_and_Technology_Transfer_Full_Report.pdf

IV. Financing Mechanisms to Accelerate Private Climate Investment

The requisite level of climate investment cannot be met through public finance alone. Private-sector investment at a much larger scale will be essential to deliver the needed capital flows. The deployment of new finance mechanisms is needed to incentivize unprecedented levels of private-sector investment and to facilitate wider, more open markets for climate investment and carbon trading globally, especially in developing countries, where the World Bank estimates that \$140–175 billion annually is needed by 2030 to mitigate climate change on a 2°C trajectory and \$75–100 billion is needed annually for adaptation through 2050.⁹ Institutional investors could provide a significant portion of the required capital, if they could earn adequate risk-adjusted returns.

- **Public finance mechanisms** can play a key role in mobilizing private-sector investment in these markets at a much larger scale.¹⁰ It is imperative that public money allocated to address climate change be spent in a way that leverages private capital to the maximum extent possible by altering the risk-reward balance of private-sector investments. Research shows that \$1 of public investment spent through well-designed public finance mechanisms can leverage between \$3 and \$15 of private-sector money. We call on governments to **support the implementation of policies and financing mechanisms** that mitigate risk and allow institutional investors to scale up their investments in appropriate low-carbon solutions, particularly in developing countries. In addition, governments may want to consider proposals for raising funds from the private sector, such as through **climate bonds**, to support green infrastructure.
- **Multilateral development banks and bilateral development institutions** have a key role to play in systematically deploying mechanisms that enable private-sector institutions from both developed and developing countries to access packages of support that help reduce the risks faced by private investors, scale up the demand for low-carbon investment, and create commercially attractive investment opportunities. We call on governments to **support a public-private dialogue** among national institutions, multilateral development banks, bilateral development institutions, and the private sector to consider the types of mechanisms that would best leverage private-sector investment in climate change solutions, particularly in developing countries.

V. Adaptation Measures to Reduce Unavoidable Climate Impacts

Physical impacts of climate change that are now unavoidable will vary across locations, markets, and companies. As investors, we recognize that the physical impacts from climate change will have far-reaching consequences, such as water scarcity risks and agricultural impacts, that will have economic and food security implications in many countries. If governments do not take significant action on adaptation, such climate impacts could threaten or undo investments in climate solutions. Adaptation policies and financing can therefore send investors key signals on where private capital can be more confidently deployed.

- **Developing countries** will need assistance from developed countries, including **financing and technical support**, to prepare for and adapt to extreme weather, coastal impacts, water scarcity, reduced crop yields, and other inevitable climate impacts that harm local communities and global supply chains alike. We call on the governments of developed countries to contribute funding and technical expertise for the **creation of public-private mechanisms** in the areas of risk reduction and risk management to increase developing countries' resilience to extreme events.

9. World Bank, *World Development Report 2010: Development and Climate Change*, September 2009, <http://siteresources.worldbank.org/INTWDR2010/Resources/5287678-1226014527953/Overview.pdf>; *Economics of Adaptation to Climate Change*, September 2009, <http://beta.worldbank.org/content/economics-adaptation-climate-change-study-overview>

10. See UNEP and Partners, *Catalysing low-carbon growth in developing economies – Public Finance Mechanisms to scale up private sector investment in climate solutions*, 2009, http://www.unepfi.org/fileadmin/documents/catalysing_lowcarbon_growth.pdf

- ***Developed countries*** will also face an economic toll from climate change impacts. Steps must be taken now to **assess the potential impacts climate change may have on infrastructure, water resources, and regions of key economic activity** in order to avoid preventable cases of extreme economic damage. In addition, we call on national and sub-national governments to set standards to **ensure that projects receiving public funding are designed to withstand high-probability climate scenarios**, thereby creating an incentive for governments, companies, and investors to incorporate the physical impacts of climate change into basic due diligence.

VI. Disclosure

As investors in companies in the auto, electric power, coal, oil & gas, insurance, real estate, construction, infrastructure, financial, forestry, and many other sectors, we need more information about how companies are preparing for and acting on climate risks and opportunities. Reflecting our own responsibilities and fiduciary duties, we encourage all institutional investors, including asset managers and asset owners, to ensure they are incorporating climate risks and opportunities into due diligence, governance systems, and portfolio valuations. However, although many of us have spent years engaging with companies to encourage full climate risk disclosure, voluntary disclosure is unlikely to achieve the penetration needed for efficient financial markets to make the best use of such disclosure and allocate capital to the most-efficient and promising technologies, business models, and companies.

- ***Disclosure of material climate-related risks*** must be part of mandatory filings by all publicly-traded companies. We call on national regulators worldwide, including the U.S. Securities and Exchange Commission, to **require companies to disclose to their investors material climate-related risks and the programs in place to manage those risks**. The most appropriate place for this reporting is within the annual financial or risk reports submitted to investors and securities regulators.

Investors have a critical role to play in responding to the climate challenge, and we remain committed to managing our investments, engaging companies and others in the financial community, and supporting policy action to address climate risks and opportunities. For us to deploy capital at the scale needed to truly catalyze the transition to a low-carbon economy, however, policymakers must take rapid action to put the right policies in place.

About IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The group's objective is to catalyze greater investment in a low-carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors. The group currently has over 50 members, representing assets of around €4trillion.



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About INCR

The Investor Network on Climate Risk (INCR) is a North American network of institutional investors focused on addressing the financial risks and investment opportunities posed by climate change. INCR currently has over 80 members with more than \$8 trillion in assets. INCR is a project of Ceres, a coalition of investors and environmental groups working to integrate sustainability into the capital markets.



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About IGCC

The IGCC represents institutional investors operating in Australia and New Zealand, with assets around AU\$500bn, and others in the investment community interested in the impact of climate change on investments. The IGCC aims to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions for the ultimate benefit of individual investors.



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About UNEP FI

UNEP FI is a global partnership between UNEP and the financial sector. Over 170 institutions, including banks, insurers, fund managers and investors, work with UNEP to understand the impacts of environmental and social considerations on financial performance.



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