Global Investor Statement on Climate Change: Reducing Risks, Seizing Opportunities & Closing the Climate Investment Gap

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The statement is supported by 268 investors – both asset owners and asset managers – that collectively represent assets of over US$15 trillion. A full list of signatories is provided at the end of the statement.

Summary

For the world's governments to limit the rise of global temperatures to less than 2°C, stem the climate damage that is already starting to occur, shift to a low-carbon economy, and seize the economic opportunities of clean energy and other climate-related activities, trillions of dollars of investment are required over the coming decades. Current investment levels fall well short of what is needed. Without private sector investment, this climate investment gap will not be closed and these objectives will not be achieved.

Investors are concerned with the risks presented by climate change to regional and global economies and to individual assets. At the same time, investors are interested in the large potential economic opportunities that the transition to a low-carbon economy presents. Investors have a fiduciary responsibility that requires them to seek optimal risk-adjusted returns on their investments. At present, in the absence of strong and stable policy frameworks, many low-carbon investment opportunities do not currently pass this test.

Private investment will only flow at the scale and pace necessary if it is supported by clear, credible, and long-term policy frameworks that shift the risk-reward balance in favor of less carbon-intensive investment. Prudent investors around the world have therefore joined to endorse this statement. We welcome a dialogue with governments and international institutions on the policies and finance tools needed to catalyze private investment in the low-carbon economy. In particular, investors are calling for:

- Domestic policy frameworks to catalyze renewable energy, energy efficiency, and other low-carbon infrastructure, so as to provide investors with the certainty needed to invest with confidence in receiving long-term risk-adjusted returns.
- International agreement on climate financial architecture, delivery of climate funding, reducing deforestation, robust measurement, reporting, and verification, and other areas necessary to set the global rules of the road, bolster investor confidence, and allow financing to flow.
- International finance tools that help mitigate the high levels of risk private investors face in making climate-related investments in developing countries, enabling dramatic increases in private investment.

CONTEXT

The governments of the world have committed to keeping the global temperature rise to below 2°C. Many governments have also expressed interest in seizing the economic opportunities presented by clean energy and the shift to a low-carbon economy. For these objectives to be achieved, private sector investment will be critical.

As global investors, we manage diversified portfolios that invest in a cross section of assets, companies, sectors, and markets. Investors are interested in advancing a low-carbon economy because climate change and policies to address it affect both the global economy and individual assets. Several leading studies indicate that the systemic shocks to regional and global economies from climate change will be substantial and will worsen the longer world governments wait to take sufficient policy action.[1]

Investors are also interested in the opportunities created by the need to respond to climate change and shift to a low-carbon, clean energy economy. We see significant potential in scaling up renewable energy, energy efficiency, and other low-carbon measures worldwide. To meet our fiduciary duties, however, investors require an economic environment in which low-carbon investments offer risk-adjusted returns that are truly competitive with other investment opportunities, and that requires strong and stable policy frameworks.

Private sector investment will not reach the scale required to achieve a low-carbon economy and to address climate change effectively unless governments and international institutions provide clear and ambitious policy signals and tools that shift the risk-reward balance in favor of less carbon-intensive investment. Both domestic policy action and international agreements are critical to enabling the necessary flows of private capital. ***Investors therefore call on domestic governments and international institutions to implement the policies and tools needed to optimize private investment in the low-carbon economy.*** We stand ready to work with them to deliver frameworks that meet our investment needs.

THE CHALLENGE: CLOSING THE CLIMATE INVESTMENT GAP

Trillions of dollars are required to transform the global economy to a low-carbon economy and to support adaptation to a changing climate, but current deal flows and investment levels fall short of what is needed. There is a significant climate investment gap.

For example, a recent report by the World Economic Forum and Bloomberg New Energy Finance estimated that moving to a low-carbon energy infrastructure and restricting warming to below 2°C will require global investment in clean energy of roughly US$500 billion per year by 2020.[2] A recent report by HSBC similarly concluded that building the low-carbon energy market will require total capital investments of US$10 trillion between 2010 and 2020.[3] However, public and private investment in clean energy in 2009 was only US$145 billion, far below needed levels.

The financial commitments made by governments in the Copenhagen Accord (now supported by over 130 nations) are a promising first step. Developed countries committed to mobilizing for developing countries “new and additional resources” for adaptation and mitigation approaching $30 billion for the period of 2010–12 and

1. E.g., *Stern Review of the Economics of Climate Change*, October 2006, http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1170911056314/3428109-1174614780539/SternReviewEng.pdf

2. World Economic Forum, *Green Investing 2010: Policy Mechanisms to Bridge the Financing Gap*, January 2010, http://www.weforum.org/pdf/climate/greeninvesting2010.pdf

3. HSBC Global Research, *Sizing the Climate Economy,* September 2010, http://www.research.hsbc.com/midas/Res/RDV?ao=20&key=wU4BbdyRmz&n=276049.PDF

$100 billion a year "from a wide variety of sources, public and private, bilateral and multilateral" by 2020.[4] While a welcome start, these commitments are insufficient to close the climate investment gap. To achieve the necessary levels of financing, private investment will be critical.

While investors worldwide are currently taking actions on their own to address climate risks and opportunities – considering and addressing climate risks in their existing investments, investing in assets such as renewable energy, energy infrastructure, and clean tech, pressing companies to reduce their greenhouse gas emissions, persuading regulators to require corporate disclosure of the business impacts of climate change, among other initiatives – these efforts must be scaled up dramatically to reach the levels needed to achieve a global low-carbon economy.

Until policy frameworks and other mechanisms ensure appropriate long-term risk-adjusted returns from low-carbon investments, the climate investment gap will remain.

THE SOLUTION: POLICIES & TOOLS TO MOBILIZE PRIVATE INVESTMENT

Private sector investors are critical to global efforts to stimulate a low-carbon economy, adapt to the unavoidable impacts of climate change, and close the climate investment gap. They can only do so, however, if they can recoup attractive risk-adjusted returns from their investments, which means governments and international institutions must take action to reduce risk and increase private investment. Investors need domestic and international measures that provide relative long-term certainty about the direction of clean energy and climate policies and financing. Investors also need multilateral development banks and other development finance institutions to apply risk-reducing finance tools that can enable market development and help scale up private investment in developing countries.

Recommendations for Domestic Action

Domestic policy action in both developed and developing countries is essential for stimulating private investment in the low-carbon economy. As such, investors call on all countries to make clear how they intend to achieve the goals they set out in the Annex to the Copenhagen Accord.

Investors have begun deploying significant capital in low-carbon investment opportunities in countries that have strong policies that provide long-term certainty and enable credible mid- to long-term risk assessment. We commend those countries, developed and developing, that have begun putting such policies in place.

However, in many countries, there is a need for greater policy certainty with respect to how the transition to the low-carbon economy will occur. Capital is not flowing to low-carbon investments in these countries at the scale required because of a lack of investor confidence in their climate and clean energy policy frameworks. In some countries, these frameworks have remained weak and uncertain, while in others, investor confidence has been damaged by indications that strong policies are being retroactively scaled back in the face of the economic downturn, damaging the economics of investments that have already been made. Investors are looking for more stable policy frameworks, supported by reliable political systems.

4. Copenhagen Accord, http://unfccc.int/resource/docs/2009/cop15/eng/l07.pdf

To attract private low-carbon investment, there are a range of important policies that governments should adopt, including:

- Short-, mid-, and long-term greenhouse gas emission reduction targets;
- Energy and transportation policies to vastly accelerate deployment of energy efficiency, renewable energy, green buildings, clean vehicles and fuels, and low-carbon transportation infrastructure;
- Strong and sustained price signals on carbon and well-designed carbon markets;
- Phase out of fossil fuel subsidies, as agreed to by G-20 leaders;
- Adaptation measures to reduce unavoidable climate impacts; and
- Corporate disclosure of material climate-related risks.[5]

Policies such as these, tailored to suit each country's circumstances, are an important part of the bridge to the low-carbon economy.

Recommendations for International Action

Action in the international arena is essential. Ultimately, investors are seeking a global agreement with ambitious greenhouse gas emission reduction commitments to limit warming to well below 2°C, market mechanisms that put a price on carbon, and provisions addressing deforestation, adaptation, and other important areas of concern.[6]

Given that such a comprehensive agreement does not appear imminent, investors are seeking some forward movement at the United Nations Framework Convention on Climate Change's Sixteenth Conference of the Parties (COP 16) in Cancun, Mexico, particularly with respect to policies that will boost investor confidence and promote investment, such as agreement or progress on:

- The financial architecture (access, governance, etc.) of climate funding, including the role and scope of the private sector's involvement;
- Delivery of the promised fast-start funding, to build trust among countries and the capacity needed for robust markets for investment;
- A rapid timeframe for implementation of efforts to reduce emissions from deforestation and forest degradation (REDD and REDD-plus);
- Robust measurement, reporting, and verification (MRV), to increase confidence in national climate policies;
- Expanding and deepening the international carbon market, including greater clarity on the future interplay of the Clean Development Mechanism (CDM), Joint Implementation (JI), and emerging crediting mechanisms such as Nationally Appropriate Mitigation Actions (NAMAs) and REDD-plus;
- Support for the creation of well-functioning markets in developing countries for energy efficiency and renewable energy, to accelerate the effective deployment and diffusion of those technologies at scale; and
- A clear mandate to adopt a legally binding agreement at COP 17 in South Africa.

5. See IIGCC, INCR, IGCC Australia New Zealand, UNEP-FI, *2010 Investor Statement on Catalyzing Investment in the Low-Carbon Economy*, released on 14 January 2010, available at http://www.incr.com/summit

6. See IIGCC, INCR, IGCC Australia New Zealand, UNEP-FI, *2009 Investor Statement on the Urgent Need for a Global Agreement on Climate Change*, released September 2009, available at http://www.incr.com/Document.Doc?id=495

We also welcome the work of the UN Secretary-General's High-Level Advisory Group on Climate Change Financing in identifying options to scale up climate-relevant financial flows to developing countries from both public and private sources.

We urge policymakers to apply finance tools that lower risks and thus enable much greater amounts of private investment in climate mitigation and adaptation.[7] Research shows that well designed finance tools can leverage between 3 and 15 times the private investment.[8] Governments should also empower and work with the necessary multilateral institutions to implement and if necessary develop these finance tools, such as measures to address regulatory and political risks and to support early-stage project development. Investors welcome a dialogue with multilateral development banks, bilateral finance institutions, and governments about how these tools can best catalyze private low-carbon investment.

Investors can play a pivotal role in responding to climate change. It is time to put the policies and tools in place that will catalyze private investment and move the world to a low-carbon future.

This statement was produced by the Institutional Investors Group on Climate Change (IIGCC), the Investor Network on Climate Risk (INCR), the Investor Group on Climate Change Australia / New Zealand (IGCC), and the United Nations Environment Programme Finance Initiative (UNEP FI), and is supported by the Principles for Responsible Investment Advisory Council.

7. We refer interested policymakers to the work of the UN Secretary-General's High-Level Advisory Group on Climate Change Financing (http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup), the World Economic Forum (http://www.weforum.org/en/index.htm), Project Catalyst (http://www.project-catalyst.info/), the public/private discussion coordinated by Lord Nicholas Stern (http://www2.lse.ac.uk/GranthamInstitute/publications/OtherPub/Leveragedfunds/Meeting the Climate Challenge.aspx), and the many others who have offered recommendations as to how best to leverage much greater levels of private financing to address climate change.

8. UN Environment Programme, *Catalysing low-carbon growth in developing economies: Public Finance Mechanisms to scale up private sector investment in climate solutions*, October 2009, http://www.unepfi.org/fileadmin/documents/catalysing_lowcarbon_growth.pdf

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 60 members, representing assets of around €5 trillion.

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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 95 members with more than US$9 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 Investor Group on Climate Change Australia/New Zealand (IGCC) represents institutional investors operating in Australia and New Zealand, with assets of over A$600 billion, and others in the investment community addressing 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

The United Nations Environment Programme Finance Initiative (UNEP FI) is a strategic public-private partnership between UNEP and the global financial sector. UNEP works with nearly 200 banks, investment firms, insurers and a range of partner organisations, to understand the impacts of environmental, social and governance issues on financial performance and sustainable development. Through a global programme encompassing research, training, events and regional activities, UNEP FI identifies, promotes and realises the adoption of best environmental and sustainability practice at all levels of institutional operations. Through its Climate Change Working Group (CCWG), UNEP FI aims to understand the roles of the finance sector in addressing climate change, as well as to advance the integration of climate change factors – both risks and opportunities – into financial decision-making.

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This statement is supported by the PRI Advisory Council

The Principles for Responsible Investment, convened by UNEP FI and the UN Global Compact, provide a framework for helping investors build environmental, social and governance considerations into the investment process, thereby achieving better long term returns and more sustainable investment markets. The six Principles of the PRI Initiative were developed by, and for, institutional asset owners and investment managers. The Initiative has over 800 signatories from 45 countries with roughly US$ 22 trillion of assets under management.

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