Institutional Investors Group on Climate Change · Investor Network on CLIMATE RISK · Investor Group on Climate Change

# Investor Statement on a Global Agreement on Climate Change

Investors have a critical role to play in responding to the climate change challenge. Private capital is essential to achieving the transformation to a low-carbon economy and for contributing to the delivery of mitigation and adaptation measures. Through the allocation of capital, and by engaging with companies in our portfolios, investors can influence how companies respond to climate change. It is therefore critical that policymakers understand how climate change-related public policy will influence investment decisions.

This document sets out the investor perspective on climate change and the key elements of a global agreement that will drive the financial flows necessary to address climate change. This document has been produced by the Institutional Investors Group on Climate Change (IIGCC), the Investor Network on Climate Risk (INCR) and the Investor Group on Climate Change/ Australia and New Zealand (IGCC Australia/New Zealand). The full list of signatories, including additional investor signatories, appears at the end of the statement. Collectively, these signatories represent 150 investment institutions with assets exceeding $9 trillion.

## Background

### *Why investors care about climate change*

Investors care about climate change and climate policy, because these will have an impact on the global economy as well as on individual assets.

As global institutional investors, we manage diversified portfolios that invest in a cross section of companies, sectors and markets. Therefore, we are concerned with the overall economic costs of climate change. Leading studies indicate that the economic costs from climate change will increase the longer the world waits to take action[1], and any delay in reducing emissions significantly increases the risk of more severe climate impacts as it locks in more carbon-intensive infrastructure and development pathways[2].

Beyond the potential economic impacts, investors are concerned about the ways in which climate change and climate policy will affect their investments in individual companies and in other asset classes such as property. These investments may be affected by the weather-related impacts of climate change, regulatory and fiscal measures directed at reducing greenhouse gas emissions, and consumer or other public pressures to take action on climate change. Investors are also interested in the opportunities created by the need to respond to climate change. These can lie in direct investment in low-carbon infrastructure or energy efficiency, and in opportunities for the companies in which we invest to offer climate friendly products and services in areas such as renewable energy or insulation. These climate risks and opportunities may have significant financial implications for individual companies and may therefore affect the performance of investment portfolios.

1. Based on the Stern Review of the Economics of Climate Change, 30 October 2006

2. According to the 4th Assessment Report of the IPCC, 2007

## *Why a global agreement is critical for financing a low carbon economy*

In order for investors to integrate climate change considerations into decision-making processes and to re-allocate capital toward a low-carbon economy, clear and appropriate long-term policy signals are essential. Currently, the level of integration is hampered by policy uncertainty and short time horizons on policy.

A strong global agreement will underpin investor confidence in the direction that regional and national climate policy will take and will support investors in their engagement with companies. Moreover, a stable investment climate requires a smooth transition from the current framework that ends in 2012. Therefore, it is important that a new binding global agreement is agreed upon by the UN Framework Convention on Climate Change Conference of the Parties by the time of the meeting in Copenhagen in 2009. We believe the post-2012 framework should contain the elements set out below to provide companies, governments and investors with the incentives to act quickly and efficiently in tackling climate change.

# A. TARGETS

### *1. A Global Target*

A long-term global target for greenhouse gas emissions reductions is essential to give investors greater confidence about the future direction of climate policy. Investment decision-making is hampered by policy uncertainty and the absence of a binding reduction target. The target should be informed by the best available scientific information based on the stabilisation levels required to avoid dangerous levels of climate change. To this end, we support a target based on the latest scientific findings by the internationally-recognised Intergovernmental Panel on Climate Change (IPCC). The IPCC's Fourth Assessment report indicates that global greenhouse gas emissions should decline by 50–85% by 2050 (against a base year of 2000) to prevent dangerous effects[3].

### *2. Targets for Developed Countries*

We acknowledge that developed countries should take the lead in making absolute emission reductions on the basis of equity and in line with their common but differentiated responsibilities. Developed countries should therefore take on ambitious and binding long-term national greenhouse gas emission reduction targets, with credible mechanisms to ensure compliance. We, as investors, support a target based on the latest IPCC study that indicates that developed countries must reduce their emissions by 80–95% by 2050 with developing countries also making substantial reductions[4].

Developed countries should also set ambitious medium-term targets. These will give investors greater confidence that countries will put in place timely and specific action plans for meeting long-term targets. We support a medium-term target based on the latest IPCC study that indicates that developed countries should reduce their emissions by 25–40% by 2020 (against a base year of 1990)[5].

Specific national caps within this range should be determined through an assessment of the mitigation potential, costs, and capabilities for each country.

3. IPCC: AR4 Synthesis Report, Contribution of Working Group III to the 4th Assessment Report of IPCC, p. 39, http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-ts.pdf

4. Gupta, S., D. A. Tirpak, N. Burger, J. Gupta, N. Höhne, A. I. Boncheva, G. M. Kanoan, C. Kolstad, J. A. Kruger, A. Michaelowa, S. Murase, J. Pershing, T. Saijo, A. Sari, 2007: Policies, Instruments and Co-operative Arrangements. In Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, pg. 776: http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter13.pdf. Based on stablisation at low emission levels (i.e. 450 ppm $CO_2$-eq).

5. As before, based on low concentration levels 450 ppm $CO_2$–eq.

The targets for developed countries will only be credible if backed up by clear national action plans that lay out how different countries will meet their medium- and long-term targets. Countries should design and implement domestic policies to achieve their emission reduction targets in ways that are appropriate to their national circumstances. These policies should encourage the most cost-effective emissions abatement measures, including carbon market mechanisms, energy efficiency and support for renewable energy. Countries should include all sectors in the mitigation effort, with specific attention to the primary greenhouse gas emitting sectors, including energy generation, transportation, construction and use of energy in buildings and deforestation/land use change.

### *3. A Role for Developing Countries*

We recognize that the involvement of developing countries in global efforts to reduce climate change should be fair and based on common but differentiated responsibilities. It should also take regard of their needs for development and poverty reduction.

While many developing countries do not see it as equitable for them to assume absolute binding emission reduction targets at present, from an investment perspective, it would be beneficial for developing countries – and especially middle income countries, such as China and India – to commit to such targets as soon as possible to reduce policy uncertainty and drive investment that will support sustainable economic development.

Prior to this, a more stable investment climate would be created if developing countries committed to national action plans that deliver measurable and verifiable improvements in energy efficiency and ultimately absolute reductions in emissions. Again, this would provide investors with added confidence and clarity about the direction of climate policy in these countries. Such policies should be appropriate to national circumstances, and might include energy intensity goals, energy and fuel efficiency standards, measures to reduce deforestation, or sector-based approaches as interim objectives.

These national strategies could provide the basis for a partnership between developing and developed countries, where the latter provide incentives for mitigation in developing countries, including technological and financial support and assistance for capacity building (institutional/policy development) and for adaptation measures.

## B. POLICY INSTRUMENTS

Emission reduction targets will only be credible if supported by appropriate action plans at the national, regional and international levels. From an investment perspective, a global agreement should provide support for an expanded and more liquid carbon market and facilitate the research, development, demonstration and deployment of low-carbon technology.

### *1. An Expanded Carbon Market*

We favour the continuation of existing or planned cap-and-trade schemes. Emissions trading provides a cost-effective way to achieve absolute emission reductions and significantly reduces mitigation costs by enabling countries to seek emission reduction opportunities where they are least expensive. Existing systems also provide a mechanism for private sector investment flows to developing countries, which can support mitigation efforts in these countries (see CDM below).

In addition, we hope to see a post-2012 framework that facilitates an expanded and more liquid global carbon market, with links between trading schemes of different countries, regions and sectors.

We acknowledge that cap-and-trade systems will not be able to provide a comprehensive solution to climate change mitigation across all sectors. Therefore, such systems should be complemented by other policies appropriate to national circumstances, e.g., incentives, regulations, product and process standards and/or taxation.

### *2. Greater Scale and Reform of CDM Mechanism*

The complexities of administering the Clean Development Mechanism (CDM) have so far limited investment flows and raised questions about the quality of the avoided emissions. Therefore, we support a full review of the CDM mechanism with the aim of expanding, strengthening and streamlining the approval process in order to ensure the quality, scale and efficiency of emission reductions generated in developing countries. This will enable us to invest with greater confidence in carbon markets and carbon mitigation projects.

### *3. Technology*

Investment in technology is critical to tackling climate change. We believe that a global agreement should encourage countries to offer continued incentives for investing in existing low carbon technologies, including those that improve energy efficiency and increase the share of renewable energy. Government support is also required for early stage technologies and research, development and deployment (RD&D), where private investment is not forthcoming. In particular, we believe a global agreement should facilitate government support for:

- The development of near-commercial technologies, e.g., carbon capture and storage (CCS), second generation biofuels, and certain forms of solar power;
- Early stage clean technologies that are not yet commercially viable;
- RD&D into additional break-through technological solutions.

In addition, we support measures to encourage technology transfer from developed to developing countries, while at the same time protecting intellectual property and contract rights.

## C. OTHER ELEMENTS OF A GLOBAL AGREEMENT

### *1. Support for Measures to Reverse Deforestation and Support Afforestation*

We believe a global agreement should provide support for measures to reverse deforestation and to enhance the role of forests as carbon sinks.

National and international structures (legal, governance and administration) will be necessary to support capacity building to reduce deforestation, support reforestation, and manage and monitor emissions from forests in both the developed and developing world. The international framework should help to facilitate this and any financial support, both public and private, that is required to ensure the world's forests are utilized effectively as carbon sinks.

### *2. Support for Adaptation to the Unavoidable Physical Impacts of Climate Change*

There is considerable uncertainty over the ways in which the unavoidable physical impacts of climate change will vary across locations, markets and companies. As investors we recognize that the physical impacts from climate change will have wide consequences, such as rising costs of insurance and scarcity of key resources, such as water.

At present, both government and private sector investment in adaptation is inadequate across the globe.

A global agreement should provide support for action at regional and national levels to better predict, prepare for and respond to the physical impacts of climate change. The global climate negotiations present an opportunity to build a foundation and framework to drive the development of national and regional adaptation and emergency response plans.

Adequate funding is a prerequisite for climate change adaptation. The Adaptation Fund in the Kyoto Protocol is a first step, but further measures to ensure consistent and adequate financing are vital. Enhanced access to insurance markets and new technologies to improve climate resilience will also help to reduce the costs of climate change. All of these measures would encourage greater confidence that climate-related risks to assets are understood and being minimised.

## Conclusion

Clear, credible long-term policy signals are critical for investors to integrate climate change considerations into their decision-making processes and to support investment flows into a low-carbon economy and into measures for adaptation. A timely post-2012 climate change agreement involving all countries and containing appropriate long- and medium-term emission reduction targets is essential to supporting investor confidence. The global agreement must facilitate and encourage strong national action plans in order for us to help meet the climate challenge.

## *Signed by:*

**IIGCC Membership, November 2008**

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Baptist Union of Great Britain*

BBC Pension Trust

Bedfordshire County Council Pension Fund

BlackRock

BNP Paribas Asset Management

CB Richard Ellis Investors

CCLA Investment Management

Central Finance Board of the Methodist Church

Church Commissioners for England

The Church in Wales*

Climate Change Capital

Co-operative Asset Management

Cowen Asset Management

Corporation of London Pension Fund

Credit Agricole Asset Management

DWS Investments

Environment Agency Pension Fund

Ethos Foundation

F&C Management Ltd

Generation Investment Management

Greater Manchester Pension Fund

Grosvenor Fund Management

Henderson Global Investors

Hermes

HSBC Investments

Impax Asset Management

Insight Investment

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Kent County Council Pension Fund

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## Additional Investor Signatories

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Australian Council of Supernannuation Investors (a member of P8)
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Financial Services Institute of Australasia
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### *About IIGCC*

The Institutional Investors Group on Climate Change (IIGCC) is the leading group for collaboration between pension funds and other institutional investors in Europe and focuses on addressing investment risks and opportunities associated with climate change. The group currently has 46 members, including major pension funds and asset management companies, with combined assets under management exceeding €4 trillion. Contact: stephanie.pfeifer@iigcc.org. Web: www.iigcc.org

### *About the Investor Network on Climate Risk*

The Investor Network on Climate Risk (INCR) is the leading North American network of institutional investors focused on addressing the financial risks and investment opportunities posed by climate change. INCR currently has over 70 members with more than $7 trillion in assets. INCR is a project of Ceres, a coalition of investors and environmental groups working to integrate sustainability into the capital markets. Contact: Chris Fox at fox@ceres.org. Web: www.incr.com

### *About IGCC*

The Investor Group on Climate Change Australia/New Zealand (IGCC, Australia/New Zealand) represents institutional investors with total funds under management of over A$375 billion, and others in the investment community interested in the impact of climate change on investments. The aim of the IGCC is to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions for the ultimate benefit of individual investors. Contact: secretariat@igcc.org.au. Web: www.igcc.org.au