

## Funding a low carbon future

### Climate Change and Finance

Wednesday morning, 4 June 2008

*Moderator:* **Jean-Marc Vittori**, Editorial Writer, *Les Echos*, France

**Bernard Clerfayt**, Deputy Minister of Finance, Belgium

**Jan H. Keppler**, Professor of Economics, Paris-Dauphine University, France

**James P. Leape**, Director-General, WWF International

**Doris Leuthard**, Minister of Economic Affairs, Switzerland

**Alain Massiera**, Deputy CEO, Calyon

Moderator **Jean Marc Vittori** began by describing the past misunderstandings between the financial and environmental communities, while noting that the relationship between these two groups has recently improved. But the core question remains: how can the finance industry tackle environmental issues, and how can environmental initiatives be profitable to participants in “green finance”?

**Jan H. Keppler** pointed out that the perceptions of those in the financial sector towards the environment have changed. The financial sphere is no longer regarded as a threat to sustainable development, but as a source and driver of some promising initiatives. Environmental markets have been established, such as the emissions trading market for CO<sub>2</sub> in Europe. New indices have been created that focus on the social and environmental performance of firms, such as the FTSE4Good, the Dow Jones Sustainability Index and the NASDAQ Clean Edge. Thus, climate change is now at the core of financial investment strategies.

Another source of hope is related to ethical and carbon investment funds. According to Mr Keppler, the potential of such funds is immense, but the appropriate foundations still need to be established. The Equator Principles were presented as an example of what can be achieved. These principles require that project financiers assess the social and environmental impact of projects prior to granting financing. Mr Keppler concluded with the suggestion that the OECD could usefully take steps to establish guidelines for ethical investment funds.

Illustrating the growing role of the cleantech sector in the real economy, **Alain Massiera** noted three significant recent events. First, the renewable energy subsidiary of a leading renewable energy producer, EDP, undertook an IPO that was hugely oversubscribed. Second, Bosch launched a bid to acquire a solar panel manufacturing company. Third, analysts are expecting the price of solar technologies to fall due to excess production capacity, which could precipitate higher demand and a reduction in subsidies to the solar energy sector.

Financial initiatives within the cleantech sector remain fragmented in Mr Massiera's view. He presented a range of initiatives that Calyon is undertaking, including a partnership with educational institutions, which aims to anticipate the impact of carbon constraints on the long-term value of listed companies. Calyon also trades carbon on the EU ETS (European Union Emissions Trading Scheme), the value of which could rise from €60-€80 billion to €150 billion by 2012, and €500 billion by 2020. Calyon also finances a range of renewable energy projects. Further, many green investment funds are in development, but all of these activities need a transparent regulatory environment in order to further stimulate development.

"We are heading into a fundamental transformation of the global economy" said **James P. Leape**, adding that "the acceleration we have seen is nothing compared to what we need to see." As part of this transformation, reputations are becoming increasingly pertinent. Mr Leape gave the examples of General Electric and Toyota, both of which have made significant efforts to explain that they are not part of the problem but part of the solution. These claims are not just "greenwash", but are supported by tangible changes to their product lines and business practices. Firms are also becoming aware that environmentally responsible policies can cut operating costs.

Mr Leape suggested that investors and the private sector could take a leading role, in advance of government intervention. It is partly the responsibility of civil society to ensure that there are reputational risks associated with corporate inaction in the face of climate change.

**Doris Leuthard** injected a note of realism based on her first-hand experience of the speed of the legislative process. Providing a reliable legislative framework and convincing civil society will not happen quickly, she said, particularly considering the multilateral nature of the legislation required. While agreeing that a central role should be played by governments in the formation of an enabling environment for sustainable investment—eliminating distorting subsidies and promoting "a level playing field" with consistent long-term policies—Ms Leuthard reiterated that a supporting role is required from the financial sector in the development of best practices. In conclusion, Ms Leuthard stated that the overall goal to facilitate the transition to patterns of sustainable development should be "a global cap and trade system for carbon".

Supporting Ms Leuthard's contention that the legislative challenge is a significant one, **Bernard Clerfayt** described a recent OECD study that identified 300 separate taxes on energy, and more than 1,000 exemptions supported by OECD countries. While highlighting the need for reform and consolidation, Mr Clerfayt reminded the audience that any new tax on energy "will have immediate distributional consequences" between the rich and the poor, and therefore pursuit of a legislative goal will require more than a single mechanism. To address the challenge, Mr Clerfayt described the need for consistency in moving towards the global vision and credible policies to develop the trust and confidence of the public and private sectors. Finally, with general agreement on the need for a combination of legislative and private sector measures to tackle the spectre of

CO<sub>2</sub>-induced climate change, Mr Clerfayt closed with the sobering reminder that many other negative externalities remain to be addressed before sustainability is truly achieved.

Mr Vittori asked the panelists to comment on shareholder responsibilities. Mr Leape said that markets are notoriously short-sighted, and that many shareholders would always take decisions based solely on short-term returns. However, according to Mr Clerfayt, effective legislation can redirect market decisions in favour of transformation of consumption behaviours and ethical initiatives.

In **questions from the floor**, a delegate from Quebec wondered about the consequences for any country that did not sign up to a future global agreement on climate change. In response, Mr. Clerfayt said that any country must consider this question or risk becoming uncompetitive. A positive aspect of globalisation is the emergence of a global consensus. Ms Leuthard added that countries also have to act in favour of CO<sub>2</sub> emission cuts to bolster their reputations at international gatherings and on the global market.

A participant from Madrid asked how we could finance the transformation of lifestyles, as a good quality of life is often perceived as being linked to the consumption of cars and other goods that produce carbon emissions. Mr Leape answered that “western habits”, which are exported to developing countries, are wasteful, but that it is possible to reduce their impact.

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