With support of the Board of PRI

2011 Global Investor Statement on Climate Change

This Statement is supported by 285 investors that represent assets of more than US$20 trillion

Climate change presents major long-term risks to the global economy and to the assets in which we invest. At the same time, well designed and effectively implemented long-term climate change and clean energy policy ("investment-grade policies") will not only present significant opportunities for investors in areas such as cleaner and renewable energy, energy efficiency and decarbonisation, but will also yield substantial economic benefits including creating new jobs and businesses, stimulating technological innovation, and providing a robust foundation for economic recovery and sustainable long-term economic growth.

In the Cancun Agreements in 2010, governments agreed to reduce global greenhouse gas emissions so as to hold the increase in global average temperature below 2 degrees Celsius. To achieve this goal, massive investment in low-carbon energy will be required. For example, in its 2010 World Energy Outlook, the International Energy Agency (IEA) has forecast that US$13.5 trillion (or some US$500 billion per year) in clean energy investment and spending, in addition to the commitments that have already been made by governments, will be needed between 2010 and 2035.[1]

With data from the IEA indicating that global energy-related emissions of carbon dioxide (CO_2) in 2010 were the highest on record, it is clear that the need for action is urgent. However, current levels of investment in low-carbon technologies fall far short of what is needed. Private investment will only flow at the scale and pace necessary if it is supported by clear, credible and long-term policy frameworks that incentivise investments in low-carbon technologies rather than continuing to favour carbon-intensive energy sources. Therefore, as we approach the United Nations Framework Convention on Climate Change (UNFCCC) Seventeenth Conference of the Parties (COP-17) in Durban, South Africa, in November-December 2011, we wish to reiterate the calls we have made in previous Investor Statements about the importance of both domestic and international climate change policy in catalysing the required levels of investment needed to transition to a low-carbon economy, and to outline the elements of "investment-grade climate and energy policy" necessary to attract large scale investment in solutions to climate change.[2]

[1] The International Energy Agency estimates that the commitments made to date equate to some US$4.5 trillion over business as usual, over the period 2010 to 2035.

[2] This Investor Statement is supported by a report, Investment-Grade Climate Change Policy: Financing the Transition to the Low-Carbon Economy, that explains how investors make investment decisions in areas such as renewable energy, and that highlights examples of policies that have been more and less successful at encouraging investment in these areas.

Domestic policy recommendations

The countries that have attracted the most investment in low-carbon technologies, renewable energy and energy efficiency have generally been those that have provided long-term certainty around the structure and incentives associated with these investments. Conversely, many countries have struggled to attract investment because they do not have appropriate policies in place, because the policies are poorly implemented or because the policies do not provide sufficient incentives for investment. A more recent concern has been the move by some governments to retroactively scale back climate change-related policies and incentives, which has deterred investment in those countries.

Investment-grade climate change and clean energy policy is required to shift private sector investment from high-carbon to low-carbon assets. To attract private sector investment, governments need to:

1 Ensure that effective policies exist. An integrated climate change and clean energy policy framework should include:

- Clear short-, medium- and long-term greenhouse gas emission reduction objectives and targets, and comprehensive, enforceable legal mechanisms and timelines for delivering on these objectives and targets.
- Comprehensive energy and climate change policies that accelerate the deployment of energy efficiency, cleaner energy, renewable energy, green buildings, clean vehicles and fuels, and low-carbon transportation infrastructure.
- Comprehensive policies directed at reducing greenhouse gas emissions from sources other than energy, for example waste, industrial emissions, fugitives, land-use change, deforestation and agriculture.
- Policies supporting investment in renewable energy generation, including measures that support the access for electricity generated from renewable energy sources to electricity transmission and distribution infrastructure.
- Financial incentives that shift the risk reward balance in favour of low-carbon assets. This includes strong and sustained price signals on carbon, well-designed carbon markets and other appropriate incentives to enable private investment in clean energy. An integral part of this should be the removal of fossil fuel subsidies.
- Adaptation measures to reduce unavoidable climate impacts.
- Corporate disclosure of material climate change-related risks.

2 Ensure that the policies are well designed. Experience with investing in renewable energy and energy efficiency suggests that investment-grade climate change and clean energy policy should:

- Provide appropriate incentives to invest. Specifically, policy needs to recognise that investing in areas such as renewable energy and energy efficiency is not risk free, and therefore needs to be designed to allow investors to make appropriate returns relative to the risks that they are taking and the costs, risks and returns of other investment opportunities.
- Recognise that scale is critical to addressing risk and enabling low-carbon investment opportunities to be more cost-effective relative to high-carbon opportunities. Scale allows unit costs to be reduced and allows expertise in the development and deployment of new technologies to be gained.
- Be transparent. That is, it should be clear how the policy is designed and implemented (or intended to operate in the case of new legislation).

- Be of appropriate duration. Investors – in particular, those making large investments in areas such as infrastructure and power generation – need long-term policy certainty. If policy instruments have a short time horizon or there is the likelihood that future governments will significantly change the policy framework, investors will tend to invest elsewhere.
- Avoid retroactivity. Where governments wish to adapt or change policy they should commit to clear prospective timeframes and set clear criteria for these changes.
- Seek to harness the power of markets to find the least cost ways to deliver on climate change objectives.
- Align with wider policy goals including economic, energy, resources and transport policy objectives.

3 **Ensure the effectiveness of the institutions charged with implementing these policies. In particular, relevant regulatory or oversight bodies should have appropriate resources, and have the ability and authority to ensure that climate change and related energy policies are effectively implemented.**

International policy recommendations

While domestic legislation is the critical determinant of the level of capital flows into areas such as renewable energy and energy efficiency, a rules-based international climate change regime is critically important to send appropriate signals to global capital markets. First, it would signal serious international resolve to tackle climate change. Second, it would promote confidence and a higher level of certainty that government commitments will be delivered. Third, it would provide a forum for governments to encourage more ambitious national actions to meet the agreed longer-term objective of holding the increase in global average temperature below 2 degrees Celsius. In this context, we note that the pledges set out by national governments in the Cancun Agreements, while representing significant and important commitments, fall short of meeting this objective.[3] Fourth, it would provide the institutions and institutional frameworks necessary to provide transparency and comparability of national actions on climate change in order to assess progress towards meeting this long-term objective.

We therefore encourage governments to define a pathway towards a high ambition, multilateral, rules-based regime that builds on the work of the past two decades. In particular, we encourage governments to:

- Continue to work towards a binding international treaty that includes all major emitters and that sets short-, mid-, and long-term greenhouse gas emission reduction targets.
- Support the development of robust carbon markets that provide strong and sustained price signals on carbon, hence sending economic signals that will facilitate the flow of private capital.
- Support the development of the Green Climate Fund and other comparable funding mechanisms as part of broader efforts to scale up climate-relevant financial flows, from both public and, in particular, private sources, to developing countries.
- Accelerate efforts to reduce emissions from deforestation and forest degradation (REDD and REDD-plus).

[3] See, for example, United Nations Environment Programme [UNEP] (2010), *The Emissions Gap Report: Are the Copenhagen Accord Pledges Sufficient to Limit Global Warming to 2°C or 1.5°C? A Preliminary Assessment* (UNEP, Nairobi) which indicates that current pledges only takes us 60% of the way assuming that pledges are delivered in full.

Conclusion

Investment-grade climate change and clean energy policy will provide substantial economic benefits. Those countries that succeed in attracting private capital into low-carbon growth areas such as cleaner and renewable energy, energy efficiency and decarbonisation will enjoy multiple benefits, including new jobs, new businesses, new research and technology innovation, more resilient and secure energy systems and, ultimately, more sustainable economies.

Private investment can and must play a critical role in addressing the risks and opportunities posed by climate change. However, private sector investment will only flow at the scale and pace necessary if it is supported by clear, credible and long-term domestic and international policy frameworks – "investment-grade climate change and energy policies" – that shift the balance in favour of low-carbon investment opportunities.

About IIGCC

IIGCC Institutional Investors Group on Climate Change

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for investors. IIGCC brings together European investors to engage with policymakers, companies and investors on addressing long-term risks and opportunities associated with climate change. The group currently has over 70 members, including many of the largest pension funds and asset managers in Europe, representing assets of around $10 trillion.

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About INCR

Investor Network on CLIMATE RISK a project of Ceres

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 100 members with more than $10 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

Investor Group on Climate Change

The IGCC represents institutional investors, with total funds under management of approximately $700 billion, and others in the investment community interested in the impact of climate change on investments. The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and unit holders.

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About UNEP FI

UNEP Finance Initiative Innovative financing for sustainability

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 its Climate Change Working Group (CCWG), UNEP FI aims to understand the roles, potentials and needs of the finance sector in addressing climate change, and to advance the integration of climate change factors – both risks and opportunities – into financial decision-making.

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About PRI

PRI

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.

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The Representative Body of the Church in Wales
The Russell Family Foundation
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