# LETTER FROM GLOBAL INVESTOR NETWORKS TO THE GOVERNMENTS OF THE WORLD'S LARGEST ECONOMIES

**This letter has been prepared by organisations including the *Institutional Investors Group on Climate Change* (Europe), *Investor Network on Climate Risk* (North America), *Investor Group on Climate Change* (Australia & New Zealand), *Asia Investor Group on Climate Change and the United Nations Environment Programme Finance Initiative*, representing global institutional investors responsible for over $22.5 trillion in assets. The letter is also supported by the *Principles for Responsible Investment Initiative*.**

## Introduction

One week ahead of the UN climate change conference in Doha, it is clear that global greenhouse gas emissions are continuing to rise[1], increasing the risk of dangerous and disruptive climate change. This letter is addressed to the governments of the world's largest economies, in their roles as domestic policymakers, as important stakeholders in ongoing international negotiations on climate change and as countries where the greatest reductions in greenhouse gas emissions are needed.

Institutional investors note and commend the progress that a number of governments have made in responding to the threat of climate change and in implementing what we have described as *investment grade climate policy*.[2] Despite the evident policy progress in some countries, extreme weather events are already increasing in frequency with often disruptive effects on communities, local economies, companies and investments.[3] Current policies are insufficient to avert serious and dangerous impacts from climate change.[4] Further delay in implementing adequately ambitious climate and clean energy policy will increase investment risk for institutional investors and jeopardise the investments and retirement savings of millions of citizens.

**Institutional investors understand that climate solutions will require close co-operation between governments and investors. Accordingly we call for a new dialogue with the governments of the world's largest economies on climate policy and the development of workable frameworks that will reduce climate risk and support low carbon investment.**

A new dialogue between investors and governments on climate policy should seek to:

1. Clearly identify which policies encourage low carbon investment and discourage high carbon investment;
2. Reinforce the importance of reliability and predictability in climate and clean energy policy including the fundamental importance of avoiding retroactive policy steps, which undermine the confidence of investors for future investments;
3. Outline further steps that governments can take to improve climate policies, including learning from other governments about policies that encourage investment in greenhouse gas emissions mitigation;
4. Where carbon markets are in place or are under development, seek ways to increase their effectiveness and seek linkages between schemes to support the development of broader, more liquid markets;

5. Continue to work towards stronger international agreements, with necessary levels of ambition for emissions reductions and including rules based frameworks in order to provide appropriate investment signals to capital markets;
6. Engage financial ministries and financial sector representatives in dialogue on the development of workable solutions that will enable deployment of private capital in climate solutions and consider the impact of unintended consequences of wider financial and other regulations on investment in low-carbon, climate resilient assets;
7. Take steps to phase out subsidies for fossil fuels, which remain six times higher than subsidies for renewable energy sources[5], while facilitating the economic transition for affected communities.

In doing so we aim to jointly explore with governments how the transition to the global low-carbon economy can be achieved within the required timeframe. A new dialogue, if successful, will support low-carbon investment decisions, reduce climate risk and protect the financial interests of the ultimate beneficiaries of institutional investment organisations.

Investors worldwide are currently taking actions to address climate risks and opportunities. These range from considering and addressing climate risks in their investments, directly investing in assets such as renewable energy, low-carbon energy infrastructure, and clean technology, encouraging companies to improve energy efficiency and reduce their greenhouse gas emissions, measuring and disclosing the carbon performance of their own portfolios, to persuading regulators to require corporate disclosure of the business impacts of climate change. These efforts are not yet sufficient and must be scaled up dramatically. Governments will need to adopt stronger, more consistent policy frameworks which provide the right market signals to support increased investment.

# Well-designed policy attracts low-carbon investment

There are a number of encouraging examples of positive progress around the world on climate and clean energy policy. Institutional investor experience suggests that investment-grade climate change and clean energy policy should:

- **Include clear short term (2015), medium term (2020–2025) and long-term (2030–2050) greenhouse gas emission reduction objectives and targets, and comprehensive, enforceable legal mechanisms and timelines for delivering on these objectives and targets**. Examples include the UK's Climate Change Act, South Korea's Green New Deal, California's Global Warming Solutions Act and federal vehicle efficiency standards in the United States;
- **Provide incentives to shift the risk reward balance in favour of low carbon investment.** Examples include the feed-in tariffs that have been adopted by many European countries and also form an integral part of policy in China and Japan, loan guarantees such as those provided in the United States, to incentivise investment in renewable energy, and tax incentives;
- **Encourage large-scale investments in low-carbon solutions, recognising that scale is critical to making low-carbon investment opportunities more cost-effective than high-carbon opportunities**. The benefits of focusing on scale are being seen in areas such as solar (where photovoltaic module prices fell by close to 50% in 2011), and onshore wind (where turbine prices fell by between 5% and 10% in the same period);
- **Be of appropriate duration, evolve in a predictable way and ensure the timeframe over which incentives will be reduced is transparent**. Public policy needs to align with investment life-cycles, often a decade or more. Germany's renewable energy targets underpinned by a feed-in tariff support regime where the level of support reduces over time and the renewable energy target arrangements to 2030 in Australia are examples of predictable, transparent policy;
- **Harness the power of markets to find the least costly ways to reduce emissions.** Carbon markets (emission trading schemes) have a critical role to play in delivering greenhouse gas emission reductions in an efficient manner, but must be designed to successfully co-exist with other low carbon incentive mechanisms like feed-in tariffs. The European Union's Emission Trading Scheme has been the flagship programme in this regard and other countries and states – South Korea, California, North-eastern United States, Australia, New Zealand and China – have established their own schemes, many designed to avoid challenges encountered by the EU ETS;

- **Align with wider policy goals including economic, energy, resources and transport policy objectives**. This alignment, as seen for example in China's 12th Five Year Plan and South Korea's New Green Deal, increases investors' confidence in the credibility of governments' commitments to action on climate change.

There is growing evidence that, under the right policy conditions, institutional investors will significantly increase their low-carbon investment allocations. In 2011 and in the midst of difficult economic conditions, investment in renewable energy grew substantially in the United States, India, Germany, Denmark and China where billions of dollars of wind and solar energy projects were financed, assisted by supportive policy initiatives.

# Conclusion

Governments are key in reducing the serious risks, losses and damage that climate change will cause, and the risks to the investments and retirement savings of millions of people. While we commend governments that have implemented supportive policy, much further work is needed to decarbonise economies and portfolios and to stimulate private investment in low-carbon solutions.

Institutional investors have played an increasingly central role in financing low-carbon energy solutions, as both asset financiers and as equity investors in public companies. We urge the world's largest economies to enter into a new dialogue with investors – based upon the seven points set out in this letter – and hasten the transition to a low-carbon economy.

**Signed on behalf of the global investor networks:**

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[1] IEA, *Global carbon-dioxide emissions increase by 1.0 Gt in 2011 to record high*, 24th May, 2012, **http://www.iea.org/newsroomandevents/news/2012/may/name,27216,en.html**

[2] *Investment Grade Climate Change Policy: Financing the transition to the low carbon economy,* 2011 (report accompanying the *2011 Global Investor Statement on Climate Change*) **http://globalinvestorcoalition.org/investor-statements-on-climate-change/**

[3] McHale, C. and Leurig, S. (2012), *Stormy Future for U.S. Property/Casualty Insurers: The Growing Costs and Risks of Extreme Weather Events* (Ceres, Boston, MA); Mercer (2011), *Climate Change Scenarios – Implications for Strategic Asset Allocation* (Mercer, London); Mendelsohn, R., Emanuel, K. and Chonabayashi, S. (2011), *The Impact of Climate Change on Hurricane Damages in the United States*. World Bank Policy Research Working Paper 5561 (World Bank, Washington DC).

[4] Greenhouse Gas emissions are still correlated with GDP – G20 nations are responsible almost 90% of global GDP and are also responsible for 84% of global Greenhouse Gas emissions, **http://www.g20.org/index.php/en/numeralia**

[5] IEA, *2012 World Energy Outlook*, 12th November 2012, **www.worldenergyoutlook.org**