

An International Perspective: Challenges and Solutions to Investing in a Low Carbon Future

Ten Years to Transition
Brisbane
Monday 18th October

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and
Chairman - Aldersgate Group

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Context for Birth of Low Carbon Investment at Scale

1. **UK: The Stern Report (2007)– it costs more to fight climate change than adapt (5% pa GDP per year at risk)**
2. **Europe: WWF Living Planet Report shows we are using 30% more resources than planet can replenish (October 2008)**
3. **US: announces \$150bn investment to create 5M green collar jobs by 2020 (January 2009) – 20% of fiscal stimulus**
4. **China: Investment in low carbon technologies reaches US\$ 9 Billion a month (March 2010)**
5. **UK: Requires £260bn (£70M a day) investment on low carbon electricity to 2020 to meet statutory carbon targets**

But.....

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Currently investment flows and policy are stalling

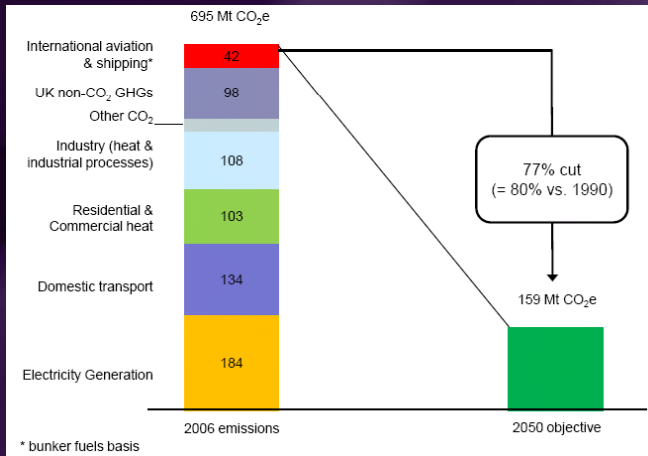
1. **The global financial crisis has dominated availability of money from banks and Europe in particular, investment in 2010 recovering fast to 2008 (peak) level of £840bn, but**
2. **....big shift to US (VC) which has 75% (2/3 in California) and IPOs to China (70% YTD)**
3. **In 2009 UK calculated consumption carbon footprint up by 15% 1990 to 2005, vs emissions reduction of 19%**
4. **2009/2010 estimate 8% drop in resource and carbon use, $\frac{3}{4}$ due to recession; policies at national and international level weak post Copenhagen.**
5. **Expectations set low for Cancun, unilateral, corporate and voluntary action may be stronger than international drivers**

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Why energy is key: The implications of 2050 targets - energy use will be transformed



- Not only de-carbonising electricity generation
- But also to facilitate savings in other energy use emissions categories

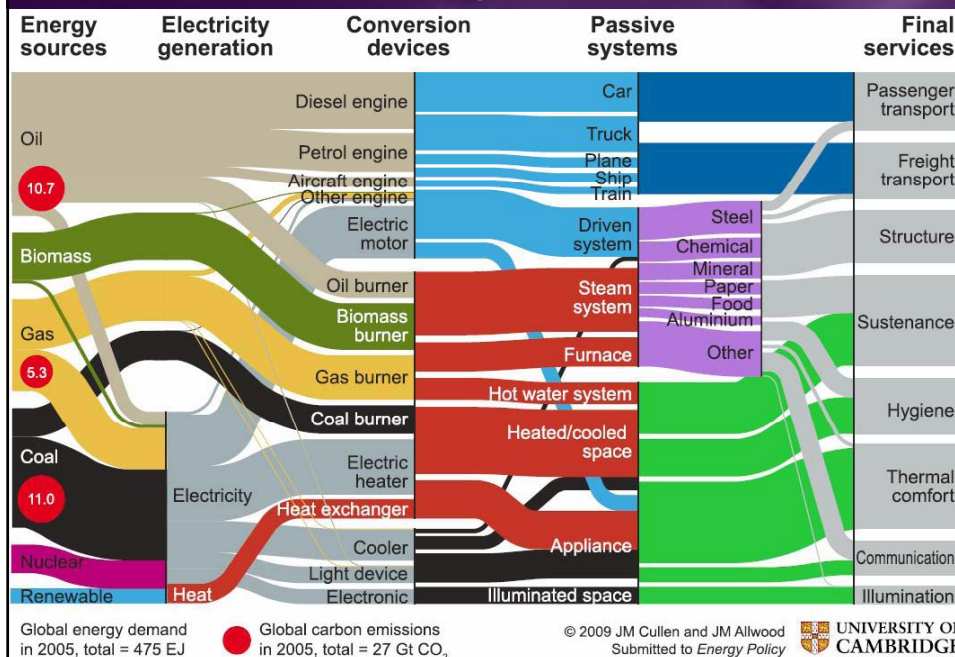
Source: CCC Building a Low-Carbon Economy –The UK's Contribution to Tackling Climate Change

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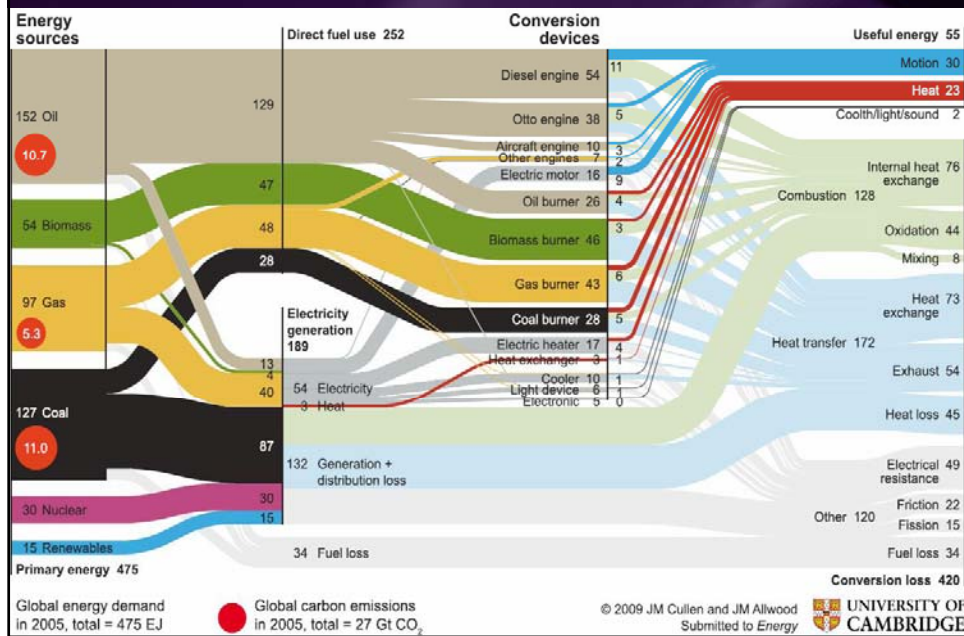
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Global Energy Demand



Annual Global Energy Flow



Why Investment will still Accelerate – An example of engagement and response in UK

1. China (10% renewables target for end of ...this year) and US:

“ We need to invest in the jobs of the future and in the industries of the future because the country that leads in clean energy and energy efficiency today, I am absolutely convinced, is going to lead the global economy tomorrow”

Barack Obama 5th March 2010

2. Private capital is available, it is the failings of policy makers to create enough certainty that has delayed investment to date. Aldersgate Group helps create a mandate for action

Who is the Aldersgate Group?

ALDERSGATE
GROUP

- UK Group Founded in 2006
- A broad coalition of businesses, NGOs and government agencies
- We believe that high environmental standards are vital to future economic growth and competitiveness
- A think tank, forum and lobbying group founded on consensus and cross-economy, cross party support
- Growing in a controlled way – breadth not depth

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Our main members

ALDERSGATE
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MPs from all three main parties, Lords and Influential Individuals plus.....



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What we aim to do

- Raise awareness in UK & Europe of all (economic and social) benefits of high environmental standards.
- Drive pace and build political support for smarter environmental policymaking to deliver the benefits
- An example of how to gain wide support from many stakeholders to give mandate to policy makers to act early, boldly and strongly

All reports free to download on our website
www.aldersgategroup.org.uk

Recent Activities

- *Climate Change Act* – played a key role encouraging mandatory carbon budgets and writing the clause on carbon reporting
- *Resource Efficiency* – ‘Beyond Carbon’ how to drive resource efficiency, improve security and give economic growth.
- *Low Carbon Buildings* – Especially attacking existing building stock
- *Low Carbon Skills* – ‘Mind the Gap’, new effort to give us the skills to capture green markets
- *Finance* – ‘Financing the Transition’ and now a ‘Green Investment Bank to Power the Economic Recovery’

Financing the Low Carbon Transition: **ALDRSGATE GROUP** The Green Investment Bank (GIB)

- 2009 - developed concept and built support with others
- All parties included in election pledges May 2010
- Now need to implement urgently: *Financing the Future: A Green Investment Bank (GIB) to Power the Economic Recovery* – latest report published two weeks ago
- Presents UK leading figures and guides on the priorities
- Key force to build consensus on financial solutions

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Bob Wigley (Chairman, GIB Commission):

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“The sheer scale of the low-carbon investment needed in the UK – about £550bn by 2020 – combined with constrained bank and utility balance sheets, policy and regulatory uncertainty, and technological risk means there is a pressing need for a new approach to low-carbon finance”



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Tom Murley (HgCapital):

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“The GIB should have a single goal: to help deliver the private capital necessary to achieve the UK’s low carbon, renewable energy and energy security targets”



Three Strategies to Support the above:

- 1. “Catalysing and facilitating private sector investment*
- 2. Providing public sector funding where private sector capital is not available*
- 3. Underwriting the economic risks of policy change”*

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Ronan O’Regan (PricewaterhouseCoopers):

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“The equity money is needed in the short term - it can be re-financed by traditional infrastructure investors once the projects are operating successfully. In that way we could see the GIB act more as a green catalyst fund, than a green bank.”



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James Langley
(AXA Investment Managers):

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“This is the fundamental argument for the GIB to be an aggregator of renewable energy infrastructure debt and energy efficiency debt. By forming liquid bonds the GIB would enable fixed income investors to purchase these bonds within their regulatory framework.”



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Emma Howard Boyd
(Jupiter Asset Management):

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“Institutional investors may provide the majority of funds for the GIB, but retail investors could also prove an important source of funding. Indeed, the public’s ability to participate in a GIB is in many ways as important as any funding they may bring.”



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An effective GIB – 7 key attributes

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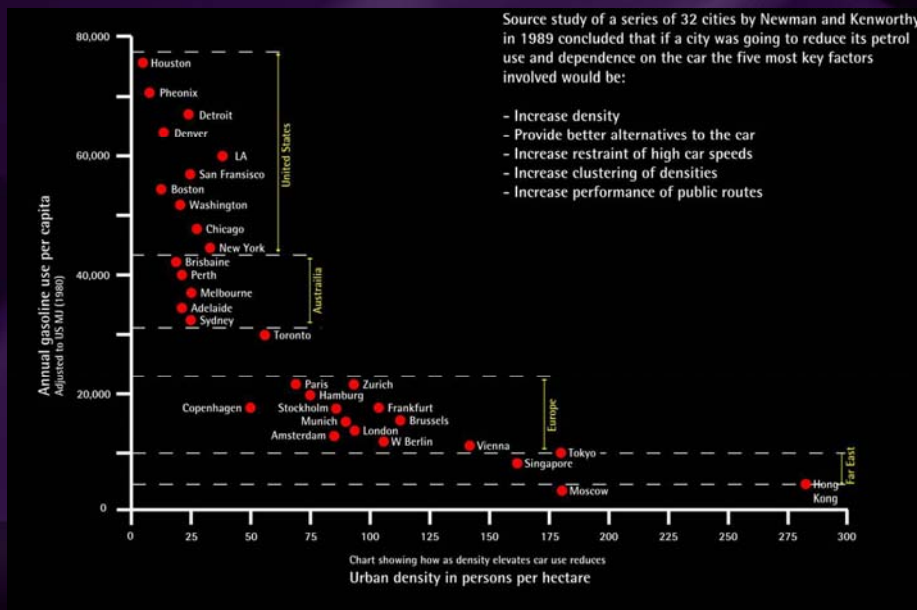
1. Policy Context – GIB is not a stand alone panacea
2. Durability – the structure must have permanence
3. Focus – clear mandates, eg smart grid infrastructure
4. Access Institutional Investors – eg green bonds
5. Scale up Energy Efficiency – replace Green Loans?
6. Sufficient Capital – UK £4-6bn in first 3-4 years
7. Expertise – the focus for govt. on low carbon finance

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Urban Design and Carbon Intensity



London as an example – building evidence

- In 2010 air quality is still causing 4,567 premature deaths a year
- Drainage systems flood and mix with sewage in times of storm rainfall –more often due to climate change
- 80% of City's buildings have >50 year life – retrofit now
- Heat mapping to design energy from waste facilities
- Transport policies: cycling has doubled, and now have more electric vehicles (1700) than any other city



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London – Planning Infrastructure for 50 years time

- Energy use will be largely electric
- Existing power stations, highways showing their age
- Energy and material costs will be higher - 2^o markets
- Shift to local - grids, generation, manufacture
- A price on carbon
- Society will change - less personal vehicle ownership declining; retail changed to deliver to customers; biodiversity valued; agriculture strategically managed



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London – the Low Carbon Investment Plan

- Stakeholders engaged to find common goals
- Funding from re-direction of existing budgets into strategic plan, plus EBRD/(?GIB) demonstration funds
- £50bn achieves 60% carbon reduction by 2025 (UK is 25%) (value c£1bn)
- 200,000 jobs created (£1bn/year tax take)
- Rental value increase from building refit (£2-5bn/year tax take)



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A GIB – Time for Queensland to have one?

- Remarkable breadth of support
- Business, Investors and Banks see the GIB as complementary
- Experience of international (IFC, ADB, EBRD) and national (eg KfW) funding agencies has shown leverage of 10 to 20 fold possible
- New investors are out there, if green bonds and saving schemes (eg UK – ISAs) are also enabled



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Thank you!

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