UNEP **Finance Initiative**
Innovative financing for sustainability

Carbon crunch! meeting the cost

The financial implications of dealing with Climate Change and the finance sector's role

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Key Financial Players make up the CCWG

Members Institutions 2007:

- Allianz/Dresdner
- Aviva
- AXA
- Bank of America
- Caisse des Dépôts
- Calvert Group
- DBSA
- Fortis
- HSBC
- Insurance Australia Group
- JBIC
- Munich Re
- Standard Chartered
- SAM
- Swiss Re
- UBS

Overview:Carbon Crunch – Meeting the Costs

1. Balancing the cost/investment equation
2. Finance sector initiatives to date
3. Optimising the finance sector's contribution
4. Where to now for policies?
5. Key messages and recommendations

1.Balancing the cost/ investment equation

- Landmark publications: Stern Report, UNFCCC report on investment flows, IEA reports, IPCC 4AR
  - Main message: it is expensive **not** to act now, acting now is far less cost intensive than waiting
  - In 2065, on current trends, climate change damages exceed global GDP
  - Additional investment flows of $200-210bn annually necessary till 2030 to return GHG to current levels (0,3-0,5% of global GDP)
  - 86% of investment flows come from the private financial sector
- Leading financial institutions' research: Lehman Brothers, UBS, Societe Generale, etc.
  - Businesses need to adjust to new policies and regulations – but currently they don't exist sufficiently

2.Finance sector initiatives to date

- Development of the carbon markets
  - ~ US$30bn in 2006, three times greater than the previous year
  - Financial institutions are key players
- Growth of investments in RE sources and EE
  - Investment capital flowing into renewable energy jumped from US$80bn in 2005 to US$100bn in 2006
  - Of the 176 funds set up by financial institutions seeking clean energy investment opportunities, 150 disclosed US$18bn under management
- Development of financial products tailored to climate change mitigation
  - Finance institutions developed climate change related new products

2.Finance sector initiatives to date

- Increasing capacity building
  - e.g. set up of business units dealing with climate change
- Private-public-partnerships to raise awareness
  - Financial institutions have formed partnerships with government bodies or NGOs to pursue climate change research
- Internal emission controls, green energy purchase, emission offsetting

3.Optimising the finance sector's contribution

Key recommendations to FIs:

- Need to integrate climate change related risks/opportunities into core financial operations
  - Degree of engagement on this issue varies: FIs apply these criteria in the context of their operating business environment
- Engage with government decision makers to optimise the allocation of available funds to combat climate change

4.Where to now for policy?

Key recommendations for policy makers:

- End uncertainty over international climate policy post-2012
  - At present investors are not receiving sufficient climate policy signals
  - Binding reduction commitments are critical to provide mid- and long-term investment horizons of 10-20 years
- Provide harmonized regulation on global carbon market
  - urgent priority in order to reach the objective of reducing global emissions by 50% by 2050 and to address additional needed investment flows
  - CDM has already shown significant potential to leverage investments. CDM projects in the pipeline in 2006 generated investment of about US$25 bn
- Promote significant upscaling of R&D and investments in renewable energy and energy efficiency
  - e.g. by levelling the playing field with conventional fuels, through for example removing subsidies for dirtier, less efficient production and uses etc.

Conclusions/Key messages

- It is clear from climate science and economic analysis what needs to be done to combat climate change
- Strong early action to reduce emissions is critical and can dramatically limit the costs of meeting the challenge
- Leading financial institutions have been supportive and creative in addressing the challenge, but in general financial sector engagement is still too weak
- Policy development is delaying progress in channelling finance and investment towards effective measures against climate change

Thank you

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