

INVESTORS ADVOCATE URGENT ACTION TO DELIVER PRIVATE SECTOR FINANCE TO TACKLE CLIMATE CHALLENGE

- *Investors require strong pricing signal and ambitious caps from emissions trading schemes*
- *Complementary public sector financing mechanisms also needed to trigger sufficient capital inflows into developing countries*

19 May 2009, London: The Institutional Investors Group on Climate Change (“IIGCC”), the European investors’ forum for collaboration on climate change, which represents assets of around €4 trillion, has advocated a number of urgent measures in its latest reports, to boost the effectiveness of carbon markets globally and to leverage private sector investment in developing countries to mitigate the risks of climate change.

In the first report, entitled *‘Toward an Effective Global Carbon Market’*, IIGCC proposes a number of measures which will enable carbon markets to fulfil their potential as a major catalyst for investment and support the development of a global low carbon economy.

Firstly, the IIGCC asserts that while carbon markets have achieved significant growth in recent years, reaching \$110 billion in 2008¹, emissions trading schemes (ETS) must provide companies and investors with a strong price signal to give them the confidence to make long-term investments in low-carbon solutions. Additionally, each scheme needs to set ambitious caps, in line with the Intergovernmental Panel on Climate Change (IPCC) recommendations in order to create sufficient scarcity and demand and therefore a price for carbon at a level that will boost investment in low carbon technologies.

Commenting on the report, Peter Dunscombe, IIGCC Chairman, said:

“The credibility of emissions trading schemes would be greatly improved with a robust price signal as well as clear and frequent communication from the regulator on trading data and improved transparency over direct government participation in schemes. We encourage governments to learn from the experience of the EU ETS and the problems faced by long-term investors as a result of excessive volatility and uncertainty.”

The report also states that, over the long-term, carbon markets will need to include cap and trade schemes from advanced emerging economies in order for emissions reductions to meet the IPCC’s recommended targets.

¹ New Energy Finance (2008) Carbon Market to break \$100 billion in 2008. New Energy Finance Note October.

David Russell, co-head of Responsible Investment at the Universities Superannuation Scheme (USS), added:

“As carbon trading schemes continue to evolve on a regional or national basis, it will be important to ensure that each scheme’s allowances and credits are compatible across multiple markets. This measure would pave the way for a single global carbon market, which in turn would allow emissions reductions to be achieved at the lowest possible cost, increase liquidity and create a truly global carbon price.”

In its report, the IIGCC notes its continued support of the Clean Development Mechanism (CDM), but suggests a number of measures aimed at further improving its scale and effectiveness. These include setting sector or programme-based targets, as opposed to the current project-by-project approach. In addition, the IIGCC asserts that the institutional framework supporting the CDM must be improved to allow the Board to focus on executive tasks such as ensuring the transparency and efficiency of the operational rules for assessing low carbon projects.

Even with these reforms, however, the IIGCC makes clear that the carbon markets and the CDM alone will not generate the significant investment flows required to tackle the climate change crisis. In a further report, released alongside the carbon markets paper, the IIGCC considers other types of financing mechanisms which would raise funds from the private sector to finance climate change mitigation and adaptation, particularly in developing countries.

Institutional investors in the EU already have a steady stream of investment opportunities in renewable energy and a similar flow of opportunities is starting to open up across some of the larger emerging markets. The IIGCC’s paper suggests that strong, stable and credible policies at a national level are the essential foundation for attracting finance for low carbon technologies in the developing world.

Rob Lake, Head of Sustainability at APG Asset Management, commented:

“A coordinated approach among governments would help counter the development of a complex patchwork of policies which risks preventing the international deployment of private capital, innovation and entrepreneurialism on the scale and with the urgency required.”

Commenting on public sector incentives, the IIGCC suggests that multi- and bilateral development finance institutions should establish mechanisms whereby private sector institutions from developed and developing countries can access debt or equity based support packages, backed by targeted export credit guarantees and political risk insurance. This step would facilitate the establishment of large-scale infrastructure and private equity investment that properly addresses the global issues around climate change.

In its report, the IIGCC also welcomes proposals for 'climate bonds' backed by OECD governments, but warns that their success will depend on their risk / return characteristics and their ability to provide tangible evidence for investors of the climate change benefits they deliver.

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NOTES TO EDITORS

1. About the Institutional Investors Group on Climate Change (IIGCC)

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The group's objective is to catalyse greater investment in a low carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors. The group currently has 52 members, representing assets of around €4trillion.

In detail, the IIGCC's objectives are to: 1. encourage a pro-active approach amongst asset owners and asset managers on climate change; 2. improve company disclosure/performance on climate change; 3. encourage public policy solutions that ensure a move to a low carbon economy and which are consistent with long-term investment objectives.

3. The IIGCC papers entitled 'Toward and effective Global Carbon Market' and ' Non-Carbon Market Financing Mechanisms For Climate Change Mitigation and Adaptation in Developing Countries' can be at www.iigcc.org .

4. **IIGCC Membership, May 2009**

APG Asset Management	Hermes
ATP	HgCapital
Aviva Investors	HSBC Investments
Baptist Union of Great Britain*	Impax Asset Management
BBC Pension Trust	Insight Investment
Bedfordshire Pension Fund	Joseph Rowntree Charitable Trust*
BlackRock	Kent County Council Pension Fund
BMS World Mission*	London Borough of Hounslow Pension Fund
BNP Paribas Asset Management	London Borough of Islington Pension Fund
CB Richard Ellis Investors	London Borough of Newham Pension Fund
CCLA Investment Management	London Pensions Fund Authority
Central Finance Board of the Methodist Church	Merseyside Pension Fund
Church Commissioners for England	Northern Trust
Climate Change Capital	PGGM Investments
Co-operative Asset Management	PRUPIM
Corporation of London Pension Fund	Schroders
Cowen Asset Management	South Yorkshire Pensions Authority
Credit Agricole Asset Management	The Church in Wales*
	The Roman Catholic Diocese of Plymouth*



DWS Investments	The Roman Catholic Diocese of Portsmouth*
Environment Agency Pension Fund	The Roman Catholic Diocese of Salford*
Ethos Foundation	United Reformed Church*
F&C Management Ltd	Universities Superannuation Scheme
Generation Investment Management LLP	West Midlands Metropolitan Authorities Pension Fund
Greater Manchester Pension Fund	West Yorkshire Pension Fund
Grosvenor Fund Management	William Leech Charitable Trust*
Henderson Global Investors	*part of the Church Investors Group