European Climate Foundation

Climate Protection, Finance & Economic Growth

The Challenge

The transition to a low-carbon society has begun but we are not seeing change at the scale and scope that would be necessary to avoid risks from climate change to our living environments. To meet the internationally agreed target of keeping the global average temperature rise since pre-industrial times below 2°C, patterns of investment, business models and economic regimes will need to change considerably.

At the same time, the context in which the European economy needs to evolve is increasingly being shaped by global economic interdependence and technological disruptions. Global trade, international investments, integrated supply chains, a growing share of emerging markets in global production and consumption, as well as modern communication tools and digitisation influence the direction of economic development.

The Objective

These developments call for a reorientation in Europe. The goal must be to align climate protection and economic growth to foster the transition to a modern low-carbon economy and society.

1. Investments need to be carried out based on thorough climate and regulatory risk analysis. A carbon bubble in asset values is a real risk and must be addressed accordingly – including by divesting high-carbon assets.

2. The European Union must be a forerunner market in key product areas, where ambitious standards and rules for market access create robust incentives for first-movers. Innovation has a central role to play in Europe's competitiveness and low-carbon future.

The Fundamental Hypothesis of the European Climate Foundation (ECF):

Tackling climate change effectively is a prerequisite for peaceful, prosperous societies in Europe and around the world. As climate change ignores national and sectoral boundaries, climate protection strategies need to build bridges across those divides. Concerted action is vital. Together with our partners we mediate between different perspectives and help develop dynamic new agendas, which can stand the test of time in a plural, democratic society.

Areas of Engagement

Carbon Bubble Risk

Carbon bubble risk refers to the fact that 80 per cent of proven carbon reserves are unburnable if the world is to stay within a 2°C average warming scenario. Work by the Carbon Tracker Initiative and others has shown that the global high-carbon energy sector is badly exposed to the risk of stranded assets because of decreasing demand, policies to address air pollution and carbon emissions, competition from cleaner energy sources and volatile fossil fuel prices. For a successful low-carbon economy, the balance of investment flows needs to be shifted decisively away from high-carbon investment. This involves appropriate risk allocation, divestment and managed decline strategies.

The high-carbon energy sector is badly exposed to the risk of stranded assets

The ECF engages to ensure risks and implications of the carbon bubble are understood and acted upon. Conventional financial analysis tends to ignore the financial impact of carbon and energy regulation on portfolio returns. That is why we aim in our work to develop analysis, tools and approaches to assess companies' ability to adapt their operations, footprints and business models to a changing regulatory environment.

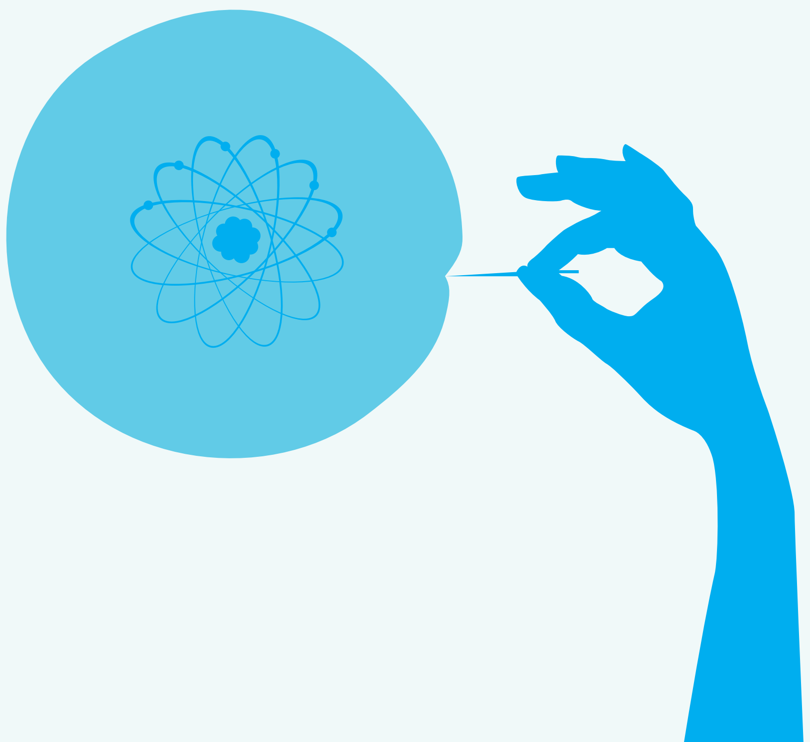
Low-carbon investment in renewable energy, energy efficiency etc. is increasing in Europe and globally, but not yet at anything like the scale required to deliver a sub-2°C warming scenario. The ECF is engaged in accelerating these investment flows. This means detailed engagement with the many barriers and blockages impeding the flow of low-carbon investment despite good policy intentions at the European and national level, and attractive returns theoretically available in the sectors.

The aim is to grow low-carbon investment at scale

For example, the ECF and its partners are working to assess current and potential renewable energy investment instruments for a variety of investor groups including utilities, financial investors, developers, large and small-scale consumers, municipalities and governments. Further, we are focussing on improving the flow of finance into energy efficiency – a central concern if European abatement goals are to be achieved. Our work here drills down to the often unintended consequences of regulatory and policy settings, and the changes required to liberate extra finance – usually at Member-State level and in highly specific contexts.

UNBURNABLE CARBON

Unburnable Carbon – Are the World's Financial Markets Carrying a Carbon Bubble?, Carbon Tracker, 2011.
The Carbon Tracker Initiative argues that today's financial architecture is not fit for purpose to manage the transition to a low-carbon economy. Serious reforms are required to key aspects of financial regulation and practice firstly to acknowledge the carbon risks inherent in fossil fuel assets and then, secondly, to take action to reduce these risks on the timeline needed.



Growth Opportunity

The ECF facilitates debate to foster the development of programmes and strategies aimed at both revitalising Europe's economy and reducing carbon emissions. This includes work on a Euro Climate Deal, which is relevant to Europe's investment plans to encourage growth. One idea is to introduce an accelerated depreciation scheme for new investments, with special treatment for investments in energy efficiency.

We collaborate with partners such as the Organisation for Economic Co-operation and Development (OECD), McKinsey & Company and Ernst & Young (EY) to analyse opportunities to reduce industrial emissions while ensuring growth and strengthening comparative advantage; to assess the potential of the low-carbon transition for economic development; and to evaluate the role of political direction and support. Among other things, we found that while Europe can increase its competitiveness and simultaneously reduce its greenhouse gas emissions, unlocking the abatement potential requires businesses and policymakers to engage closely to create new frameworks that encourage cross-company and cross-industry optimisation and innovation.

The ECF and its partners are looking for a new approach to European industrial policy, focused on innovation and rooted in a wider jobs and growth agenda at the heart of the European project.

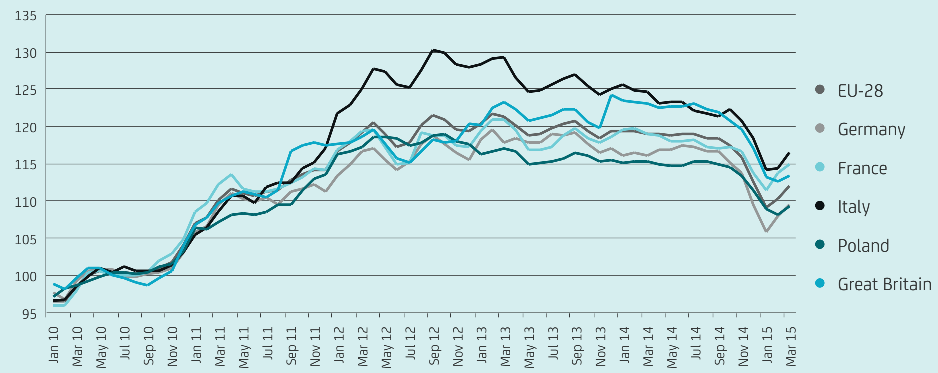
We are looking for a new approach to European industrial policy, focused on innovation

A new industrial policy needs to be developed in a process designed to build trust and shared direction between public policy-makers, industrial interests and civil society. For this purpose, the ECF has established a new space for high-level thought leadership and dialogue on European industry's competiveness and innovation opportunities in the new climate economy. The work of this initiative is substantiated by solid analyses of mechanisms to better close the gap between research and the marketplace, instruments and design of a circular economy, and regional clustering initiatives for cross-cutting innovation.

THE ECF ENERGY PRICE MONITOR

Energy prices are a critical factor in the design of climate policies. In the absence of a generally accepted indicator for energy prices, the ECF Energy Price Monitor (EPM) has been designed to fill this gap. The EPM describes recent changes in consumer energy prices in Germany on a monthly basis and will also be launched in the United Kingdom, France and Poland. In addition to the EPM, the ECF is working on an Industry Energy Cost Index to ensure a comprehensive picture that takes account of the varying degrees of exposure of sectors to global trade.

International energy price trends comparison Index 2010=100



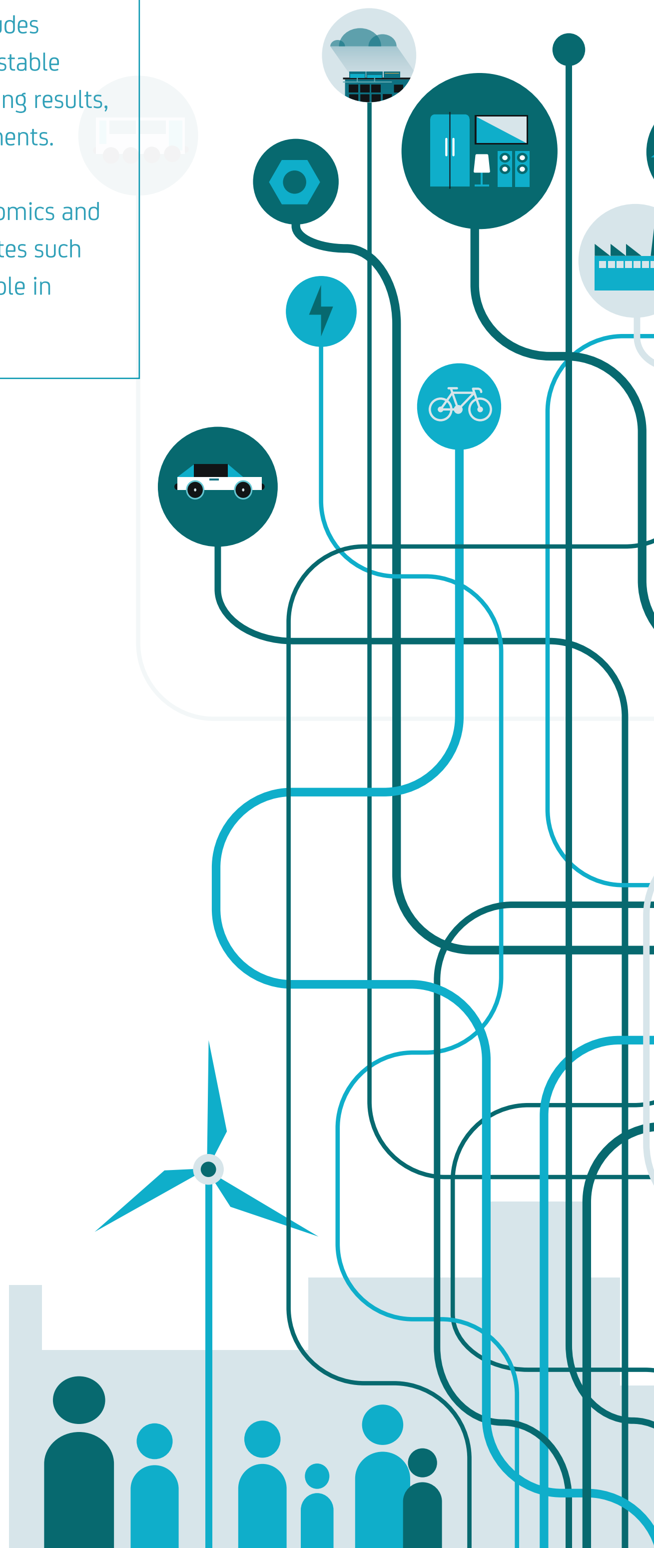
Source: Eurostat

Please visit: www.europeanclimate.org/de/category/news/ecf-energy-price-monitor/

ECF Perspective and Approach

The low-carbon transition is on its way, but will need to pick up speed. The question hence is not whether we want this transition, but how to manage it.

- The ECF is fundamentally guided by co-development of strategy with our partners and stakeholders. Our approach is anchored in an intense dialogue on values, strategies and impact. Since there is a multitude of interdependent factors and unforeseen disruptions to be accounted for, we frame our approach and time horizons accordingly.
- The ECF adheres to the core elements of strategic philanthropy. This includes drawing on state-of-the-art research and context analysis, formulating testable hypotheses and measureable goals, monitoring implementation, evaluating results, learning from experience and dynamically adapting to external developments.
- The ECF portfolio encompasses energy, energy efficiency, transport, economics and finance. We focus on the European institutions as well as on Member States such as Germany, the United Kingdom, France and Poland that play a critical role in channeling Europe's low-carbon transition.



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