Assets for a Low-Carbon Society

Among the many elements contributing to the Paris Agreement's ground-breaking success, one of the most surprising was the way finance sector questions increasingly imposed themselves on the public, private and civil society climate agendas throughout 2015. A sustainable and profitable finance sector should meet its responsibility to serve the real economy, which in turn is in transition towards a low-carbon society. This has long been true, yet 2015 was in many ways the year it most clearly came into focus.

The European Climate Foundation (ECF) and its partners have engaged over several years in the analysis and better understanding of implications for the finance sector, from the pioneering work of the Carbon Tracker Initiative and their award-winning "Unburnable Carbon" report, through to contemporary analysis of portfolio financial risks from carbon and energy regulation. Latterly, ECF activities have been bundled into a dedicated Finance and Economics unit.

High-carbon investments have long carried the advantage of the established and mature, with the lobbying power that goes with this. However, the tides are shifting as the carbon bubble narrative takes hold and renewables become more competitive. Throughout 2015, for instance, the Climate Policy Initiative engaged in an analysis assessing how changes in policy and finance could allow Germany to better transition to an electricity system centred on renewable energy. A study by the think tank Agora Energiewende showed that solar power will soon be the cheapest form of electricity in many regions of the world.

The implications of these various insights were well summed-up in a speech entitled "Climate Finance and Carbon Markets" by ECF Supervisory Board Chair Caio Koch-Weser at the G7 Climate Directors-General Workshop in April 2015. Amongst other points, Koch-Weser highlighted that the technology cost of renewable energy is rapidly coming down, and a similarly dynamic scenario is emerging as far as climate investment is concerned. In his speech, he underlined that countries globally were looking to Germany and Europe for best practices, innovative technology and financing, and policy instruments. Koch-Weser stressed that the G7 should take the opportunity to make gains in sustainable growth through a concerted action agenda, which should include establishing a long-term decarbonisation goal. Through these points, he echoed and reinforced what has long been voiced and backed up with evidence by civil society organisations.

In the run-up to the G7 summit, many non-governmental organisations and think tanks contributed to developing and raising the idea of a long-term decarbonisation goal as a new paradigm for global climate action to provide clarity to policy makers, corporates, and investors. This work helped prepare the ground for the G7 leaders' decision in June 2015 to support the decarbonisation of the global economy over the course of the century, and to do their part towards achieving a low-carbon global economy and a transformation of the energy sector by 2050. These commitments were hailed by many as signalling the end of the fossil-fuel age, as an important milestone on the road to the Paris Agreement, and as necessary to reduce uncertainties undermining low-carbon investment decisions.

The G7 summit and other important landmarks in the lead up to Paris were accompanied by a growing sense amongst investors that climate change and its regulation would affect their returns as governments become more serious about climate action. For example, Norwegian organisations and their civil society partners such as Urgewald worked to encourage the Norwegian Parliament to bring its renowned Government Pension Fund Global in line with climate change imperatives. The Parliament drew upon the powerful evidence and constructive technical analysis from the Institute for Energy Economics and Financial Analysis (IEEFA) to conclude that it could and must change its practices. Thus, the Fund set a new benchmark for the mainstream financial sector with regard to transitioning to low-carbon assets.

Throughout 2015 civil society organisations such as Sandbag and Carbon Tracker informed and supported dialogue around stranded asset risk, and emphasised the importance of issues including extended time horizons, disclosure of climate-related risks and a review of listing rules. A further powerful move followed in September when the Governor of the Bank of England, Mark Carney, gave a speech to Lloyd's of London that fuelled the climate and regulatory risk debate and underlined the role financial regulators can play in steering the low-carbon transition.

Carney solidly endorsed the carbon bubble argument, saying "[i]f [the carbon budget estimate] is even approximately correct it would render the vast majority of reserves 'stranded' – oil, gas and coal that will be literally unburnable ... the exposure of UK investors, including insurance companies – to these shifts is potentially huge". Shortly before the historic Paris Agreement, China announced green finance would be an area of focus during its G20 presidency – with the People's Bank of China and the Bank of England co-chairing the G20 Green Finance Study Group. The ECF was proud to host a meeting of the Study Group with representatives from German Ministries, civil society and the private sector in Berlin in early 2016 to foster exchange around this process.

Looking to the future, the Paris Agreement establishes a uniquely powerful framework to guide the low-carbon transition. This framework must now be realised in the millions of financial decisions, large and small, made every day by businesses, consumers and governments. In close collaboration with its partners, the ECF will continue to explore new pathways to innovative endeavours and solutions that ensure investments are channelled towards the realisation of a low-carbon society.