



Dear Sir Nick

Institutional Investors Group on Climate Change: Submission to the Stern Review on the Economics of Climate Change

The Institutional Investors Group on Climate Change (IIGCC) is a forum for leading investment organisations and pension funds to promote the assessment and active management of the investment risks and opportunities posed by climate change. IIGCC has over 25 members with assets under management of over £1trillion. A list of our members is provided overleaf.

The IIGCC recognises the importance of climate change and supports pro-active and credible public policy to minimise the damage done by climate change as well as maximising the opportunities from the transition to a low carbon economy.

We would like to take this opportunity to highlight the type of policy framework that we as long-term investors support and to emphasise that the active involvement of institutional investors is essential to ensure that climate policy effectively mobilises investment capital behind the goal of achieving a low carbon economy.

As long-term investors, the IIGCC supports the following principles in the setting of climate policy:

1. **Long-termism:** IIGCC favours the setting of long-term climate change objectives and targets and specifically supports the target to reduce carbon dioxide emissions by 60% set in the Energy White Paper. Furthermore, we are of the view that there should be clear government commitment to these targets. Uncertainty about climate change policy means that institutional investors will tend to discount the risks and opportunities posed by climate change in their investment analysis. A credible long-term policy framework is essential for both investors and companies to plan how to respond to climate change risks and opportunities.
2. **Comprehensive assessments:** Comprehensive cost-benefit analysis of climate change should underpin any setting of targets. IIGCC believes that both the benefits of reducing greenhouse gas emissions and the costs of inaction in terms of climate change impacts should be fully assessed so that appropriate targets are set.
3. **Efficiency:** The policy approaches adopted should be effective (i.e. deliver on climate policy goals), efficient and minimise transaction costs. IIGCC supports emissions trading as the most economically efficient way of curbing greenhouse gas emissions in industry. The EU Emission Trading Scheme has already resulted in institutional investors taking account of the financial costs of greenhouse gas emissions in the analysis of those sectors included in the scheme. IIGCC favours the broadening of the EU Emission Trading Scheme to ensure that other key sectors (such as aviation) are included as soon as possible.

4. Regional vs. Global Action: IIGCC supports a global solution to the problem of climate change in line with the common but differentiated responsibilities approach. As a global solution will take time, IIGCC supports action at a European level as a first step. We believe this may demonstrate the benefits of a proactive approach to climate change (e.g. encouraging energy efficiency and stimulating innovation) and therefore provide important international leadership.

The terms of reference for the Review are very broad and it is therefore difficult for us to understand the specific information or evidence that could usefully inform your work. Perhaps we could arrange to meet together with some of the institutional investors active in this area at some point in the New Year to allow us to better understand your requirements and how we may contribute to this process.

Yours sincerely

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Members of the IIGCC, November 2005

BBC Pension Trust	Insight Investment
Bedfordshire County Council Pension Fund	Integral Development Asset Management
BNP Paribas Asset Management	London Borough of Hounslow Pension Fund
CCLA Investment Management	London Pensions Fund Authority
Central Finance Board of the Methodist Church	Merrill Lynch Investment Managers
Co-operative Insurance Society	Merseyside Pension Fund
Corporation of London Pension Fund	Morley Fund Management
Environment Agency Pension Fund	Prudential Property Investment Managers
Ethos - Investment Foundation	Schroder Investment Management (UK)
F&C Asset Management	Transport for London Pension Fund
Generation Investment Management	Universities Superannuation Scheme
Greater Manchester Pension Fund	West Midlands Metropolitan Authorities PF
Henderson Global Investors	West Yorkshire Pension Fund