Climate change and investment: an introductory brief for EU policy-makers

The Institutional Investors Group on Climate Change (IIGCC) is a membership body of over 180 European institutional investors overseeing more than €27 trillion in assets globally. Our members take a pro-active approach to managing the risks and opportunities related to climate change, recognising that low-carbon and climate-resilient technologies, markets and business models present significant investment opportunities.

The Paris Agreement: an urgent need to act

Investors have an urgent vision of a world where the impacts of climate change have been reduced, and the investment opportunities created by the need for low-carbon technologies and markets have been exploited to their full potential.

This can only be achieved if the 1.5°C temperature reduction goal contained in the Paris Agreement is met, and net-zero emissions realised by 2050.

A prosperous, net-zero greenhouse gas economy by 2050 is possible. While the investment requirements for such an objective are sizeable, the private capital exists to enable it.

For the EU, such investment can promote economic growth and boost job creation, energy security, and citizens’ health and wellbeing:

- Benefits to EU GDP of net-zero emissions transition: +2% by 2050 (European Commission)
- Avoiding short-term costs of extreme weather events: €306 billion in 2017 (Zurich Insurance Group)

Mitigating long-term economic damage of climate change: estimated globally to be US $54 trillion in 2100 under 1.5°C of warming, and US $69 trillion under 2°C (Moody’s).

Why do investors care about climate change?

- Investments are in place across all economic sectors and geographies, meaning a unique exposure to systemic global challenges such as climate change.
- It is vital to safeguard current investments from the physical impacts of climate change, and to avoid the risk of holding assets which are no longer commercially viable in a net-zero world:
  - The estimated global losses for these assets are US $1 trillion — $4 trillion for fossil fuels alone, and up to US $20 trillion for a broader range of sectors (Network for Greening the Financial System – a grouping of Central Banks)
- What governments often see as the costs of the low-carbon transition, investors view as significant investment opportunities in new technologies, markets and business models:
  - The transition towards a decarbonised global energy system by 2050 will require scaling up investments in the energy sector by a further 16% – an additional US $15 trillion – on top of current and planned policies (IRENA)
Why is this relevant to EU policymakers?

- If low-carbon investments are to increase – with all the associated economic, social and environmental benefits – then clear, long-term policy signals are needed.
- These are critical to the ability of investors to assess and manage climate-related risks, to support innovation, and invest in low-carbon and climate-resilient opportunities.
- The right policy frameworks can scale up and accelerate private investment and investor action on climate change.

What policies are needed?

1. An EU target of **net-zero emissions by 2050** at the latest.
2. A holistic decarbonisation strategy in which **all sectors, instruments and actors play a fair role**, outlining how to reduce emissions in all industrial sectors to net zero (or near zero) by 2050 at the latest.
3. This must include – but not be restricted to – a **robust EU carbon price**; strong targets for **renewables and energy efficiency**; ambitious **vehicle emissions standards**; progressive measures for the **energy performance of buildings**; and support for member states who are moving to **phase out fossil fuel subsidies and thermal coal power**.
4. An **EU carbon absorption strategy** for those economic activities which cannot reduce emissions to zero.
5. **Increased and strengthened 2030 climate and energy targets** which are in line with net-zero by 2050.
6. Persuasive **sustainable finance policy instruments** which embed climate change considerations into investment decision-making.
7. Appropriate levels of **R&D and innovation** across all relevant policy frameworks.
8. **Impact assessments** which appraise policies and investment decisions against the net-zero objective.
9. An orientation of **EU public financial flows** towards the above objectives.
10. Factoring in of wider concerns including **climate damage estimates, adaptation and resilience, and the “just transition”**.

What are investors doing to take account of climate change?

- Nearly 500 investors with over US $34 trillion have called on world governments to urgently implement the goals of the Paris Agreement.
- Over 340 investors with US $33 trillion are engaging as shareholders with the world’s highest emitting companies via the global initiative Climate Action 100+.

- Investors are increasingly committed to reporting on climate-related risks through the recommendations of the Taskforce on Climate-related Financial Disclosures.
- Investors are making allocations to low-carbon energy. However, global investments have plateaued for a number of reasons (Frankfurt School-UNEP Centre/BNEF) and often policy and regulatory certainty is cited as a barrier to increased investment (IIGCC, IGCC, HSBC).


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