

13<sup>th</sup> May 2016

**David Cameron**

*Prime Minister, United Kingdom*

### **UK's Fifth Carbon Budget**

Dear Prime Minister

We are writing on behalf of 122 European institutional investors with nearly €13 trillion of assets under management. We support the goal enshrined in the climate change act of an 80% reduction of UK GHG emissions by 2050 compared to 1990. We emphasize the importance of a smooth and cost-effective transition to this goal.

The Paris Agreement has committed more than 170 countries to national climate plans that will significantly bend the global emissions curve and ease competitiveness concerns since all major economies are now taking significant action against climate change – we applaud the government, specifically the Secretary of State for Energy and Climate Change Amber Rudd on the leadership she showed on an international level, alongside her partners, in making the Agreement possible. Once the Agreement enters into force with 55 countries representing 55% of global emissions ratifying the Agreement (and we expect Europe to lead not lag this process), there will be a legally binding commitment to reaching global GHG emissions neutrality in the second half of the century, with leadership to be taken by developed countries. This means that global emissions will have to be reduced to zero in the second half of the century – the transition to the low-carbon economy has thus become irreversible. According to the IPCC, this international legally binding requirement means developed country emissions neutrality by the middle of the century, in line with the Climate Change Act.

A smooth and cost-effective transition to a low-carbon economy requires a gradual replacement and/or upgrading of the energy, transport and heating capital stock. Companies and assets that we invest in require forward visibility of future government policies in order to adjust their capital expenditure plans to emerging regulation and policy. This relates to investment into low-carbon technologies as well as to the gradual phase-out of emission intensive assets, such as coal plants.

For the UK economy to address investment needs in the power sector, adoption of the fifth carbon budget at the level proposed by the Climate Change Committee will be the minimum necessary in order to ensure current and future investment will flow into the right technologies and to minimise any stranding of capital invested in 'high carbon' assets. **We thus support a carbon budget of 1,765 MtCO<sub>2</sub>e for the 2028-2032 period.**

The UK economy has made significant progress in recent years and is on track to meet the first three of its carbon budgets, with additional efforts required to achieve the fourth (2023-2027). Progress has

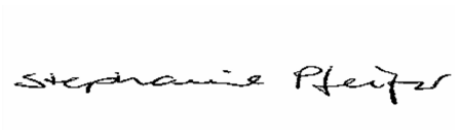
however slowed somewhat in the past few months due to energy policy changes. We understand the reasons for the changes and support the long term commitment to existing tariff structure but we argue that continuous investment into the deployment of low-carbon technologies is essential in order to ensure a smooth transition and to reap the industrial policy benefits of the low-carbon transition. Likewise, additional consistent measures to improve energy efficiency and to broaden the usage of low-carbon heating solutions should be taken with urgency.

In this regard, IIGCC and its members look forward to the publication of the government's long term energy strategy. We emphasize that given the UK's massive energy investment needs due to potential under-capacity issues in the future, measures to reduce the emissions intensity of power generation should combine the phase-out of carbon intensive assets and investment into low-carbon generation. Low-carbon investments should again be incentivised through long-term inflation linked contracts that enhance the risk profile of these investments and thus make it possible for institutional investors to invest at scale.

The Climate Change Act is a model piece of legislation that gives the right long-term visibility on the development of carbon constraints towards a climate neutral economy. It is crucial that the process of decarbonising the UK economy continues to be fully guided by the independent scientific advice provided by the Committee on Climate Change. **We thus request your government to adopt the fifth carbon budget at the level proposed by the Committee on Climate Change.**

We are happy to discuss further to explore the role that investors are taking in the UK transition to a low carbon economy.

Yours sincerely



**Stephanie Pfeifer**

*Chief Executive, Institutional Investors Group on Climate Change*

**Cc Amber Rudd**

*Secretary of State for Energy and Climate Change*

**Cc George Osborne**

*Chancellor of the Exchequer*

**Institutional Investors Group on Climate Change Ltd.** Co Registration Number: 7921860  
Tel +44 (0) 207 960 2987 Email [info@iigcc.org](mailto:info@iigcc.org) Web [www.iigcc.org](http://www.iigcc.org)

*Postal Address*  
Second Floor, Riverside Building  
County Hall, Belvedere Road  
London SE1 7PB

*Registered Address*  
IIGCC c/o JS2  
One Crown Square  
Woking, Surrey GU21 6HR