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# IIGCC Statement on climate change and energy priorities

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## Executive Summary

Political agreement on the 2030 climate and energy framework comes at a critical time, as the new Commission takes office and against the backdrop of international climate negotiations.

The correct policy mix is essential to incentivise new energy infrastructure and low carbon investment.

The Institutional Investors Group on Climate Change (IIGCC), which represents 91 investors with €9 trillion of assets, asks policymakers to consider the following in the next period:

1. Examine how the 2030 framework would best support President Juncker's proposed €300 billion public-private investment programme.
2. Ensure that the EU ETS is not only an instrument to reduce emissions but is also able to support a strong carbon price, given its role as the cornerstone of European decarbonisation.
3. Bring forward the introduction of the Market Stability Reserve to 2017 to strengthen the carbon price earlier and provide greater certainty to investors.
4. Place the backloaded allowances straight into the reserve rather than returning them to the market.
5. Set out the regulatory framework and policy support mechanisms which will deliver investment necessary to achieve the 27% energy efficiency target.
6. Detail how the current 10% interconnection target and the 15% target by 2030 will be met within the context of infrastructure investment and integration of the European energy market.

# Introduction

This statement from the Institutional Investors Group on Climate Change (IIGCC) sets out our policy priorities for the EU on climate change and energy policy, following the political agreement at the European Council on 23/24 October on a framework for 2030.

The **Institutional Investors Group on Climate Change (IIGCC)** represents 91 investors, including many of Europe's largest pension funds, insurers and asset managers, managing €9 trillion in assets.

IIGCC members are a major source of capital for low carbon infrastructure, both directly through project finance and ownership of assets and indirectly through our investments in the debt and equity of utilities, developers and other infrastructure-related companies. We acknowledge the risks climate change poses for the long-term value of our investments and hence our ability to meet our obligations to our beneficiaries and other stakeholders. A low carbon transition also affords significant investment opportunities, and a path to sustainable returns, growth and jobs in Europe.

We have the capital and expertise to scale up our investments in low carbon assets, subject to long-term reliable and coherent policy frameworks.

## Global context

Recent developments on the international stage provide a positive context for European climate policy.

One of the most significant announcements to emerge from September's UN Climate Summit in New York was the Carbon Pricing Initiative, with 74 countries, 23 sub-national jurisdictions and over 1,000 companies and investors – including IIGCC and more than 360 investors – expressing their public support for a **global price on carbon**.

Political will is also mobilising at the national level, most importantly in China and the USA generating investment and commercial opportunities. **The EU cannot afford to be left behind.**

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**We call on European policymakers to take note of recent international and regional developments as they consider the speed and scale of ETS reform.**

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One of IIGCC's principal objectives is the creation of public policy solutions to support the transition to the low-carbon economy. We therefore take great encouragement from these major international developments and the contribution which the private sector (with the investment community at its core) is making to material thinking and action.

## European Opportunity

Financing needs for Europe's low carbon transition are not a cost, they are a down payment on jobs, growth and innovation. The agreement on the 2030 framework provides a basis for investment opportunities in energy and low-carbon assets which can drive this growth. These new opportunities should be seen in the context of the new Commission President's proposal for a European €300 billion public-private investment programme<sup>1</sup>. President Juncker singles out energy infrastructure, renewables and energy efficiency as sectoral targets for this investment programme. **Agreeing policies and spending plans can kick-start private investment.**

## Energy Union

The establishment of the Energy Union in the European Commission is a welcome innovation and should enable the Commission to pursue a more strategic approach towards climate and energy policy. The Vice-President for the Energy Union should be well-placed to incorporate action on infrastructure projects and completion of the integrated energy market. In this regard we welcome the Council conclusions on the importance of interconnectors – tackling “stranded energy” is an urgent task if the EU single market potential is to be maximised. **Scaling-up of investment through appropriate long-term policies will be key to making substantive progress towards an Energy Union.**

## Core Principles for Investors

As investors we attach major importance to consistent policymaking over the longer-term, as it sets a predictable direction of travel. To ensure Europe stays on course for emissions reductions of between 80-95% by 2050 we urge climate and energy policy is governed by the following set of key principles:

- **Stability:** policy should be reliable, predictable and coherent. EU institutions must be joined-up so that the decision-makers are all sending the same messages.
- **Early decision-making and implementation:** investors appreciate the signals that swift and resolute decisions give – policy drift and indecision have damaged investment levels.
- **Whole economy:** climate and energy policy can have far-reaching effects on all parts of the economy, so policymakers should take account of the costs and benefits falling on affected sectors and think broadly.

## Key Priorities for Investors

With these core principles in mind, we now set out IIGCC’s key priorities.

### 1 EU ETS

The EU has said the EU Emissions Trading Scheme should be the cornerstone of European decarbonisation and help drive a low carbon transition. IIGCC strongly endorses this position but for the EU ETS to play this role it must be reformed to meet its two objectives: reduction of emissions at least cost; incentivising the development and growth of low-carbon technologies. **Compared with other policy measures, reform of the ETS is by far the most cost-effective way of delivering a low carbon transition.**

The ability of the ETS to support a strong price has been undermined by European recession, leading to chronic over-supply of allowances in the market. While backloading was a necessary first step to stabilise the market, a step-change in policy is still necessary to enable the ETS to play a central and enduring role: We therefore urge the following:

- **The establishment of the Market Stability Reserve (MSR) is essential** to make the ETS a more dynamic and responsive market mechanism.
- **The MSR, consistent with our principle of early action, should be decided on and introduced well before Phase IV begins, so the over-supply is tackled sooner rather than later.** IIGCC therefore welcomes the timetable which the Rapporteur in the European Parliament has set out for the MSR, which envisages possible passage of the legislation by summer 2015. We endorse expressions by certain member states for the establishment of the MSR by 2017.

- Earlier establishment of the MSR would permit policymakers to take a sensible decision regarding backloaded allowances due to return to the market in 2019/2020. Returning these carbon allowances then, only to remove them into the reserve in 2021, would create volatility in the market and undermine the credibility of the ETS as a rational policy instrument. **To restore certainty to the market backloaded EUAs should be placed straight in the reserve rather than returning them to the market.**
- **Phase IV arrangements should be agreed and published urgently.** IIGCC recommends that the European Commission takes the global perspective into account when considering Phase IV regulations and rules – for example the capacity to link with other carbon markets.
- **We support the Council's conclusions on an increase in the ETS annual linear reduction factor (LRF) from 1.74% to 2.2% under Phase IV from 2020 onwards to enable the EU to meet its 2030 GHG reduction target of 40%.**

## Competitiveness

IIGCC acknowledges genuine competitiveness concerns related to “carbon leakage” and supports appropriate carbon leakage protection. It is also important to note that competitiveness is determined by a host of structural factors, such as relatively high natural gas prices and the cost of imported energy. A recent paper by the London School of Economics said energy accounts for less than 6% of the costs for more than 90% of EU companies. Stimulating low carbon investment can boost competitiveness by driving innovation and enhancing energy security.

## Low-carbon investment fund

This is also an opportune time for innovative thinking on how to effect a low carbon transition. The concept of a fund setting aside 2% of the ETS allowances to address investment needs in low income countries is interesting and might also be structured as a “low-carbon super-fund”<sup>2</sup> for all of Europe. This idea has been advocated by, amongst others, the Institute for Public Policy Research (IPPR). IPPR has suggested combining the revenues accruing from the ETS with other EU budgets dedicated to energy infrastructure and investment.

## 2 Renewable Energy

We are encouraged by the cost reductions renewable energy has achieved across technologies<sup>3</sup>. According to the International Renewable Energy Agency, further equipment cost reductions can be expected to 2020. As they are gradually released into full competitiveness, renewables will need to shift from taking on policy risk to taking on market risk. Clear policy signals on the direction of travel for renewables will therefore be critical. Yet it is unclear how the renewables target agreed by the Council will be achieved.

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**A robust governance arrangement will need to be in place and IIGCC looks forward to engaging with the Commission.**

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It is also unclear how the current 10% interconnection target and the proposed 15% target by 2030 will be achieved. Building a pan European grid to facilitate the integration of variable sources of renewable energy into the single energy market is central to an effective energy union.

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**Investors can be part of the solution to building interconnection capacity. IIGCC urges the Commission to consider how private capital could be encouraged to play a bigger role.**

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### 3 Energy Efficiency

Energy efficiency is a cost-effective way of reducing both energy costs and emissions. It should play a fundamental role in helping Europe achieve its climate, energy security and competitiveness goals.

In order to achieve the 27% energy efficiency target, additional and targeted policy measures, standards and incentives will be required to drive further investment in energy efficiency improvements and help reduce energy imports. This will be especially necessary in non-ETS sectors such as buildings, construction and transport where there is great potential for cost effective emissions reductions<sup>4</sup>.

### 4 Energy Security

Security of supply is strengthened through diversity. Low-carbon energy can be a primary source of indigenous supply. A greater proportion of low-carbon energy into the mix will support energy diversification in the EU and help safeguard against the risks of volatility from the fossil fuels sector.

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**Low-carbon energy should be placed at the forefront of work on security of supply. The Directorate-General for Climate Action and Energy and associated DGs should work together to ensure this is made a priority for the Commission.**

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## References

- <sup>1</sup> Juncker, J. (2014). A New Start for Europe: My Agenda for Jobs, Growth, Fairness, and Democratic Change. [online] European Parliament. Available at: [http://ec.europa.eu/about/juncker-commission/docs/pg\\_en.pdf](http://ec.europa.eu/about/juncker-commission/docs/pg_en.pdf) [Accessed 9 Oct. 2014].
- <sup>2</sup> IPPR, (2014). Europe's Power: Re-Energising a Progressive Climate and Energy Agenda. [online] Available at: [http://www.ippr.org/assets/media/publications/pdf/europes-power\\_Sep2014.pdf](http://www.ippr.org/assets/media/publications/pdf/europes-power_Sep2014.pdf) [Accessed 9 Oct. 2014]
- <sup>3</sup> IRENA, (2012). Renewable Power Generation Costs (2012): An Overview. [online] Available at: [http://costing.irena.org/media/2766/195418\\_RPGC\\_BRO\\_WEB-Final-print-approved-.pdf](http://costing.irena.org/media/2766/195418_RPGC_BRO_WEB-Final-print-approved-.pdf)
- <sup>4</sup> EEFIG, (2014). The first fuel for the EU economy: Energy Efficiency – the first fuel for the EU Economy. How to drive new finance for energy efficiency investments. Part 1: Buildings (Interim Report). Energy Efficiency Finance Institutions Group. Available at "<http://www.unepfi.org/fileadmin/documents/EnergyEfficiencyInvestment.pdf>

# IIGCC Members

Aberdeen Asset Management  
Amundi  
AP1 (First Swedish National Pension Fund)  
AP2 (Second Swedish National Pension Fund)  
AP3 (Third Swedish National Pension Fund)  
AP4 (Fourth Swedish National Pension Fund)  
APG Asset Management  
ATP  
Aviva Investors  
AXA Real Estate  
BBC Pension Trust  
Bedfordshire Pension Fund  
BlackRock  
BNP Paribas Investment Partners  
BT Pension Scheme  
CB Richard Ellis  
CCLA Investment Management  
Central Finance Board of the Methodist Church  
CF Partners (UK) LLP  
Church Commissioners for England  
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Climate Change Capital  
Corporation of London Pension Fund  
Dragon Capital Group Ltd.  
Earth Capital Partners  
Environment Agency Pension Fund  
Environmental Technologies Fund  
ERAFF  
F&C Management Ltd  
Ferrostaal Capital  
First State Investments  
Generation Investment Management LLP  
Greater Manchester Pension Fund  
Grosvenor Fund Management Limited  
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Hermes GPE LLP  
HgCapital  
HSBC Investments  
Impax Asset Management  
Insight Investment  
Kent County Council Pension Fund  
Kleinwort Benson Investors  
Legal & General Investment Management  
London Borough of Islington Pension Fund  
London Borough of Newham Pension Fund  
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