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PROJECT
Climate
Finance

The Decarbonization of Finance: A Transition Towards Low-carbon Investment

[1]

On 21 October 2015, the Ecologic Institute US hosted an evening symposium at the Consulate General of Germany in New York to discuss the Decarbonization of Finance with key stakeholders from finance and policy in Germany and the US.

60 external participants joined the conference, as well as 5 speakers, 5 team members of Ecologic Institute and 5 staff members of the Consulate General of Germany in NY, a total of 75 people. It is also worth noting that over 150 registered for the event, highlighting strong interest in the topic.

The program commenced with opening remarks by Consul General Brita Wagener, setting the scene and highlighting the relevance of finance to achieve Germany's ambitious climate targets.

Two keynote speakers presented perspectives from the US and Germany: Erika Karp (Cornerstone Capital) and Robert Haßler (oekom research AG).

A panel discussion was then led by moderator R. Andreas Kraemer, Chair of Ecologic Institute US, and featured the following German and American experts:

- keynote speakers Erika Karp (Cornerstone Capital) and Robert Haßler (oekom research);
- Robert Litterman (WWF and Kepos Capital); and

- Gary Hattem (Deutsche Bank Americas Foundation)

Key Messages:

The importance of governance, i.e. a financial regulatory framework which enables and facilitates the decarbonization of finance.

Only with clear and common standards across the Atlantic can the financial industry truly transition from the current high-carbon focus towards a low-carbon portfolio.

The impact of sustainable investing needs to be monitored and communicated.

While sustainable investing does not per se impact the decisions of corporate leaders, i.e. when stocks or investment funds merely shift assets, the practice does have a considerable ripple effect in terms of affecting corporate strategy and, thus, general decision making.

Today, about 30% of investing considers some sort Environmental, Social and Governance (ESG) indicators for allocating investments, while over 50% of companies apply ESG to their decision making.

Companies who are exposed to ESG-sensitive investors will be cautious to also apply ESG principles to their business operations. We need to collect evidence that transparency contributes to financial sustainability and resilience and thus has positive returns for investors.

ESG-guided companies perform better.

Companies that apply ESG focus with long-term perspectives are forward-looking and think strategically. As a result they tend to perform better in the long run and thus benefit their shareholders more.

However, in the investment world, the average holding of equity went down from 8 years in the 1960s to just 6 months in 2010.

Thus, in order to reap the benefits from a decarbonization strategy, the financial infrastructure needs to first and foremost encourage longer term investment.

This also points to the potential for insurance companies which, as long term institutional investors, could and should be more active. Germany and the US are hosts to 4 of the world’s 10 largest insurance companies and thus offer considerable leverage and potential for engaging the insurance industry.

Transparency and collaboration as foundations for the

decarbonization.

In order to move forward, to take advantage of the potential benefits of capitalism's engagement in sustainable issues, two primary issues need to be addressed: transparency and collaboration. Transparency, which should be supported by a strong regulatory infrastructure, requires broad dissemination and rigorous analysis of ESG research. Collaboration is based on the idea that what is good for the whole will ultimately benefit the individual and is accelerated through a diversity of perspectives.

Sharing of research findings and data for further analysis will be key to fostering an implementable decarbonization strategy. Germany and the US could be leaders in driving ESG research and collaboration, thus setting global standards.

Focus on pricing risk taking high-risk impacts into account.

It can be argued that economic externalities have already devalued (*past tense*) stranded assets, even though the argument from fossil fuel companies is that government regulations and incentives for clean energy will cause (*future tense*) the devaluation of these companies (holders of the stranded assets).

The decline in carbon-heavy assets such as coal and oil exemplifies the need, not just from an environmental standpoint but a financial one, of appropriately pricing carbon emissions and to, thus, internalize climate risk. The question is: what is the best timeline for implementing these prices and what would a valid governance structure look like.

The aviation sector might lend itself as a pilot for a global carbon price due to its long-term forecast need for emissions capacity and its potential for establishing a globally harmonized price on emissions.

Divestment has already proven itself to result in net economic gains in many instances and yet many investors are still hesitant of taking the leap.

If national governments are continuing to subsidize carbon emissions, does that not leave the broader economy at heightened risk of overexposure to stranded assets?

In this light, the growing role and responsibility of the private sector in fostering sustainable development serves their own benefit and the benefit of society. In other words, bringing finance back into the social domain.

Active shareholder engagement helps motivate corporations and sectors to action.

Shareholder engagement varies across the Atlantic and there is considerable opportunity for learning between the US and Germany in this regard.

While shareholder engagement may be at odds with using divestment for socio-political purposes, it is not at odds with a decarbonization strategy.

Small scale solutions matter.

In the process of the decarbonization of finance, not just large scale projects are relevant, but also small and near-micro investments matter.

Green bonds are a growing opportunity to finance specific green endeavors such as individual projects or programs which support low-carbon development.

It will be essential to further develop criteria and benchmarks for green bonds in order to convince and retain the trust of investors and the public alike.

A unique opportunity with potential for change in the finance sector and beyond.

The global financial system is changing at an unprecedented pace, and, at the same time, there is more money than ever before wanting to be invested, both are results of the recent financial crisis.

Read more in the brochure:

The evening symposium also served as the launch for the 24-page brochure Decarbonization of Finance [2] [pdf, 2.5 MB, English], written and produced by the Ecologic Institute US specifically for this event. The printed brochure was distributed to participants.

View the full image [3]

From left to right: Robert Haßler, Gary Hattem, Robert Litterman, Erika Karp and R. Andreas Kraemer

View the full image [4]

Consul General Brita Wagener addressing the audience

View the full image [5]

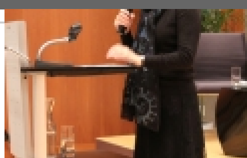
Erica Karp of Cornerstone Capital

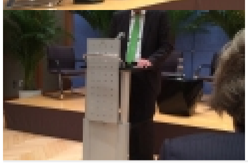
View the full image [6]

Robert Haßler of oekom research

View the full image [7]

Discussion in the German House's Otto-Carl-Kiep Auditorium




Attachments

- The Decarbonization of Finance

Main Link

Download: The Decarbonization of Finance [pdf, 2.5 MB, English]

Related Articles

- Decarbonization of Finance

Further Links

- Transatlantic Climate Bridge

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