



## CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

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**The London Accord: A round-table on the latest climate change initiative, with Jan-Peter Onstwedder (London Accord), Michael Mainelli (Z/Yen), Stéphane Voisin (Crédit Agricole Cheuvreux), Alice Chapple (Forum for the Future) and Julian Morris (International Policy Network). Held on Thursday, February 14, 2008 at Bakers' Hall, Harp Lane, London, EC3R 6DP, from 12:30-2:15pm.**

The London Accord report gathers together 25 contributions from the City, government and academia on why and how investors should put money into climate change reduction. The result is a 780-page document which, fortunately for the environment, is also available online. The first speaker outlined the report's structure. Its opening section sets out the context, the current debate and looks at how climate change meshes with other challenges such as demography and energy security. A second group of papers looks at investment opportunities in areas such as solar, biofuels, renewables, permit trading and forestry. The third batch looks at what portfolio of solutions is feasible and in what circumstances; the wider sustainability issue; and areas such as legal barriers to climate solutions. Finally there was a section of commentaries on issues such as technology development and the debate between cap-and-trade and taxes as the best way to secure a price for carbon.

The second speaker said the report tells companies that they can sensibly take action now – and that they should do. The City has “got it” - as it always does when the numbers add up. The co-operation shown by the City firms that took part in London Accord was unprecedented while all the research was specifically written, not rehashed. Markets can solve this problem: governments should help establish a carbon market and then stay out of it. Interestingly not one banker attended Kyoto in 1997 while in 2008 the City is agreed that carbon trading is the way forward.

The third speaker said it was crucial to have capital markets to provide funds for sustainable development and clean technology. Business wants to know what the incentives are, while policymakers need to know what those incentives would deliver in terms of carbon reduction. There is a growing consensus that businesses are looking at available technologies rather than waiting for the next technological breakthrough, given that issues such as energy security and high oil prices have combined to shorten the timeframe for action. It is impossible to separate climate change from these other issues. Biofuels is a prime example of something that was seen as the answer until everyone realised it had massive negative implications in terms of deforestation and higher food prices. The speaker said nuclear was ruled out because of its long-term unsustainability, security problems and the cost of uranium depletion.

The fourth speaker said one of the most powerful incentives for business was a sociological shift among consumers. The way that people will purchase items such as cars and energy supply will be very different in 10 years' time. This will have a radical impact on business models. A second important area for business is reputation, both in terms of the damage to

their image from not tackling these issues and the amount of money they must spend on external communication. Investors are increasingly asking to buy exposure to climate change and to “play the green game”, he said. He highlighted three strategies. There was the “clean way” that focused on renewable energies. Second was the “lean way” that focused on the importance of reducing emissions. He said there was noticeable shift from “clean” to “lean” particularly in terms of an increase in government funds directed towards energy efficiency. Lastly was the “green way” where the challenge was to replace carbon with sustainable carbon. While this is not visible now it will be a large market in the long-term.

The final speaker said governments should not pick winners or set down technical prescriptions or targets for use of renewable energy that don't accord with reality. The Internet's birth shows that technological developments were unforeseeable. The answer is to improve market conditions for business and remove regulatory restrictions such as planning laws. He disagreed with the enthusiasm for creating property rights over carbon permits in find a market-set carbon price. He said this was too open to government interference and risked creating vested interests out of companies who were granted permits. He said the €30-€40 a tonne price for Europe suggested in the report was excessive as it would encourage emitting industries to set up operations in non-participating regions. This in turn would prompt the EU to impose barriers that could spark a round of protectionism. However the first speaker said previous initiatives such as Clean Air acts in the West in the 1950s had not led to that response.

The final speaker said most of the consequences of climate change were issues that could be tackled now – more frequent weather events, rising sea levels, water shortages. Up to 2 million people die unnecessarily from lack of clean water - why not tackle that now? Large volumes of carbon were produced by families in developing countries burning wood or dung. The West should allow technology transfer to help such as low-carbon electricity generation.

One member asked what the City's response had been. The first speaker said investors were looking at ways to play the green game, but so far were laggards rather than leaders. Around 11% of capital investment goes into energy of which 15% goes into renewable energy. This should mean investors allocating 1.5% of their portfolio into renewable energy. Another member warned that if the City made large profits from speculating on carbon permits without achieving a visible reduction it would find itself under the same cloud as with private equity. However the second speaker doubted the market would be as heavy and volatile as other such as foreign exchange.

The third speaker said current asset allocations showed the City had not yet factored in the full impact of climate change when it came to weightings towards energy and other sectors. However one member said the value of investing in climate change had not been proven and it was analogous to the parlous state of ICT investment in the mid 1990s - before the boom took over. If that is true, the coming years will be worth watching in the City.