

The investment challenge

**A presentation on behalf of the EU
Seminar of governmental experts**

Bonn, 16 May 2005

Paul Watkinson, France

The nature of the challenge

- Tackling climate change requires the diffusion and use of cleaner products and equipment.
- The long-lived nature of many investments (energy infrastructure, urban infrastructure, housing and transportation infrastructure) means that equipment built now will still largely be around in the middle of the century and decisive for long-term emissions profiles.
- The “right” choices will facilitate the transition to a low carbon future.
- The “wrong” choices will lead to stranded capital, or to “lock in” and limit future options to tackle climate change.

Energy investment – an example

- IEA estimate need \$16 trillion investment by 2030, about half in industrialised countries, half in emerging economies and other developing countries. About \$10 trillion for electricity.
- Also IEA World Alternative Policy Scenario foresees faster deployment of more efficient and cleaner energy technologies and lower greenhouse gas emission reductions (but still far off stabilisation scenarios). The pattern of investment is substantially different but the total investment does not differ much from the standard scenario. But financing may be more difficult, especially in developing countries.
- Major long term investment is also underway in many other sectors, such as transport, infrastructure, housing.

Facing up to the challenge

- We need ways to influence and to channel these major investment decisions in the right direction over the coming 10-20 years. The window of opportunity to avoid dangerous levels of climate change is narrow.
- What choices within the UNFCCC can give the right incentives?
- How can we ensure that the necessary enabling framework is in place soon to support financing of long term investment compatible with a lower carbon future?
- What role does a broader participation play?
- How can climate change tools also support investment for development?

Involving other international actors

- What sort of actions should the international community be asking the World Bank, the regional development banks, etc. to do to integrate climate further into their planning processes?
- Influence on the choices of commercial actors.
- What priorities should they follow?
- What is the possible role of the international trade regime, and the WTO?

Influencing private investment decisions

- How can we influence private investment choices?
- A global carbon price is at the heart of creating the incentives needed. We have already started – the Kyoto Protocol, trading, project mechanisms, European Trading Scheme.
- But policy is only outlined for the next few years – not enough certainty for businesses for long term investments.
- Uncertainty on CDM after 2012 is already hurting its success.
- Current arrangements inadequate given scale of the challenge.

Putting the debate into a wide context

- Climate change policy is only one among many drivers.
- Oil prices ... energy security ... integrating externalities into energy prices – all will have a strong influence on the investment climate.
- What steps can we take to improve the investment environment?
- How can we improve policy coherence?
- How do we involve actors from outside the climate and environment sphere?

Final questions for the seminar

- How can we work together to identify options that can better address these questions in all countries?
- How can we build on and strengthen existing bases, in particular the Kyoto protocol and its flexible mechanisms, so as to provide the greater visibility and certainty needed to influence these globally crucial and urgent investment choices?
- How can we start to mainstream climate considerations in investment decisions in other policy areas and find synergies with development priorities?
- How can a global climate framework provide greater certainty and predictability to our decisions?



Paul WATKINSON
Mission interministérielle de l'effet de serre
<http://www.effet-de-serre.gouv.fr>