Mobilising Climate Finance: a roadmap to finance a low-carbon economy

Presentation of the report of the French Presidential Commission on Climate Finance

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I. The French Presidential Commission on Climate Finance

Presentation of the Commission

- President Hollande commanded the French Presidential Commission on Climate Finance - February 2015
- Commission co-chaired by Pascal Canfin & Alain Grandjean
- 76 experts interviewed - financial actors, infrastructure funds, development banks, New Climate Economy, UNEP Inquiry… - March-May 2015
- Official presentation of the report to President Hollande & Ministers L. Fabius, S. Royal & M. Sapin – June 2015
- Report available in English and French on the Elysée website : http://www.elysee.fr/communiques-de-presse/article/rapport-mobiliser-les-financements-pour-le-climat-de-pascal-canfin/

- Extract from Communiqué of French Finance Minister Michel Sapin -

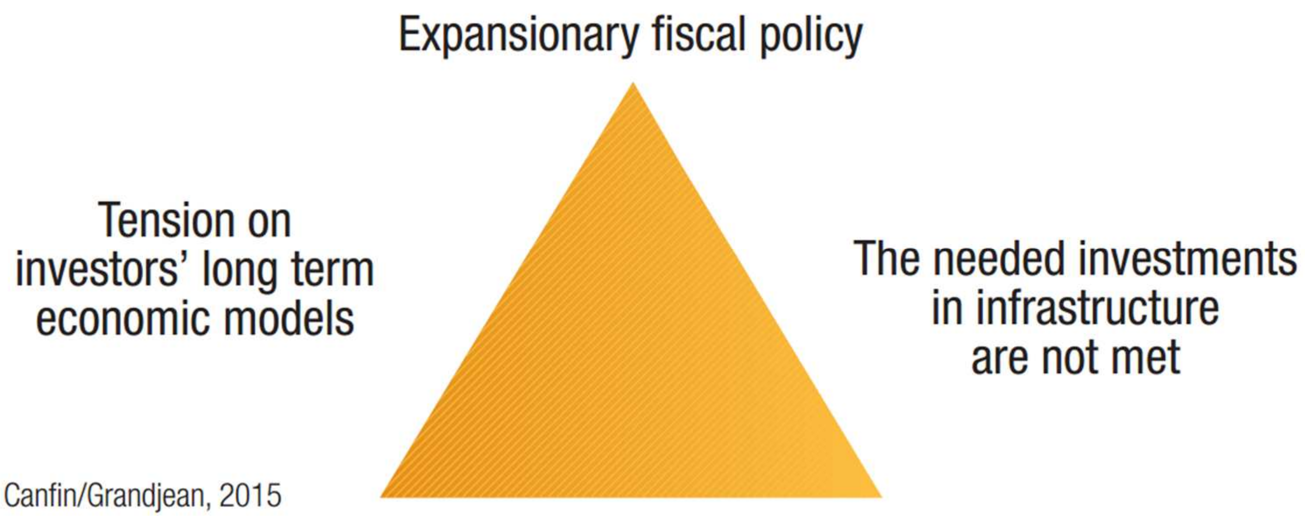
"These proposals draw an ambitious roadmap, in full coherence with the strategy that the Minister has been carrying out for several months. They also contribute very usefully to the work launched in preparation for the Climate conference to be held in Paris in December 2015 (COP21)".

Why financing a low-carbon economy?

- **Extra-cost of climate action is limited** (5%) *(Source New Climate Economy)*

- We will be economically better off with a **climate action preventing climate disruption**

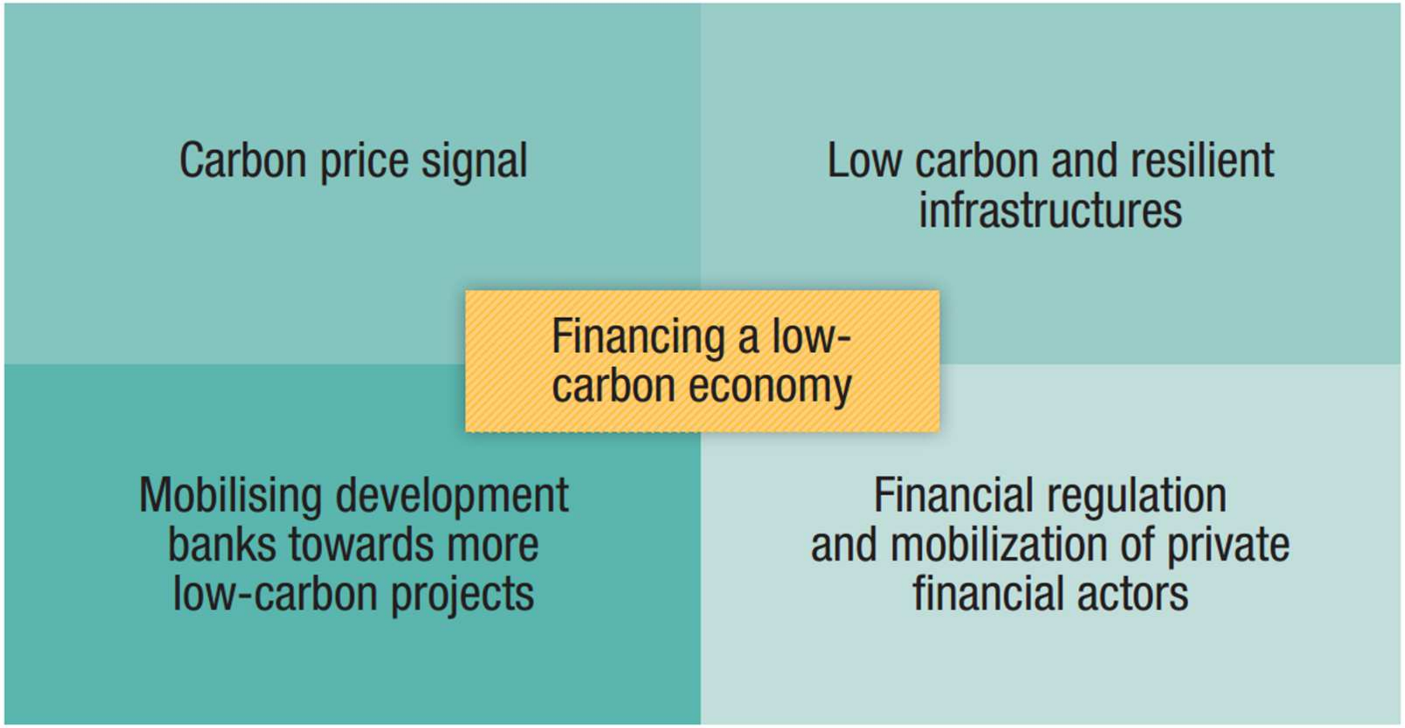
- A low-carbon investment strategy is a way to **overcome the paradoxes of the current global economy**



Source : Canfin/Grandjean, 2015

How to finance a low-carbon economy?

- Integrated roadmap to finance a low-carbon economy
- Translated at both national and international level
- Based on 4 dimensions:



Source : Canfin/Grandjean, 2015

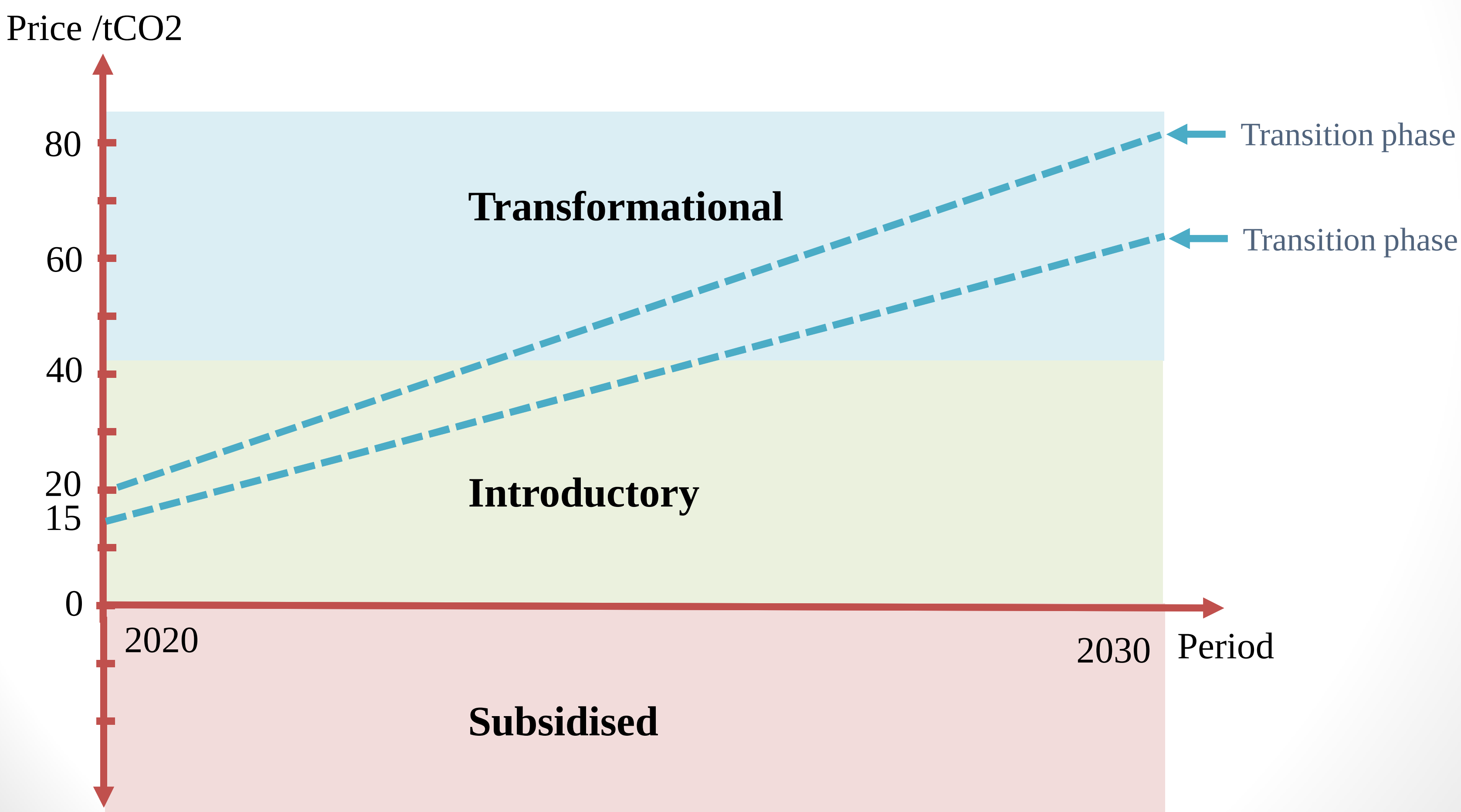
II. 10 Key proposals of the roadmap

1 A 360° strategy for the low-carbon financial roadmap

- Integrate climate into the radar of key financial actors & institutions
- Some key indicators to be monitored :
  - Carbon price signal
  - Share of green investments in infrastructure
  - Decoupling between GDP & GHG

2 Establish a carbon price signal

- Proposal for Cop21 : Voluntary commitment by a group of developed and emerging countries, independent of the UNFCCC agreement
- Common and clear political signal, with flexibility of price and horizon



3 Integrate climate in macro-economic models

- Inclusion of 2°C scenario in the Finance Ministries and international institutions (IMF, OECD…) macroeconomic forecasts

4 Development of national strategies to finance the decarbonization of economies

- By Governments, beginning with developed countries and then emerging countries

5 Request that each development bank develop a « 2°C investment » roadmap

- Specify how the development bank intends to contribute to the 2°C limit : investments patterns, equity needs…
- Joint monitoring process of such roadmaps by multilateral, regional and bilateral development banks, presented to the IMF and World Bank

6 Increase the use by development banks of instruments and tools with higher leverage

- Such as guarantees, subordinated debt or credit enhancement

7 Include in the 2016 G20 work program the forthcoming recommendations of the FSB on financial stability and climate related issues

- As a follow up of its mandate by G20 Finance Ministries in April 2015

8 Put in place methods to include climate risks in stress tests for banks and insurance companies and measure the carbon footprint of institutional investors portfolio

- For example, following France’s recently passed legislation (Article 48, Energy Transition for Green Growth bill**)

9 Carry out an assessment of financial actors' engagements taken since the New York Summit in 2014

- Inluding the integration of climate risk, measuring GHG emissions of financial activities, increasing financing for green economy
- As part of a broader « Agenda of Solutions » that is also linked to the UNFCCC

10 Adopt the methodology developed by the OECD (2015) to analyze the alignment of public policies with low-carbon development

- Key means of assessing the integration of progressive decarbonization targets in all public policies
- France and OECD members and partners could commit to this framework before COP21

III. Zoom on 3 key financing instruments

Proposals on Innovative Financing
1. The Financial Transaction Tax (FTT)

- Under voluntary negotiations of the Enhanced Cooperation of 11 EU Member States

- Timeline for agreement : before October 2015

- Key principles to prevent the argument of relocation
  - Principle of issuance, principle of residence, principle of beneficiaries

- Opportunity for climate finance in the context of France
  - Revenues of 10 billion € from an 11 EU MS FTT in 2020
  - Revenues of 2 billion € for France (20% of total) in 2020 (compared to 700 million € for the french « FTT » in 2014)
  - Hypothesis of 70% of revenues dedicated to finance climate = 1.3 billion €
  - Estimated share of France for additionnal funding in the context of 100 billion commitment = 1-1.5 billion €

Proposals on Innovative Financing
2. International Transports

- Maritime and air transports account for 6 % for of total GHG emissions)

- ICAO's « aspirational goal » (2010) to cap emissions from the sector from 2020 onwards

- 3 types of measure under discussion
  - Fuel taxation
  - Environmental efficiency norms and standards
  - GHG offsetting to reduce CO2 emissions

- Our key propositions
  - For the maritime sector: adopt a carbon neutral growth target
  - For the aviation sector: rapid implementation of ICAO's carbon offset mechanism to finance projects in LDCs, Small Island Developing States and Africa
  - Taking a high carbon price scenario (40$/tCO2), a carbon offset mechanism could generate almost 24 billion $ in 2035

Proposals on Innovative Financing
3. Carbon Market Revenues

- Low financial revenues from carbon pricing mechanisms but opportunity of increased revenues from carbon market auctions (due to expansion of carbon market worldwide)

- In the case of the EU ETS, auction revenues are estimated between 230 to 320 billion € between 2015 and 2030 (given the increased share of allowances auctioned)

- A 70% dedication to climate of auction revenues, and of that about 1/3 to international climate finance could generate between 56 and 79 billion € over the period, or 3.5 to 5 billion €/ year for projects in developing countries

- Our key proposition
  - Common principles for the use of auction revenues could be developed
  - For example, an agreement that 25% of the total of EU ETS auction revenues be used to finance climate projects in developing countries

Other issues subject to debate

Monetary policies

Does monetary policy has a role to play in the allocation of capital to the green transition ?

- People's Bank of China : mandate from the Government to work on the « greening of the financial system »
- Central bank of Bengladesh : lower risk weigh for green loans
- Other examples in the UNEP Inquiry reports *(Aligning the financial system with sustainable development* (2014), *The coming financial climate* (2015))

Role of SDRs

Should SDRs contribute to finance a low-carbon economy ?

- Allow to cover more convertibilty risks to finance more infrastructure projects
- Bring additionnal equity to development banks
- Incur no impact on the deficit or public debt of the country concerned

Thank you for your attention !

Annexes

** Article 48 in the French Energy Transition Bill for Green Growth

- In May 2015, France became the first country passing a mandatory carbon disclosure for asset managers.
- According to these new legal requirements:
  - Companies to report on how they take climate change into account and implement low-carbon strategies
  - Institutional investors to disclose their portfolio carbon footprint and to report on their climate risk exposure and their contribution to have a portfolio in line with the transition and the 2°C limit

Details of article 48 amendments

1) **Listed companies shall disclose,** in the annual report subject to the vote of the shareholders:

- **financial risks related to the effects of climate change**
- **measures adopted by the company to reduce those risks,** by implementing a low-carbon strategy in every component of their activities

2) **The annual report shall include**, in addition to the social and environmental consequences of the company's activity which were already in the law :

- **the consequences on climate change of the company's activities,** including the use of goods and services produced
- **This seems to imply that listed companies will have to report on their Scope 3 emissions**. As for other amendments, the details on how to implement this provision will be defined in an executive order.

3) **Banks and credit providers shall disclose**, in their mandatory risk report, on the risks evidenced by the stress-tests that are regularly implemented.

- This provision is not specific to climate risks, but it is completed by the following:

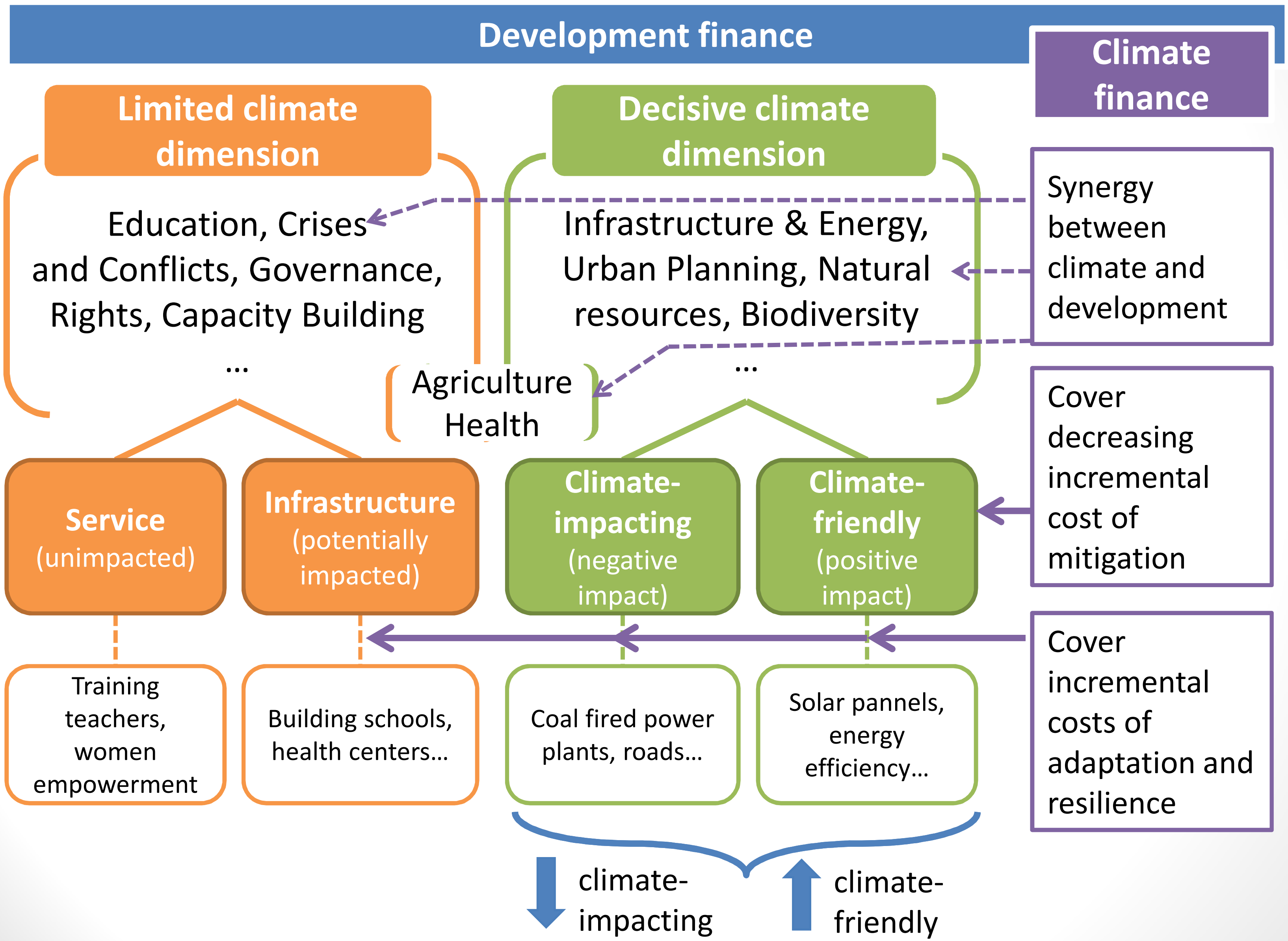
4) **The Government will submit a report to Parliament on the implementation of a stress-test scenario** representing the risks associated with climate change, at the latest on December 31, 2016. This applies to all categories of risk already listed in the risk report (credit risk, counterpart risk, residual risk, risks induces by securitization, market risks, interest rates, operational risks, liquidity risk, excessive leverage).

5) **Institutional investors** (insurance companies, public institutions, public pension funds) **shall include in their annual report, and make available to their beneficiaries,** information on how their investment decision-making process takes social, environmental and governance criteria into consideration, and the means implemented to contribute to the financing of the ecological and energy transition.

This includes:

- **risks induced by climate change, including the GHG emissions associated to assets owned**
- **the contribution to the international goal of limiting climate change**
- **the contribution to the realisation of the ecological and energy transition**

Articulating climate finance and development finance



Emblematic signals indicating the transition of economic models is underway

The fall of coal capitalisation in Australia

The capitalization of the Australian coal companies has dramatically plunged over the past two years.

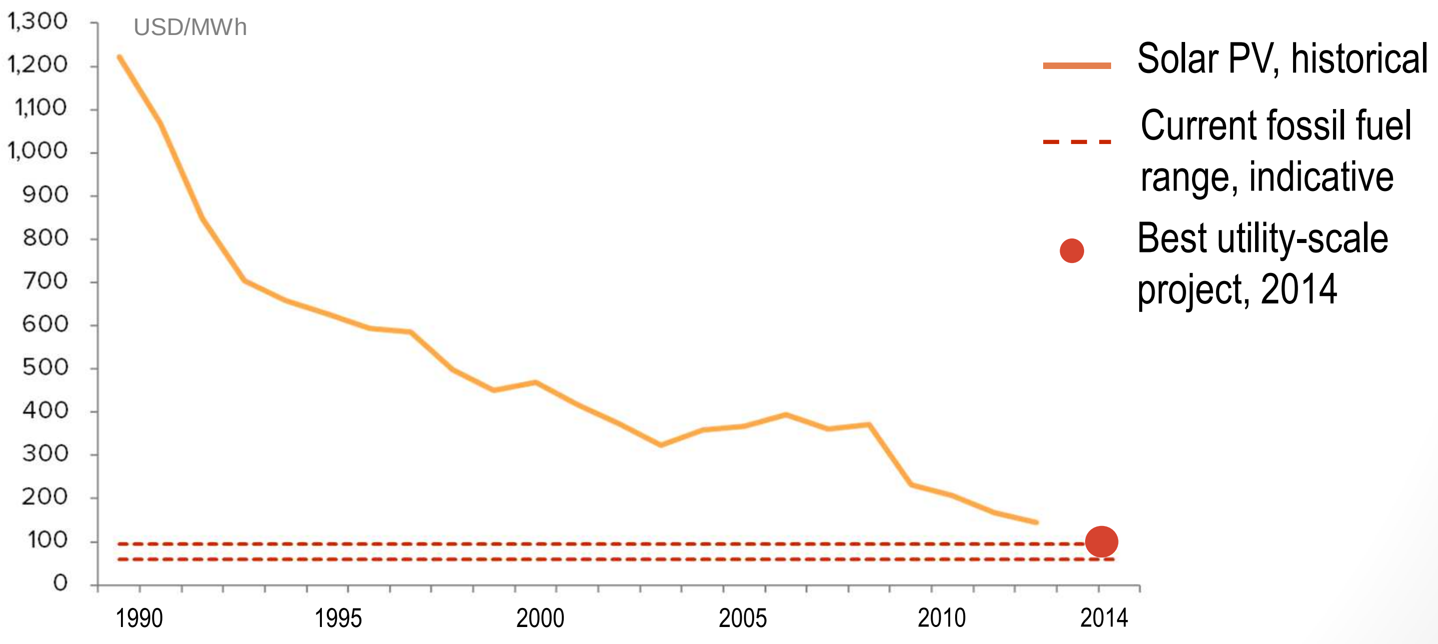
Investing in Australian coal is not at all a good deal !

Producer	Value - Beginning of 2012	Value - September 2014	Change (in %)
New Hope Corporation	$ 4,591 m	$ 2,219 m	- 52 % ($ 2,372 m)
Whitehaven Coal	$ 5,360 m	$ 1,790 m	- 67 % ($ 3,570 m)
Aquila Resources	$ 2,409 m	$ 1,388 m	- 42 % ($ 1,021 m)
Yancoal	$ 1,332 m	$ 268 m	- 80 %
Cockatoo Coal	$ 337 m	$ 105 m	- 69 %
Bandanna	$ 328 m	$ 44 m	- 86 %
Crabella	$ 136 m	$ 71 m	- 48 %
NuCoal	$ 208 m	$ 12 m	- 94 %
MetroCoal	$ 155 m	$ 0 m	- 100 %
Stanmore	$ 154 m	$ 23 m	- 85 %

The price of solar panels wordwide

According to Deutsche Bank, solar is now at cost parity with non-renewable energy sources that produce electricity (coal, gas, nuclear …) in almost half of the global market and this percentage will reach nearly **80% in 2017**.

In **South Africa**, for example, **wind energy is 30% cheaper than new coal plants**. This is due in particular to the dramatic decline in the price of solar generated electricity.



Sources: Citi Research 2012; G. F Nemet, “Beyond the learning curve”, Energy Policy 34, 3218-3232 (2006)

The inclusion of climate by Standards & Poor’s

Leading credit rating agency, Standards & Poor’s is taking a voluntary decision to integrate climate change in their rating system.

It is the first time a major rating agency has specifically recognized an environmental issue in its forecast of countries' economic health and their ability to honor their sovereign debt.