ALDERSGATE GROUP

FINANCING THE TRANSITION

A STRATEGY TO DELIVER CARBON TARGETS

Foreword

When the UK Government published its Low Carbon Transition Plan amid the most severe economic downturn in decades, many of us were encouraged to see that initiatives to tackle climate change and decarbonise our economy were being put forward as part of the solution to our economic troubles. Yet at the same time, following months of constraints in capital availability, we were hearing that renewable energy projects were experiencing difficulties in raising finance, leading to project delays and failures. This raised the question: given the scale and urgency of the low carbon transformation, how will it be financed? And perhaps more importantly, given the need to raise funds on an unprecedented scale, what are the key policy measures that could mobilise the private sector to commit to financing the low carbon transition?

I was therefore delighted at being approached by the Aldersgate Group to chair two high-level round tables to discuss these very questions in the late summer. And I was even more pleased by the degree of interest in these forums shown by the whole spectrum of financial institutions and finance-orientated NGOs. I was also fascinated by the convergence of views on so many issues from these diverse parties.

For me, three things stand out. First, the size of the opportunity is such that leadership in financial innovation could cement the City of London's position as the global centre for green and sustainable finance. Second, the desire to move into widespread implementation has inspired a large number of key players to become actively involved in this project. But lastly, and importantly, there remains a credibility gap between policy and delivery which has resulted in too much uncertainty and risk for investors to finance at the scale that is required.

Ed Miliband, the energy and climate change secretary, has described the transition to a low-carbon economy as a 'defining issue' for the 21st century. I would like to think that the ideas outlined in this report could represent a defining moment in its inception.

Emma Howard Boyd

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October 2009

Executive Summary

The UK is committed to a radical transformation in its energy infrastructure to meet statutory carbon budgets at immense scale and speed. While achievable, this represents the most ambitious industrial transition in history and is the upper limit of what can be feasibly achieved given resource and labour constraints. It will not be delivered through incremental improvements — fundamental change is required. Early action will ensure that the UK is well positioned in high growth environmental sectors and is vital for economic competitiveness and future job creation.

The achievement of carbon targets for 2020 and beyond presents a major financing challenge for the UK economy, the majority of which will need to be delivered by the private sector during a time of economic restraint. An activist Government approach to ensure lending costs are minimised will remove barriers to financing low carbon projects and significantly lower the overall cost of the transition to society.

In response to the credit crunch, the Government must continue to fill the financing gap for low carbon investment in the short term, while putting in place a comprehensive framework for the rapid mobilisation of scale in the medium term. Directive financial instruments will not be necessary in the long term, as carbon is more effectively priced and production costs fall due to economies of scale.

An effective financial strategy should:

1 Reduce the risk of investing in low carbon projects.

Significant advances in public policy will be required to make the necessary cuts in carbon emissions. Concern that progress will not be fast enough or emission cuts deep enough increases the financial risk of low carbon projects. This could be addressed by issuing public guarantees or bonds index linked to emission reductions or carbon prices that can provide a natural hedge for investors.

2 Mobilise private sector capital flows.

The Government must ensure that appropriate public policy mechanisms are in place to mobilise capital from institutional investors at scale. Climate bonds could be particularly effective by offering secure and long-term returns but these must be competitive.

3 Reform institutional structures.

Current structures which work on an ad hoc basis need to be reformed and rationalised so that they can deliver in a more strategic and synchronised way. A Government-linked financial institution, such as a Green Infrastructure Bank, could play a major role in financing the low carbon transition. It would also create competitive advantage for the UK and reduce dependency on the European Investment Bank which cannot meet predicted future investment demand in the medium term.

A directive set of financial instruments to reduce risk and mobilise private sector funds, alongside a dedicated infrastructure bank, will ensure that the transition is accelerated and associated economic benefits maximised. The economic advantage of taking action is fundamentally dependent on whether the global market sees the UK as a good place to obtain finance for sound projects and early action will help cement the City of London's position as a leading and vibrant centre for green finance at a critical juncture.

Introduction

The Climate Change Act sets out ambitious, legally binding carbon budgets and targets for reducing greenhouse gas emissions. It commits the UK to a radical transformation in its energy infrastructure at immense scale and speed. This is required to meet the global challenges of climate change, energy security and sustainable development but it is also an economic imperative. Early action will enable companies to become more efficient and productive and create new opportunities to secure the jobs and wealth of the future.

This paper is the first instalment of a trilogy that examines how the low carbon transition can be accelerated, and economic benefits maximised, by intervention on the supply side. Its focus is not on primary regulation, incentives and legislation but the deliberate design of framework infrastructure to enable the desired transition to be made in the most economically beneficial way. While subsequent papers in the series will examine how to ensure the workforce has the necessary skills and businesses effectively address resource efficiency, the subject for this commentary is finance.

It builds on key observations from two high level roundtables held in the City of London with leading representatives from high street banks, institutional investors, pension funds, insurers, venture capitalists, accountants, financial consultants and NGOs (see page 15 for the full list of participants). The core message that emanated from these discussions was that keystone policy drivers are not going to be sufficient in themselves to drive the scale and urgency of the low carbon transition. The UK needs an active financial strategy that introduces a directive set of financial instruments in order to deliver its climate change targets.

This report outlines the key barriers and solutions that such a financial strategy should address with a narrow focus on public policy[1] and the delivery of climate change targets in the UK[2]. Rather than undertaking a technical analysis, it identifies a number of auspicious proposals that are currently being developed and makes a strong case for government intervention in financial markets.

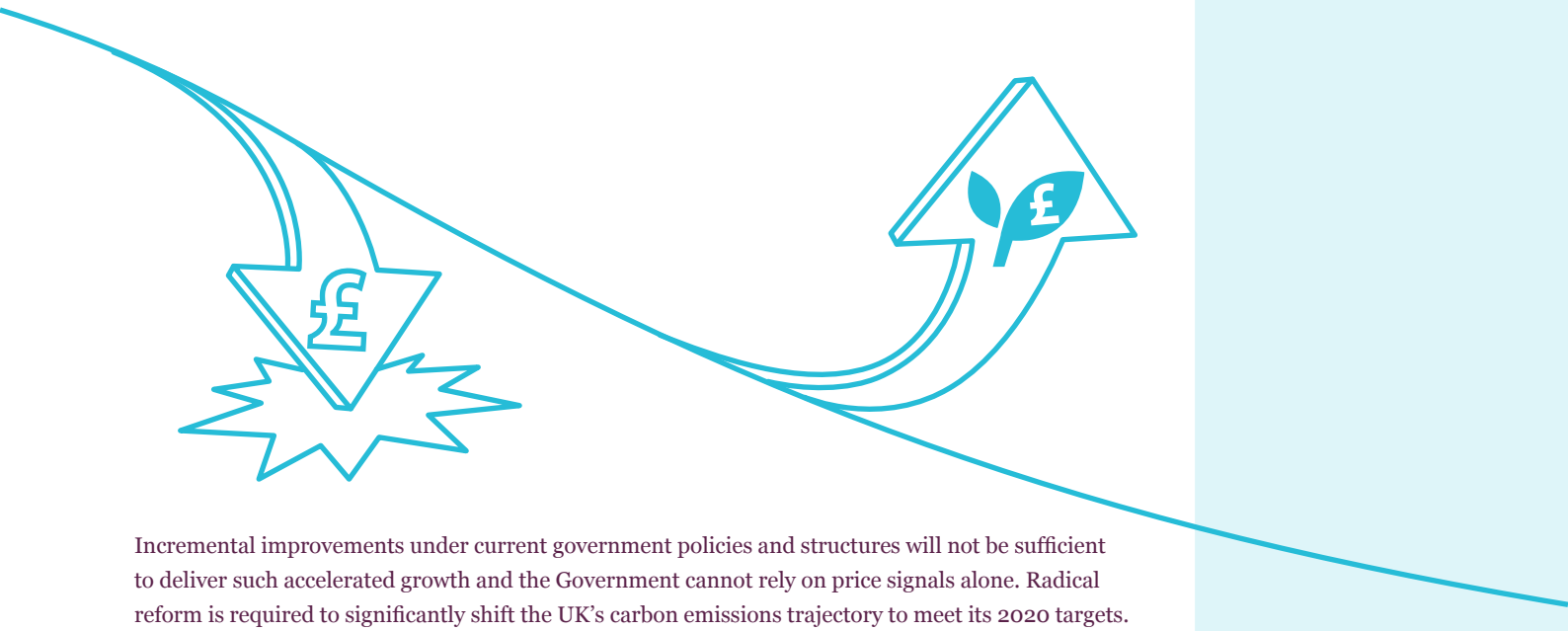
1
Responsibility for delivery is also shared by industry, financial institutions and civil society.

2
It does not address the imperative need to mobilise finance to fund low carbon projects in developing countries.

The Financing Challenge

There is cross-party consensus on the need for the UK to drive major changes in energy supply, delivery and usage. The UK Low Carbon Transition Plan[3], a roadmap to 2022[4], sets a range of challenging targets which necessitate urgent and extensive investment in low carbon technologies. These include an approximate ten year timeframe to reduce greenhouse gas emissions by at least 18%, a five fold increase in renewable energy generation, smart meters to be installed in every home and new cars to be 40% more efficient. Already stretching targets will have to be strengthened considerably in the event of a successful outcome for the international climate change negotiations in Copenhagen this December. If action falls short, expensive offsets must be purchased, delaying action, losing competitive advantage and reducing the economic benefits that a swift transition could bring.

The required shift is commonly branded a low carbon "revolution" by the political elite because this aptly describes the magnitude of the desired change and opportunity. A new Climate Risk report for WWF shows that it would be "greater than any other industrial transformation witnessed in our history". Globally, low carbon industries would have to grow immediately at 24% a year, which is near the upper limit of what can be feasibility achieved given constraints in resources, labour, skills, capital and equipment[5]. Although challenging, the transition is achievable, and experience in other countries have shown that industry can rapidly scale up if the appropriate policy and finance is in place, leading to widespread job and wealth creation.



Incremental improvements under current government policies and structures will not be sufficient to deliver such accelerated growth and the Government cannot rely on price signals alone. Radical reform is required to significantly shift the UK's carbon emissions trajectory to meet its 2020 targets. To succeed, regulatory and legislative drivers must be competitive with global markets and supported with investments in the supply chain, skills and new technologies. While the Government increasingly recognises the need to intervene in order to accelerate the transition, support must be at the required scale, actively picking winners rather than spreading innovation funds too widely[6]. Private sector risks must be reduced by developing "long, loud and legal" policy frameworks[7] and providing the next level of policy detail so businesses can invest with more certainty and clarity.

3
HM Government (June 2009) The *UK Low Carbon Transition Plan.*

4
2022 is the end of the third carbon budget period.

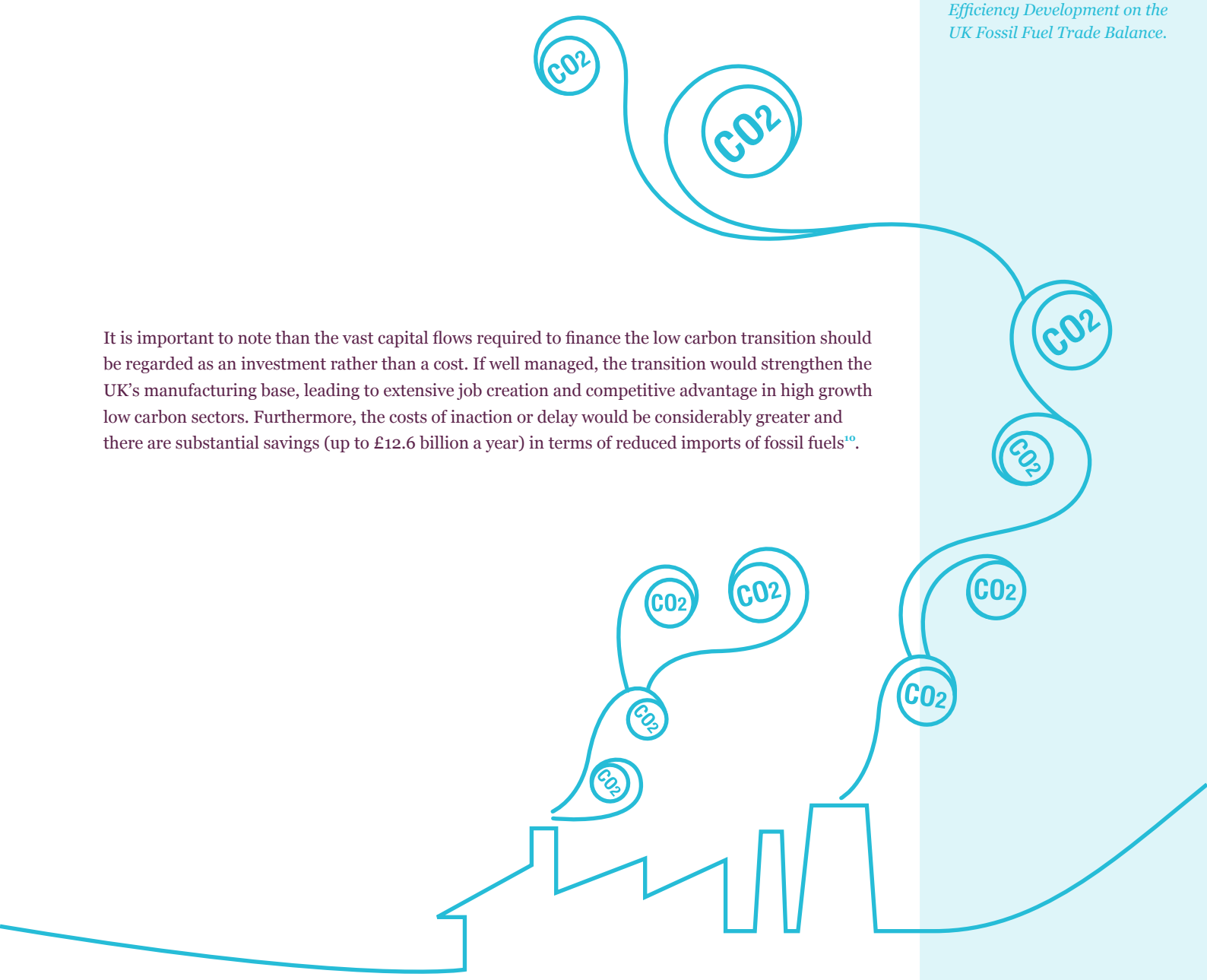
5
Climate Risk (October 2009) *Climate Solutions II: Low carbon re-industrialisation.*

6
HM Government (June 2009) *The UK Low Carbon Industrial Strategy.*

7
HM Government (November 2007) *Commission on Environmental Markets and Economic Performance.*

The UK Low Carbon Transition Plan is capital intensive and requires large scale capital over long timescales. Economist Dieter Helm and others[8] provide an "extremely conservative" estimate of £264 billion for the required UK low carbon energy infrastructure spend by 2020 (which includes renewable energy generation, energy efficiency and the roll out of smart meters). This is an immensely challenging target (approximately 16% of GDP[9]) and is impeded by current lending conditions as the economy emerges from the credit crunch.

It is clear that the bulk of the investment will need to be delivered by the private sector. Public spending must be reduced over the next Parliament to restore finances to sustainable levels and there is currently little political appetite for an additional economic stimulus. This means that the Government must in addition to strong climate change policies use limited public funds effectively and mobilise private sector capital flows at scale to ensure value for money. Policies directed at easing the cost of capital will significantly lessen the overall cost of the transition to society.



It is important to note than the vast capital flows required to finance the low carbon transition should be regarded as an investment rather than a cost. If well managed, the transition would strengthen the UK's manufacturing base, leading to extensive job creation and competitive advantage in high growth low carbon sectors. Furthermore, the costs of inaction or delay would be considerably greater and there are substantial savings (up to £12.6 billion a year) in terms of reduced imports of fossil fuels[10].

8
Dieter Helm, James Wardlaw and Ben Caldecott (2009) *Delivering a 21st Century Infrastructure for Britain (Policy Exchange).*

9
Calculation based on World Bank's 2008 estimate for UK GDP at £1,644 billion.

10
Delta Energy and Environment (April 2009) *A High-level Assessment of the Impact of Renewable Energy and Energy Efficiency Development on the UK Fossil Fuel Trade Balance.*

Timeframe

The Government's finance strategy must take into account three distinct stages: filling the financing gap in the short-term, followed by the rapid mobilisation of scale in the medium term and consolidation in the long term.

Short-term: Filling the financing gap

Low carbon projects and companies generally require large scale capital over long periods. In the current economic climate, financing projects of this nature is challenging; the cost of capital has increased, risk appetite is very low and there is a preference for deals that can produce short-term returns[11]. Analysis by Goldman Sachs shows that there has been a general investor preference to reduce exposure to riskier and less established companies during the recent financial crisis[12]. It is unclear if and how long the markets will take to fully correct themselves.

In response, the Government has initiated a programme with the European Investment Bank to invest up to £4 billion of new capital either through direct loans or partnership with RBS, Lloyds and BNP Paribas Fortis. This has been a vital source of capital for developers who have had difficulties accessing credit, with particular focus on small and mid-sized wind farms. The Government is now assessing how the market has responded to this availability of credit and there must be assertive action in the Pre-Budget Report to respond to evidence of different scales of credit shortages.

The EIB partnership poses a number of more fundamental questions for future public policy, such as how can successful aspects of the scheme be replicated and whether it is desirable for the UK to rely almost exclusively on the EIB as the major source of capital in times of crisis?

Medium-term: Rapid mobilisation of scale

Aside from a direct response to the credit crunch, the Government must also put in place a framework for the rapid mobilisation of scale, which is the focus of this paper. This should reduce investor risks, increase the availability of capital and instigate institutional reform. Above all, it must ensure that low carbon investments are competitive as investors will not pay a premium for projects with environmental benefits.

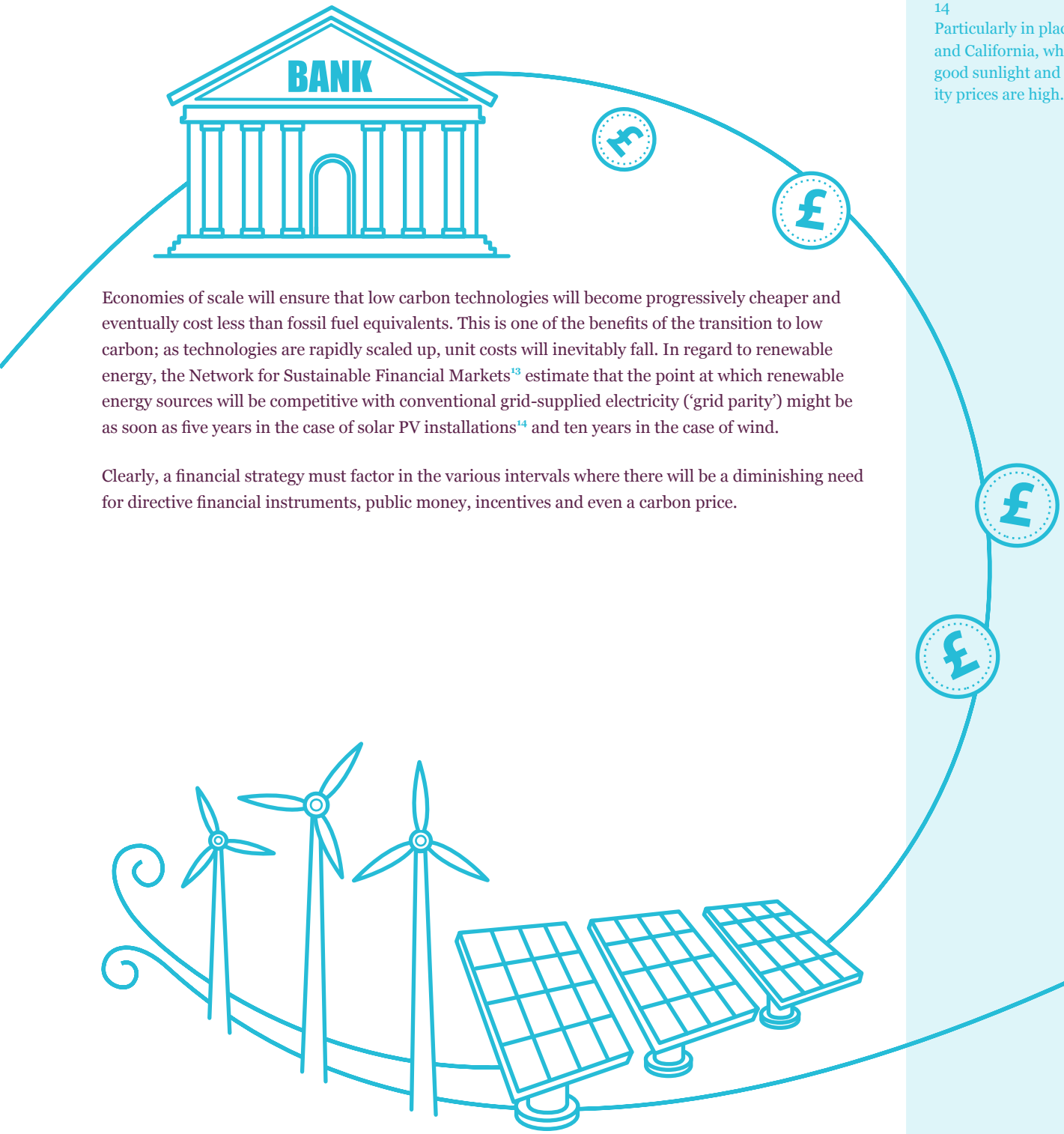
Preparation for rapid mobilisation is just as urgent as filling the current gap in project financing. Sweeping reforms will be required, with the formation of entirely new products and/or institutions. Initiating climate bonds or setting up a Green Infrastructure Bank will take considerable time and the full expertise of the City must be accessed with early demonstration and proof of concept sought before scaling up. Current proposals are at an early stage of development and their advancement will be complex and protracted.

11
For more information, see Chatham House (April 2009) *Impact of the Financial Crisis on Renewable Energy Financing.*

12
Goldman Sachs (June 2009) *Alternative Energy: Prospects for Policy, Finance and Technology.*

Long-term: Consolidation

In the long-term, carbon markets should be sufficient to deliver the low carbon transition at the necessary scale without the need for additional government regulation and incentives. However, it will take a prolonged period to develop a stable, credible and high carbon price, as well as building widespread investor confidence in relatively new markets. Carbon taxes should be used to bolster a low carbon price until a global emissions trading market is properly established.



Economies of scale will ensure that low carbon technologies will become progressively cheaper and eventually cost less than fossil fuel equivalents. This is one of the benefits of the transition to low carbon; as technologies are rapidly scaled up, unit costs will inevitably fall. In regard to renewable energy, the Network for Sustainable Financial Markets[13] estimate that the point at which renewable energy sources will be competitive with conventional grid-supplied electricity ('grid parity') might be as soon as five years in the case of solar PV installations[14] and ten years in the case of wind.

Clearly, a financial strategy must factor in the various intervals where there will be a diminishing need for directive financial instruments, public money, incentives and even a carbon price.

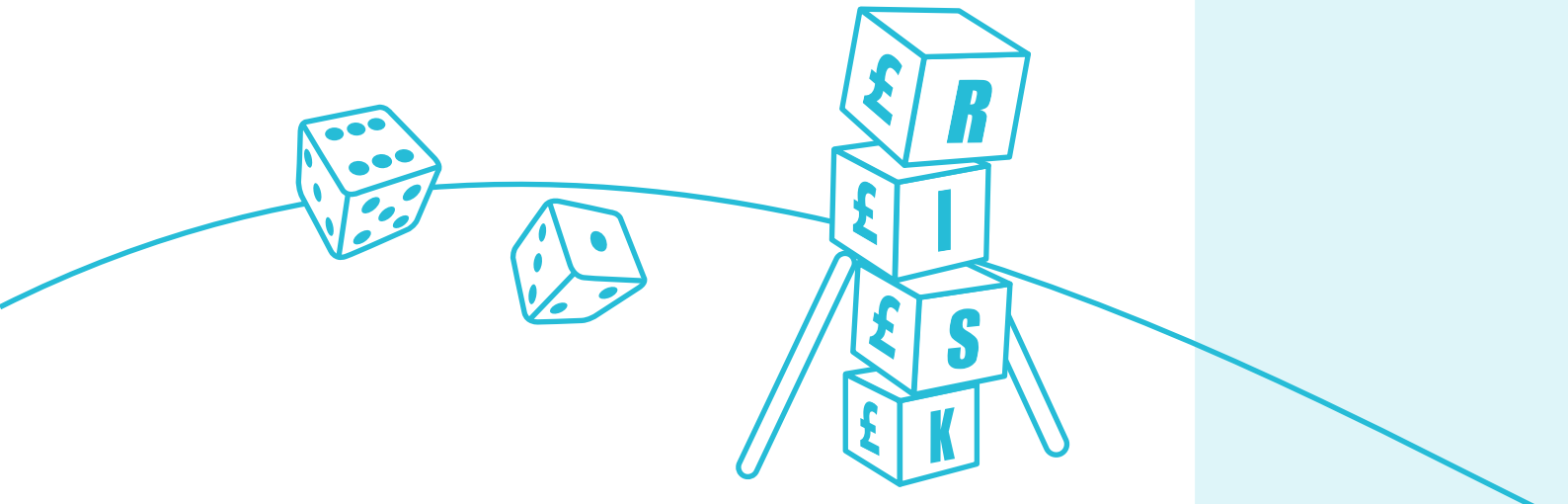
13
Network for Sustainable Financial Markets (October 2009) *Financing a Rapid, Global Transition to a Low-Carbon Economy, p10.*

14
Particularly in places like Japan and California, where there is good sunlight and retail electricity prices are high.

Reducing the risk of investing in low carbon projects

Investment decisions for low carbon projects are strongly dependent on government policy to create markets that would otherwise not exist or would develop much too slowly. This produces risks for investors which adversely affect the commercial viability for low carbon investments; profitability is reduced if carbon emissions are higher, or the carbon price lower, than anticipated. Investors are currently paying a high premium to cover such risks as there is widespread scepticism that the scale of the transition can be achieved under the current policy framework, particularly given the poor performance record to date. For example, in 2010 the UK is set to miss its own targets for reducing carbon emissions by 20% and generating 10% of its electricity from renewables by wide margins[15].

An optimal risk allocation between the private and public sector will maximise project value and help mobilise investment. If the Government were to bear the public policy risk by offering guarantees (without exposing the general public to unreasonable liabilities), it would make low carbon projects more competitive and reduce the cost of capital. This is one of the key recommendations in a recent paper by Lord Stern on financing climate change mitigation and adaptation in developing countries. It states that "whereas some of the risk of investing in low-carbon technologies and projects is market related (for example fluctuations in fossil fuel prices) the public sector bears a large part of the responsibility for delivery. Public finance therefore should be used to take on project risk associated with public policy delivery, leaving market related risk to market instruments"[16].



Issuing government guarantees has become increasingly prevalent in the UK's response to the credit crunch, whether to help finance Private Finance Initiative (PFI) schemes or ensure SMEs have sufficient access to bank loan finance[17]. This could be extended to the low carbon economy. Such an approach has been undertaken by the United States, which is providing $30 billion in loan guarantees for renewable energy projects and improvements for the nation's transmission system to "help create new jobs while fostering clean energy innovation"[18].

15
Cambridge Econometrics (April 2009) *UK Energy and the Environment.*

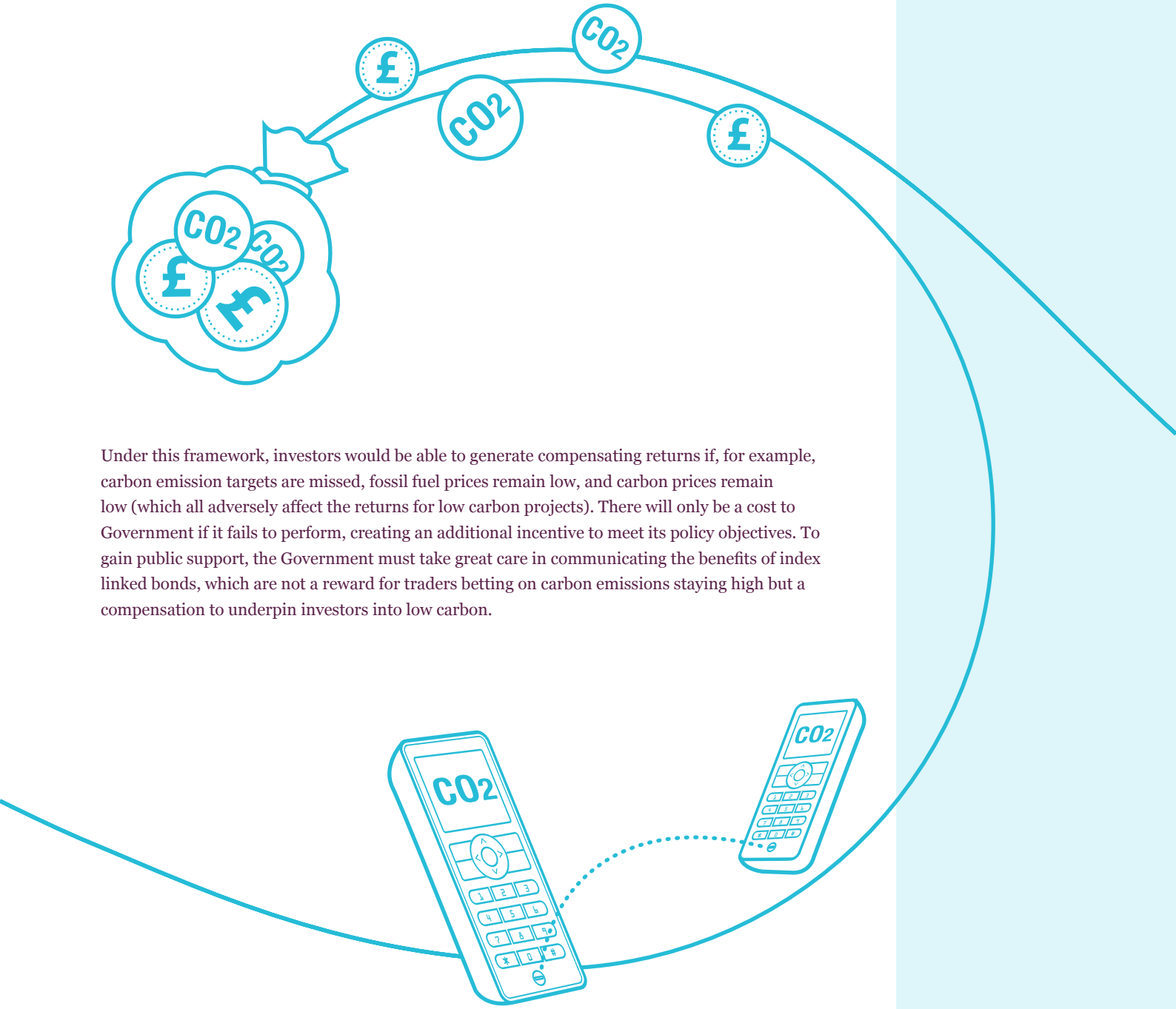
16
Lord Nicholas Stern (September 2009) *Meeting the Climate Challenge: Using Public Funds to Leverage Private Investment in Developing Countries.*

17
Examples include the Enterprise Finance Guarantee Scheme (EFG), the Working Capital Scheme (WCS) and the Capital for Enterprise Fund.

18
US Department of Energy (July 2009) *Obama Administration Announces Billions in Lending Authority for Renewable Energy Projects and to Modernize the Grid.*

A novel approach both to protect investments and reduce significantly the cost of capital would be to reform and expand the number of sectors covered by a regulatory asset base (RAB), as put forward by economist Dieter Helm in a report for Policy Exchange[19]. The RAB is the set of assets (such as supply and storage networks) within the regulated entity (such as utility companies) that is necessary to carry out the functions of the business. The RAB is protected by the duty that is placed upon regulators to finance the functions of the business, with the equity risk being transferred from the company to the customers (for example, customers are compelled to pay for increases in costs in the form of higher utility bills). If the RAB is guaranteed, it will ensure that the sunk costs of projects can be recovered. The cost of financing the debt will be significantly reduced and would be off the Government balance sheet. The RAB concept could be extended to include renewable energy projects, so that developers bear the (market) risk of construction but the Government guarantees the operational (policy) risk once the asset becomes part of the national infrastructure.

Another innovative proposal is being developed by Professor Michael Mainelli and others[20] who argue that the Government should issue bonds that are linked to indices such as government performance against carbon emission targets, fossil fuel prices and carbon prices. While bonds index linked to inflation and commodity prices are common, these new indices would create a natural hedge for the risks that investors are currently unwilling to bear at scale.



Under this framework, investors would be able to generate compensating returns if, for example, carbon emission targets are missed, fossil fuel prices remain low, and carbon prices remain low (which all adversely affect the returns for low carbon projects). There will only be a cost to Government if it fails to perform, creating an additional incentive to meet its policy objectives. To gain public support, the Government must take great care in communicating the benefits of index linked bonds, which are not a reward for traders betting on carbon emissions staying high but a compensation to underpin investors into low carbon.

19
Dieter Helm, James Wardlaw and Ben Caldecott (2009) *Delivering a 21st Century Infrastructure for Britain (Policy Exchange).*

20
Professor Michael Mainelli, Jan-Peter Onstwedder, Dr Kevin Parker & William Fischer (April 2008) *Index-Linked Carbon Bonds: Gilty Green Government.*

Mobilising private sector capital flows

It is essential that capital flows into the low carbon economy from the major sources of capital, such as institutional investors. This is in their interests; not only are low carbon technologies a profit making opportunity but climate change is a systematic risk that severely threatens the value of their assets across the economy. To mobilise these funds, the Government must ensure that appropriate public policy mechanisms are in place and are of sufficient scale. Many low carbon investments are currently too small to be of commercial interest to mainstream private sector financial institutions. Above all, investments must be competitive and capable of delivering stable, long-term returns.

Issuing bonds would be particularly suitable for this purpose, providing upfront capital to fund low carbon projects that have lengthy but ultimately secure payback periods. The advantage of specific climate bonds is that they can be designed to be secured against actual renewable energy assets and would be a smaller burden on public debt (the US Department of Energy Guarantee Scheme is an example of this). They would also help build both market confidence and the Government's perceived commitment to climate change mitigation. More generally, bonds will become increasingly more attractive to European pensions funds and insurance companies as new European regulations on capital requirements and risk management standards come into force[21].

A number of proposals are being developed for how climate bonds might be designed in the UK[22]. Bonds could be linked to specific low carbon projects so they are underpinned by tangible assets which would pay for the bonds' coupon and interest. Alternatively, the Government could issue "Green Treasury Gilts", as proposed by Climate Change Capital and E3G, where funds would be hypothecated to green infrastructure investment, distributed either through a Green Infrastructure Bank or a process by which existing banks bid for capital for specific low carbon projects[23]. Bonds could also be index linked (see previous section) or the Government could provide options to sell carbon emission permits on a specified date in the future.

Energy efficiency in residential buildings is one sector that would particularly benefit from a specialised bond. Energy efficiency generally produces quick and reliable returns. However, take-up has been slow due to high transaction and disruption costs for residents coupled with the fact that individual projects are generally too small to be commercially viable for investors. Large scale, government organised schemes that are financed by bonds tied to dwellings rather than residents could produce stable returns for both investors and householders[24]. If enacted, more rapid progress could be made to reduce emissions from homes than under current Government schemes, such as the Home Energy Saving Programme and the "Great British Refurb".

21
For example, Solvency 2 will set out new, strengthened EU-wide requirements on capital adequacy and risk management for insurers.

22
At the international level, the World Bank have issued green bonds to raise additional funding for projects that support low carbon activities in developing countries.

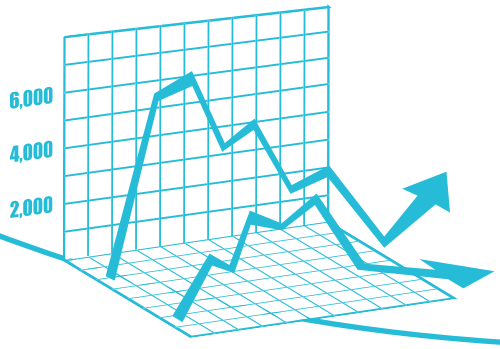
23
Ingrid Holmes and Nick Mabey (March 2009) *Accelerating Green Infrastructure Financing: Outline proposals for UK green bonds and infrastructure bank.*

24
Network for Sustainable Financial Markets (October 2009) *Financing a Rapid, Global Transition to a Low-Carbon Economy.*

The Climate Bonds Initiative[25] outlines a number of the different options for bond structure and concludes that "investibility" (in the assets) is the critical factor to address. This will depend on government policy (such as regulation, incentives and legislation), explicit or implicit guarantees and industrial ambition to rapidly scale up. The bond design will depend on the target market, as well as evaluating a number of financial and political criteria.

A financial strategy should also address the failure of the investment system to allocate capital efficiently and effectively. Climate change presents systemic risks to the economy that will adversely affect income and capital growth. Institutional investors, such as the Environment Agency Active Pension Fund, increasingly recognise that they would be in breach of their fiduciary duty to ignore the economic and financial affects of climate change on their investment strategy[26]. The Government could mobilise the first stage of a new paradigm, as set out by the Chief Executive of UKSIF, Penny Shepherd, by making it clear that the fiduciary responsibility of trustees requires responsible investment (with further responsibilities for public sector funds) and demanding greater disclosure of environmental, social and governance (ESG) issues. As the Government is proposing to extend the objectives of the Financial Services Authority (FSA) to include financial stability[27], greater regard should be given to sustainable wealth creation and the achievement of carbon targets[28].

It is also the case that the government holds considerable sway over assets that could be directed towards low carbon investment markets through the public ownership of banks (as recommended by Lord Turner, Chairman of the FSA and Climate Change Committee) and the investment policies of state pension schemes. For example, the Irish Government has requested that Allied Irish Bank, Bank of Ireland and Anglo Irish Bank each establish a €100 million environmental and clean energy innovation fund as a condition for the December 2008 recapitalisation package[29]. Looking beyond 2012, the planned personal accounts scheme for millions of workers who do not currently have a pension will quickly become the largest pension fund in Britain and its investment strategy must fully address climate change risks and opportunities.



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Network for Sustainable Financial Markets (October 2009) *Financing a Rapid, Global Transition to a Low-Carbon Economy.*

26
Environment Agency (June 2009) *Responsible Investment Review: Active Pension Fund.*

27
HM Treasury (July 2009) *Reforming Financial Markets.*

28
UKSIF (September 2009) *Response to Reforming Financial Markets.*

29
Irish Times (12th February 2009) *Government statement: Recapitalisation of Allied Irish Bank and Bank of Ireland.*

Reforming Institutional Structures

The UK Low Carbon Transition Plan outlines economy wide policy objectives and each sector requires a distinct approach. Mobilising finance for high speed rail, for example, differs markedly from energy efficiency and a host of different mechanisms are required. This must be reflected in the Government's delivery policy; it will not be possible to micromanage such fundamental change and a dedicated resource with sufficient expertise is required.

Current institutional structures which work on an ad hoc basis need to be reformed and rationalised so that they can deliver in a more strategic and synchronised way. A significant recent development has been the creation of a new unit in the Treasury (called TIFU[30]) to ensure vital PFI infrastructure projects that have been adversely affected by the current financial market conditions go ahead as planned. This has helped build confidence and increased the level of private sector capital flows. A similar dedicated unit with sufficient expertise is required for the low carbon transition, but on a much larger scale and with greater independence.

A Government-linked financial institution, such as a Green Infrastructure Bank, could play a major role in financing and accelerating the low carbon transition. Its role would be to explicitly provide the capital and guarantees for many of the proposals outlined in this report and act as an intermediary between project developers, investors and policy makers. Although it would take a few years to establish (see page 6), this will be dependent on political will and overcoming any legislative barriers.

There are a number of different ways such an institution could be created and capitalised[31]. James Wardlaw, a financing banker at Goldman Sachs and previous Treasury official, suggests that there needs to be a thorough analysis of whether specific government units and bodies (including TIFU) could be combined into a single commercial organisation. The prize would be an institution which "facilitates the introduction of private sector capital without crowding it out, finances itself with a government guarantee, aims to break even with any dividends reinvested, and whose liabilities do not score in the National Accounts but whose activities are defined by national priorities"[32].

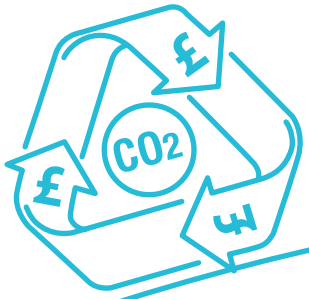
30
The Infrastructure Finance Unit (TIFU).

31
For more information, see Green Alliance (October 2009) *Establishing a Green Investment Bank.*

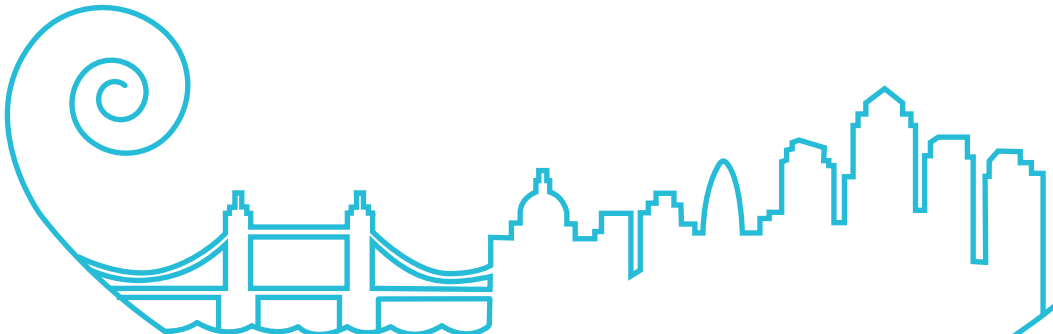
32
Dieter Helm, James Wardlaw and Ben Caldecott (2009) *Delivering a 21st Century Infrastructure for Britain (Policy Exchange), p50.*

Climate Change Capital and E3G propose setting up a new entity building on current state-owned bank models that already exist, which would be funded by a preliminary issuance of green bonds, conventional government funding or future EU Emissions Trading Scheme receipts[33]. In the United States, Congressman Chris Van Hollen introduced a bill in March for a publicly owned Green Bank with an initial capitalization of $10 billion through the issuance of Green Bonds by the Department of Treasury.

The absence of an infrastructure bank in the UK means that there is currently an over reliance on the European Investment Bank for capital. While this has been a vital source of funding during the credit crunch, the UK is competing with European countries for limited funds. The EIB is the largest single lender in the global renewables market[34] and as the demand on these funds increases (to at least £264 billion by 2020)[35], the UK must fundamentally question if this framework is sufficient to deliver the low carbon transition, particularly in times of capital shortage. Publicly owned banks that lend to projects in the public interest are common in other countries, such as the KfW Bankengruppe in Germany or ICO in Spain, both of which played a significant role providing capital during the global financial crisis.



An independent UK Green Infrastructure Bank would have a number of benefits. It could provide dedicated financial expertise to manage complex projects and mechanisms, anticipate future trends, strengthen market confidence and address delivery delays that, for example, have been reported by HSBC in regard to global green stimulus spending[36]. It could also be a major source of competitive advantage, ensuring the City of London remains at the forefront of climate change financing and carbon markets.



33
Ingrid Holmes and Nick Mabey (March 2009) *Accelerating Green Infrastructure Financing: Outline proposals for UK green bonds and infrastructure bank.*

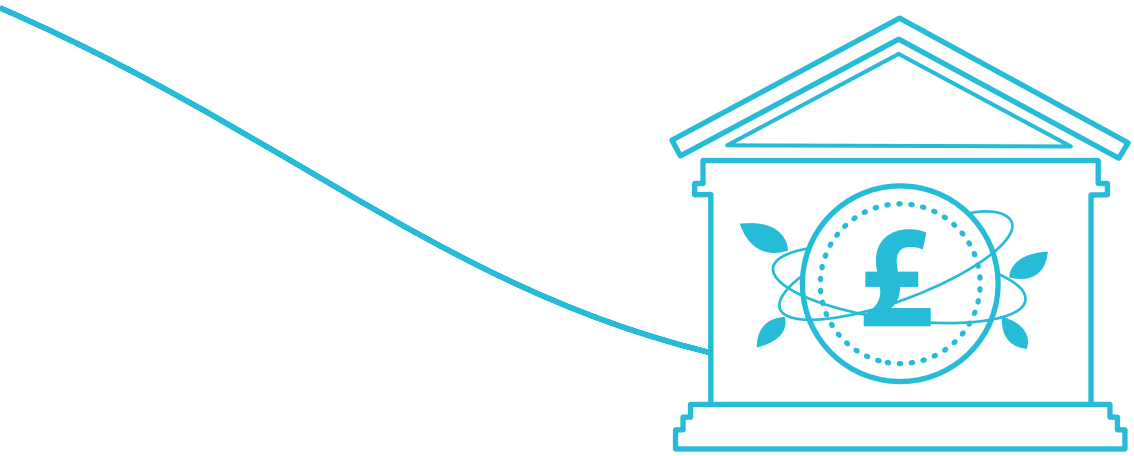
34
Ren21 (May 2009) *Renewables Global Status Report 2009.*

35
See page five.

36
HSBC (August 2009) *A Global Green Recovery? Yes, but in 2010.*

Conclusion

The scale and urgency of the low carbon transition presents a major financing challenge for the UK economy. A directive set of financial instruments to reduce risk and mobilise private sector funds, alongside a dedicated infrastructure bank, will ensure that the transition is accelerated and associated economic benefits maximised. However, new financial instruments are merely a mobilising mechanism and will only be as attractive as the assets they represent. The UK is competing in global markets and it is imperative that the wider policy framework not only sets strong budgets and policies to deliver them but also addresses key barriers such as the design of incentive structures, planning legislation, supply infrastructure and the skills of the workforce.



Above all, the UK must demonstrate that its aspiration to be a world leader in green technologies is credible, with assertive action that aims to exploit early mover advantage. Germany and Denmark have shown that stringent environmental regulations which force the pace on the adoption of renewable energy generation can help foster rapid industrial expansion with high export growth potential. One of the reasons that London is now regarded as the hub of the international carbon market is because it moved quickly to implement a costly voluntary emissions trading scheme the year before the EU ETS came into effect[37].

Similarly, if the City is to cement its position as the financial centre of the global low carbon economy at a critical juncture, it needs to be at the forefront of emerging innovations and not rely on multi-national institutions. Leading the way on climate bonds or a Green Infrastructure Bank is not only an environmental imperative but an economic necessity, accelerating the growth of low carbon sectors and ensuring competitive advantage for the financial services industry.

37
Aldersgate Group (December 2008) *Green Foundations 2009: The path to a vibrant economy, competitive advantage and sustainable prosperity.*

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Chris Hewett (Green Alliance)
Daniel Ingram (Hermes Equity Ownership Services)
Danny Stevens (Environmental Industries Commission)
David Leedham (Speechly Bircham LLP)
Dimitri Zenghelis (Cisco Systems)
Dr Nelson Sam (Ernst & Young)
Felicia Jackson (Author, *Conquering Carbon*)
Howard Pearce (Environment Agency)
Jason Langley (AXA Real Estate)
Kegan Lovely (Bank of American Merrill Lynch)
Kirsty Hamilton (Chatham House)
Lord Smith of Finsbury (Environment Agency)
Mark Campanale (Four Elements Capital)
Matthew Spencer (Carbon Trust)
Michael Mainelli (Z/Yen Group Ltd)
Nick Mabey (E3G)
Nick Robins (HSBC)
Nick Silver (Callund Consulting Ltd)
Nigel Clark (Enviros)
Paul Pritchard (RSA)
Paul Turner (Lloyds TSB)
Penny Shepherd (UK SIF)
Peter Young (Aldersgate Group)
Philip Wolfe (Renewable Energy Association)
Pradeep Jethi (Social Stock Exchange)
Rachel Jackson (ACCA Global)
Rob Wylie (WHEB Venture Partners LLP)
Sean Kidney (Climate Risk)
Seb Beloe (Henderson Global Investors)
Shelley Rowley (Speechly Bircham LLP)
Tim Jenkins (Friends of the Earth)
Victoria Fleming-Williams (Aldersgate Group)

Aldersgate Group

Providing the economic case for high environmental standards.

Who We Are

The Aldersgate Group is a high level coalition of progressive businesses, environmental groups and MPs who believe that high environmental standards will be a major part of future economic growth and international competitiveness.

By presenting objective evidence based on the diverse experience of our members, we promote the case that there is no inherent contradiction between regulating for high environmental standards at the same time as maintaining economic growth and stimulating wealth creation. Quite the reverse: no economic policy which sacrifices environmental quality can succeed in the long term.

Our Aim

To engage actively with government and other key decision makers to contribute to the future development of UK economic, environmental and sectoral policies, as well as providing a distinct voice that advances the better regulation and sustainability agendas.

Our Members

The Group brings together a broad range of players including major corporations, professional bodies, industry leaders, public sector organisations, NGOs, Parliamentarians and others who press for better, smarter environmental regulation that will help manage the transition to a more eco-efficient economy. By combining resources and expertise, the Aldersgate Group is an authoritative and distinctive voice which influences current political debates and government policy.

Key Messages

1. Our long-term economic success depends on a healthy environment and the sustainable use of natural resources.
2. At the company level, good environmental performance translates to tangible economic benefits and is a major source of competitive advantage.
3. Better environmental regulation creates new business and employment opportunities in a fiercely competitive global marketplace.
4. Policy appraisals must accurately assess environmental costs and benefits.
5. The better regulation agenda must not lose sight of the need to maximise outcomes in the drive to reduce unnecessary costs.

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