Sustainability 24 2012
Investing for Growth Financing Sustainability Today and in the Long-Term Transcript

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ASHLEY HOUSE: Hello and welcome back to Sustainability 24. We are right in the middle of a fantastically exciting day as we spend the entire day setting the agenda for business and putting sustainability right at the heart of that business agenda. If you’re just joining us now, then you’ve missed some fabulous sessions so far.

We’ve been all around the world and back, as we’ve heard from speakers, journalists, authors, government ministers and, of course, business experts and executives. But don’t worry, you can catch up on everything that you’ve missed on the Facebook page Sustainability Services—Accenture Sustainability Services. All the videos will be there for replay and download by Friday.

My name’s Ashley House. I’m in London. I’m your host throughout the day. It’s 2 p.m. here in the English capital. It’s 9 in the morning Eastern Daylight Time in New York and Washington, D.C., where we will be going for our next session which is entitled, “Investing for Growth: Financing Sustainability Today and in the Long-Term.”

Before we go to our moderator there and all our excellent panellists, let me just remind you that we do want you to be involved today. So please do submit your questions to us. You can do that in one of three ways, either in the box below this video where we will get them here, right here in the control center in London and we’ll filter through them and, hopefully, get some questions to the panelists.

You can do that as well on the Twitter using hashtag #Sustainability24. We’re getting those too and, of course, on the Facebook page as I’ve just said: Accenture Sustainability Services. And if you like that page, then you’ll also receive updates as we continue.

OK, it’s time now to cross London to another studio to Jo Confino, who’s the editor of Guardian Sustainable Business and he’s going to introduce you to his guests as they discuss Investing for Growth: Financing Sustainability Today and in the Long-Term. Over to you, Jo.

JO CONFINO: Hi, Ashley, thank you very much. Yes, good morning and good afternoon. We’re here today to talk about the role of the financial markets and moving towards a sustainable future. This is a really important area because we’ve seen how consumers are calling for change, we’ve seen how businesses recognize it needs to fundamentally change the way it operates in order to be more sustainable.

But one of the areas where there’s considered to be a lag is in the financial markets and what we want to do in this session is really explore whether that is the case, whether the financial markets are starting to change and, looking from a positive stance, also about what can they do.

So we’ve got a fantastic lineup. The people we’ve got today include Paul Simpson, who is CEO of the Carbon Disclosure Project; we’ve got Alex Chavarot, who’s advisor of the Clinton Climate Initiative and managing partner of Clean Infra Partners LLP; we’ve got Andrew Steer, special envoy on climate change at the World Bank; and Mark Fulton, global head of climate change, investment research at Deutsche Bank.

PAUL SIMPSON: Thanks, Jo. The purpose of financial markets is really to provide returns for capital owners, to distribute capital efficiently and effectively. And you can question how well that's done at the moment. And, really, if you look at who those owners are—particularly the pension funds and the pension fund holders—the financial markets are supposed to generate returns for pension fund holders, the beneficiaries and really to help them have a better quality of life in their old age. And is that really happening?

I think that if we look at fiduciary duty currently, it’s really determined as being the maximum financial return, and clearly when I get my pension, I’d like to have a better quality of life which may not be the maximum financial return. I’d like to have a world without dangerous climate change and a good amount of money, rather than a world ripe for climate change and a lot of money.
So I think financial markets are struggling with their purpose and also, clearly, regulation has a role to ensuring that purpose is really delivered.

**JO CONFINO:** Thank you. Alex, I want to throw the same question to you: Does there need to be a change of mindset in the city? Is it that the financial markets have just got stuck in a particular rut? Given that the nature of the society needs to change radically to deal with the scale of the problem, do you need a different mindset in place?

**ALEX CHAVAROT:** I think it’s about awareness. I think it’s about ensuring that players in the financial markets are aware of the risks that the clients they have—the corporates they lend to—face and generate by doing the businesses that they’re involved in. The more aware you are, the more you’re going to take into account the impact of climate change. For example, whether you invest or whether you lend to a company. And so, when I think about the way the financial markets behave, I think to myself it’s all about incentive and regulation. It’s current and sick and I think there’s a third element to that which is awareness. I was quite struck over the past few years by how much more aware people are becoming in financial circles of that impact of sustainability and how much more topical and frequent you hear about it.

**JO CONFINO:** Mark, I want to switch that question to you and I want to ask everyone that same question. We’re going onto incentives; we’re going to go onto private sector partnerships; we’re going into private sector partnerships; we’re going to look at regulatory frameworks, but is there a different mindset that we need? I really want to ask that question to everyone.

**MARK FULTON:** I really believe as an economist that in the long run, and I must emphasize the long run—and what is the long run? Is it five years? Is it 10 years? But somewhere out there, what we know is sustainability is going to impact the risk adjusted returns of financial markets across the board. We tried to stay away because we don’t believe in this dichotomy in the long run. So in the short run, if you’re looking at quarterly returns in volatile trading markets, you’re not going to find many factors that explain what’s going on half the time anyway.

What you’re going to find—and we’ve done a lot of work into the long-run academic work that’s been done on this—is that you do find that sustainability shows up in a superior risk adjusted return, and particular cost to capital improves notably for high sustainability firms. So for most of us in the asset management division it’s got down to timeframe. Most of the consulting actuaries are concerned about timeframes. So unless the asset owners who ultimately own all this stuff, take the view that they can be patient, they can wait for return in the right context, this is going to be very hard to execute in financial markets.

When you talk about financial markets, boy, we have a vast number of players in the financial markets—from asset owners, to banks, to investment managers, to hedge funds, you name it. Everyone’s got something they’re trying to do. So I think it’s very important to define who it is that you want to be involved with, and in the end you want everyone to be involved and they’re going to play a different role.

But I think going back to Paul’s point, it is very interesting that the pension funds who are vast owners of capital, have not deployed huge amounts of money, for instance, into clean energy yet. But they are looking at sustainability. They signed up to UNPRIs. We’ve seen 25 trillion signed up to the UNPRIs. So it’s starting to happen. I think going to come around awareness. Awareness is growing. That’s 25 trillion of awareness hopefully. But in terms of continuing to change investment mandates and really see the long run and come to grips with the fact that sustainability does give you superior risk adjusted return, I think there’s a way to go on that.

**JO CONFINO:** Thank you. Andrew, when I was in New York recently, people were saying there’s such a fixation with quarterly earnings, and that if you stand back from that and look at a business and its ability to do something over three months and really report on that, it seems almost ridiculous. And also, it [seems] perverse, in a sense, to act in certain ways that actually produce poor returns in the long term. So how are we
going to move from a position of short termism to a position of long term? So you know that seems like such a fundamental issue, but there doesn’t seem to be much movement of that. How are we going to start that movement going?

ANDREW STEER: Just last week, the World Bank Group brought out a major report on green growth prepared by a bunch of economists, but as we were doing it, we came to the conclusion that we needed more psychologists. There really is a sort of cognitive myopia that exists. It happens to all people. A psychologists can show today that everybody—whether you’re a small farmer or you’re a CEO of a major financial corporation—it is hard rationally to make decisions today that have impacts in the long term. So we’ve got to face up to that.

Now where is that more evident than any other? I mean, obviously, in financial markets and in any environment where you have stock markets that give you instantaneous return.

There is a paradox here because the long-term assets are in many ways those that need the most confidence. They’re the least willing to take real risks over the long term and, yet, they are the ones that would be most affected if we don’t take the right part. So if you’re running a pension fund, sure, maybe you look at the evidence on climate change and maybe you think it’s a bit risky. Oh, in fact, it’s a lot riskier to invest in renewable energy and so on. But you should really want to be part of the solution. Why? Because if there’s not a solution, you’re the ones with long-term assets that are going to be affected. So, how do we solve this?

We solve it by the kind of discussion we’re having today and let me commend Accenture and The Guardian also for this sort of dialogue you’re having. This is a great way to communicate and I think there are a lot of people watching this. We need to do more of this and we need to bring evidence to the table. If 97% of the world’s top scientists believe that climate change is real and it is being affected by human activity, then it makes sense for financial markets to engage in it.

Now it’s not all bad news. I mean, last year $250 billion invested in clean energy—financial markets made that possible. There’s fantastic innovation out there. So I don’t think we need to say we’re in a world of failure. What we need to say is we need to triple what’s happening now and we need to do it very quickly.

JO CONFINO: So, Andrew, that’s really helpful. There’s such a lack of recognition that there is a psychological component because as soon as you talk about money, that’s where you get stuck, but really important you mention talking about people’s psychology. that. In the next 10 years the problems we’re going to face are going to become far, far worse.

ANDREW STEER: How do we move from that short-termism to the longer-term funding? I was talking to Paul just before we came in and he said, $250 billion investing in clean energy is all very well, but in the next 10 years or so, we need $3 trillion—or I can’t remember how much—invested. So what I’m looking at now is saying, OK, we know what the problem is. We know that the thinking needs to change. How are we going to move from this place to dealing with this problem in a meaningful way?

ANDREW STEER: Well, maybe I’ll take a shot at that first. Look, what we shouldn’t be doing is preaching at each other. No point sort of saying “you over there in the long-term capital markets, you need to do this” and “you guys need to do that.” We need to help each other. Take the World Bank Group: the space that we work in is the the intersection of public funding and private funding. There’s been a revolution in the last three or four years, obviously. We work in developing countries, three or four years ago, the idea was if you’re a developing country’s minister of finance, you’d say: “I’ll do something about these issues that you guys in the rich countries caused, therefore, we expect grants and this kind of thing.” That’s changed tremendously.

There’s amazing leadership out there today in ministries of finance and planning and energy and agriculture. And they say: “We understand there’s not that much grant financing, but here’s the point. The money that does exist in the public sector needs to be used much smarter and it needs to be used to help financial markets pull their money at scale where it needs to be.”

And so, it’s not right for me or you to be preaching at those who run financial markets. Rather, we need to be understanding what is it that they really need. And what we’re starting to see is they’re putting together these big green funds as part of the United Nations Climate Change Convention. Now that shouldn’t be going sort of government to government. It shouldn’t be going for big public sector projects. Some of that, but not much. It really be based
upon careful diagnosis through the whole decision-making process—from the developers, the financiers—of where can we put that money in a creative way?

And so, we need to not necessarily put it just in loans, and we need a whole variety of loans, subordinated and so on. We need to use guarantees. What are we good at? We should be guaranteeing the policy environment in developing countries which will bring down the risk very substantially. We need to be providing equity.

So what we’re working on as we’re now designing these new funds that are mainly public, they need huge private sector windows and they need great flexibility in the instruments that are available to help the private sector get to where they need to get to to buy down that risk and really also cover the gap between some technologies that clearly are more expensive still. And, so, there will occasionally need to be subsidies.

**JO CONFINO:** Alex, coming to you. What we’re seeing, and what I heard from you all, is we’re starting to change the debate, and there are experiments going on and money is starting to shift. But what I want to ask you is: How are we going to reach scale on this? Because actually, that’s all what this is about. Even in the corporate area, there are lots of experiments going on, but we have this real difficulty with getting over that hump between something that’s being shown to work and actually becoming mainstream and meaningful. So what’s your view and how are we going to get to scale because that seems to be where we need to move to?

**ALEX CHAVAROT:** I think there are three or four components to that. The first one—and echoing what Andrew and Paul are saying—is to be able to tap into new sources of capital. Most of the capital today is with pension funds, with institutional investors. It’s not with banks. Banks are acting as intermediaries. I think the challenge is to increase the share of capital that’s provided by known banking institutions.

Now the second thing is to, as Andrew mentioned, de-risk the investment proposition because after all, all these pension funds have fiduciary duties and they can’t just put money freely into all these investments without ensuring that the risk adjusted returns actually [meet] with their criteria and their constraints. So I think that’s where the government decision is a very important role to play to de-risk the investment positions.

Now the fair element to this is to actually go on the grounds. There are a lot of discussions—very helpful discussions, very interesting discussions—that can show the way, but I think you also need pilot projects, projects that can be designed and implemented hand-in-hand between the private and the public sectors in a local environment. And then that can be scaled up, that can be replicated.

Let me give you an example. The Clinton Climate Initiative three years ago teamed up with the government of Godhra in India to help them identify and design how to build the first multi-developer solar park in the world. The idea was to target more than one gigawatt of solar generation capacity and to have the government provide the land, prepare the land and the infrastructure and then invite private-sector developers to build, side by side, a series of solar parks.

Last month, the government of Godhra integrated that solar park. It’s the first of its kind. It has a potential to have 500 megawatts of capacity. Half of that is already in operation. What you see is that you can achieve cost reductions through economies of scale on the one hand and the other hand through reducing the development risks. And if you reduce the development risks you, therefore, reduce the target equity return that investors are to require, so you reduce the weighted average expense of capital.

You effectively create a virtuous circle of financial innovation. You’re risking government and regulatory risks and, therefore, requiring less capital to deliver the same investment.

**JO CONFINO:** What’s your view on a big issue that governments are not being courageous in fundamentally changing the way they operate markets. So they’re not really moving away from perverse subsidies to actually generating positive change. How do you think the financial markets can work to create that change at scale? And why do you think politicians aren’t prepared to act?

**ALEX CHAVAROT:** I think politicians, obviously, need to understand what could be done and it’s not always evident how—what the impact of various policies can be at the local level in domestic political debate. And on the other hand, they need to respond to incentives and, obviously, their intention is to get reelected.
So you then take into account what civil society has to say about all this and as a politician and as a political leader, you ought to then make choices ranking the various objectives and then propose a clear choice. But it’s not easy as I’m sure all politicians would agree.

PAUL SIMPSON: That incentivization piece [is important] because one of the biggest problems is citizens feel very, very disconnected from the financial markets. So while they know they benefit from it, they feel no connection to it. Therefore, the pressure for change is very limited.

But for the financial sector, there’s very, very little of those pressures because it’s not consumer facing and because people do not understand what’s going on. So how are we going to see that pressure build and where is it going to come from?

PAUL SIMPSON: That’s a great question because I think the majority of people, at least in developed markets—and even in emerging economies—have products that are provided by the financial markets, be they a bank account, a pension fund, an insurance product, and we haven’t yet seen any mass take up from individuals as citizens of sustainable financial products. We know that if you look at energy purchases, people change very rarely and the same goes in simple terms for their bank account.

I think one area, at least in developed markets, is that the majority of people have a pension fund and that pension fund is being managed and invested by people they have zero engagement with. They often don’t understand the language around it and I think it would be great to see either politicians or regulators encouraging pension funds.

Let’s start to ask our pension fund holders and beneficiaries what do they want, what do they want for retirement, what do they want from sustainability? And I think there are a couple of pieces at work: the asset owners disclosure project and fair pensions who are already campaigning to make pension funds more transparent and more engaging of their customers. And if we could convince the trustees of pension funds that we expect them to invest in our best interest, in a sustainable manner and ensure that all their investments are sustainable, that could create real change.

JO CONFINO: OK, thank you. And, Mark, coming back to you on that same question, there seems to be a particular issue in the United States that large numbers of people deny climate change even exists and, therefore, we’re seeing complete political [gaps]. From a U.S. perspective, how do you see the markets changing, because if you deny there’s a problem, which many people do, then how are we going to create change? How is that political dimension affecting the financial markets and the ability to create change?

MARK FULTON: I’m sure you know there’s been a lot of work done on what words you need to use in different contexts. If we start talking about energy diversity, energy security, then in the United States people start listening to you. For instance, at the moment, gas prices are very low, therefore, there’s a huge switch out of coal into gas, which is a very cleaner solution, which we welcome. However, at the same time if you don’t deploy renewables through the renewable portfolio standards which they are doing, but more could be done, you’re going to get a dash for gas and you’ll get a massive exposure to a gas price increase 10 years from now.

Therefore, diversity is very important. That’s something that we believe that American politicians, American policy makers, are very interested in. And, so, I think that there are different ways of engaging the conversation.

And when you say Americans, there are lots of climate deniers, there are also lots of climate believers. I mean there are a lot of surveys in America that show that many people are concerned about the environment, they respond to clean energy, clean air, pollution, health.

You go and ask anyone in America, do you want a healthy environment? They’re going to say yes. The question is at what cost and in what way? So, I’m not quite as negative as that, although, I understand in terms of the some political discourse, certain words don’t go well.

I’d also like to go back to some of the comments about what we’re trying to do. Where I think I’m positive is that a lot of us are now doing things. Like Andrew said, we can talk about things forever and we have been for quite a long while among ourselves, in this sort of group. But we’re actually
doing things. I mean, World Bank does huge amounts of things—CDP, Clinton Initiatives—so from our side we’ve been developing strategies for investors.

We have the Global Climate Partnership Fund which you’ve got some of the development banks in. We’ve developed this idea called Get Fit with the World Bank, KFW, the British Government, Norwegian Government and others and that’s a public/private partnership model to deploy renewable energy which we think could just be scaled. It’s a model. It’s in pilot. If it works and it really works, you can say, right, I can go plunk that down in many, many countries potentially. So I think there’s a lot of activity going on.

For instance, in the pension funds, today we issue our Investing in Climate Change 2012 Outlook for acid allocation and we send that to all our clients. So we are trying to show people what is available and we’re very strongly saying we can’t just keep focusing on the problems in solar and win public equity markets which everyone likes to talk about.

But, in fact, we’ve got agriculture, we’ve got water, we’ve got cleaner energy, we’ve got the gas transition. There are massive investment opportunities. And, those investment opportunities are already deeply embedded in the portfolios of these pension funds anyway. It’s a question of how they recognize them, whether they’re going to place more emphasis on them, whether they’re going to understand what they’re going to do in the long run.

But, again, it started. You’ve got 25 trillion signed up. You’ve got banks, you’ve got investors, you’ve got everyone talking about it and I’ll finish on this in terms of it’s the financial markets. Again, it depends on what you mean, but essentially, I think in the financial markets you said where is the pressure? I think civil society is having a pretty big impact in financial markets unless I’ve missed something. So I believe that financial markets are really aware of the issues, from licenses to operate through to sustainability to it’s very high on the agendas in financial markets of many players. And I think there’s a lot of work being done on it, a lot of thoughtful work being done and I think large institutions understand the notion of stakeholders and understand the notion of long-run returns.

JO CONFINO: One of the things, Mark—just thinking with you—is about value, you know, valuations. There was a really good question at the session this morning around financial data. Financial data tends to be historical and one of the reasons that presses on the corporate side of things. The companies that are going to be here in 40, 50, 100 years, [will be] because they’re investing for the long term. There’s no future gazing from a financial sort of perspective. So it’s very difficult to value that in.

And so, companies that are still exploiting short-term benefits are often valued to the same extent as those who are investing for long term. So how are we going to change valuation methods? So if a company’s investing for the long term, how does it get the benefit of doing that because often companies say they’re doing that, but they actually see no benefit from a financial analyst perspective of what they are doing.

MARK FULTON: There’s been a lot of very good work on that done by some of the investment banks on time horizons of analyst forecasts and so on. Unfortunately, it does appear that the number of analysts doing, say, forecasts over three to four years has dropped. So you’re right, the concentration has tended to become even somewhat shorter. The simple answer is if you take a net present value of a company and you’re trying to do a three-stage discount model and the third stage is terminal cash flows, which could be up to whatever this company lost, then you know your net present value, and you should be thinking very much about what the long-term cash flows are worth.

Because the trouble is, long-term cash flows in MPVs are worth less than near-term cash flows. But once you get to that third stage, it can dominate the valuation model. So people really think about it and they really believe in the long run that you’re going to get companies that truly diverge on a 10 to 20 year basis in their earnings cash flow profiles. That’s going to really change the MPV that people invest in today. But you don’t see analysts saying, oh yeah, by the way, I’m going to diverge my cash flows on a very long–run basis.

Most analysts are mean reverting forecasters. So that’s one of the technical, if you like, problems we face. How do we get around that? Well, the truth is we’ve seen a lot of academic studies that show you if you wait patiently, your risk–adjusted return is better, and in the
end, all you can do is keep showing investors they’re going to make better returns on a risk-adjusted basis and at some point, you know what, I agree with you. I’m shifting my portfolio.

**JO CONFINO:** Paul, if we look at what we’re saying, there’s change in the air, there’s greater awareness, there’s already the start of good practice and of change and the ability for public/private partnerships and we can come back to that for more detail. So what everyone here is saying, there is the start of a change process. Are you confident that it’s going to just naturally grow from that point? Are you as optimistic as everyone here that we are on the start of that trend curve, or do you have concerns?

**PAUL SIMPSON:** Yeah, I very much agree with what’s been said about awareness. At CDP we’ve seen an 18-fold increase in investor interest in climate change over the last 10 years. I think Mark’s right that a lot of investors are moving from awareness into action and then what can we do, how do we invest it fully, how should we integrate sustainability and climate change into our investment decisions? I think, quite frankly, a lot of investors are struggling with that—the real integration that the principles of investment and others that committed to integrate environment sustainability into investment decisions.

But I think to answer the question specifically, I’m very comfortable that we have significant momentum in financial markets to address sustainability and climate change. I think there are still a few systemic issues that need to be addressed. You raised pension funds earlier and you raised policy. I think investors have a role and this is occurring on a greater degree to engage with policy makers, to engage with governments and say, alright, there are few things that we can’t do because we’re supposed to invest the best returns that you need to change in the market. And the most obvious one is to put a price on carbon.

If governments really get their act together on price on carbon, we see a lot more investment flow into low-carbon solutions that Mark was talking about. And what we need to see is an active investment industry going to government, and many are involved in this already, saying you have to make this regulation so we can have sustainable financial markets.

**JO CONFINO:** But I was speaking to the chief executive of one of the big asset management companies about this idea of engaging in the political process. And he said, well, my office is a mile away from the Houses of Parliament, but it’s a completely different world and I don’t know how to advocate for change. So in the corporate sector, we’re starting to see coalitions of companies that are coming together by The World Business Capital Sustainable Development and others who are starting to say we need to become much more active. But it doesn’t seem we got our scale or our level of collaboration in the financial sectors. Is that a fair comment or not?

**PAUL SIMPSON:** I think it’s fair comment in the sense that corporations have been better organized in engaging policy makers and investors per se, but let’s be honest, most banks and asset managers do have people engaging on policy that’s normally financial policy and economic policy and they need to spread more into this sustainability area.

The other area where investors really need to engage as well as policymakers is the companies they invest in. So we see through this itty bitty carbon action initiative now nearly 100 investors with $10 trillion saying to companies, we’ve got disclosure from you, but now we need specific actions. We need better emissions reduction targets. We need you to be testing a plan to make all the emissions reductions in your company. You can do so, invest more into sustainable R&D. So I think, yes, investors need to get better organized to engage policymakers, but also to engage the companies they invest in.

**JO CONFINO:** Thank you. Alex.

**ALEX CHAVAROT:** Just to add to that, two examples over the past few years that showed exactly what you’re mentioning, Paul. One is, and Andrew will know this much better than I do, but the formation of this circle are greater principles than 10 to 12 years ago by a number of commercial banks under the World Bank Group to say, these are the requirements we need to have for our perspective clients before we do lend in relation to environmental and to sustainability requirements.

And the second and more recent example is a grouping of financiers led by an NGO called a Climate Bond Initiative which has pulled together a number of pension funds and international organizations. I think The World Bank is, again, a part of it to raise awareness among the financial community and say, this is how we would like to set some standards and the reason we’re doing that is that we will benefit from it. This
will create business opportunities. And we'd also like that and it will also allow us to interact with policymakers and ensure that we get to a balanced outcome.

JO CONFINO: And I want to come back to public/private partnerships in a minute but, Alex, I want to pick up on something that Mark said, which is that to most outsiders, their financial markets are like one group. It's like people don't understand the complexity, there're so many different players in it. I'm just wondering, given the complexity of that, how are we going to get different parts of the financial value chain to start working and talking together because it sounds like there's a disconnect. There are certain people doing certain things. But, again, there's not really an understanding from civil society about what the eco structure of the financial markets and where the pressure points are going to happen, where we're going to get change happening, where we need to sort of put pressure.

Jo: So can you just talk a little bit about that and I'll come back to you, Mark, as well in a minute. What bits need to fit together?

ALEX CHAVAROT: I agree with Mark. I think it's already happening, in a way. On the one hand, you have a so-called FIRE interest sector which is extremely diverse in terms of institutions, in terms of activities and, therefore, in terms of impact on the economy. And each of these different components have, over the past five to 10 years, been forced to take into account sustainability for different reasons and through different ways.

Secondly, you have civil society who is watching them all the more so since the crisis of 2008, but that trend, therefore, has been amplified in a way by the recent financial crisis in the past five years. And I don't think there is a silver bullet on this. I don't think there is a single solution that will suddenly say: now we "sorted out" the financial markets. And, equally, I'm not sure the financial market, as far as sustainability is concerned, is the cause of problem. I think it ought to be seen as a solution to the problem as opposed to the cause of it.

JO CONFINO: Right.

PAUL SIMPSON: Yeah, could I say that. I say this tongue in cheek, but if you looked at my daily activity, you'd realize a lot of stuff happening in financial markets is because we've got the Sarac Group in the United States, Investment Network Climate Risk $10 trillion signed up. You've got the EDF here, you got NRDC, you've got many of these civil society groups in other countries that are really engaging with the financial sector. You've got the UNPRI's. I'm on the unit FI change working group, the co-chair of that and that's another group within UNIC that's doing it. The IEA has a finance group and we should mention the UK government's climate markets climate initiative which all of us tend to be on and we've been working with them. You can really spend your day, joking apart, really talking to groups. Banks have got groups so I think it's probably better in the sense that the particular groups start talking about their own issues. You know, banks may have different issues from asset managers and we may have similar issues to asset owners and so on. So people are forming these coalitions and then something like the Clinton Initiative is fantastic because it will try to bring everybody in and it'll reach out to everyone. And it's issue driven. So I'm thinking that there's a huge amount going on.

Now, at the end of the day will that take us from $250 billion to $1 trillion a year in clean energy? Don't know yet. Will that take us from $25 trillion that says, oh yeah, I want to look at integration. But if you look UNPRI's own report on progress so far, you're going to see it's around 30 percent to 40 percent of reporting institutions that say they're doing something that's real to them. So there's a long way to go but, boy, there's a lot of people talking about it. That, I think, is the good news and people are really aware that, again, the financial system is definitely aware of what civil society feels and what risk-adjusted returns could look like.

We recently put out a paper where we look at our climate tracker, where we track all the global mandates around the world, from the bottom up. And with Columbia University we then model those to see how we can hit 450 parts per million climate track. Well, the answer is no.

Basically, there's a 6 gigaton gap by 2020 even if every single mandate—and I'm not talking about emission targets, but really the nitty gritty mandates—if they're all met, which is unlikely. You've still got a 6 gigaton target. So I sort of shift between saying is
there awareness and effort to what will the ultimate net outcome be? The ultimate net outcome is still you better bet on adaptation for a while because mitigation has got a long way to go. But everyone’s trying.

JO CONFINO: So, Andrew, I will bring you in there because to the outside world there’s real trust issue here, which is that the financial markets in the trust stakes have gone to pretty much the bottom of the pile. Is there a communications problem here that markets talk about all the stuff that’s going on? Is there a need to communicate that out into the public domain and get debate going in a much more progressive way?

ANDREW STEER: Yes, there is, but what we have to remember is that people, heterogeneous, governments good and bad, private sector leaders, some of them are on the right side of the spectrum, others are on the wrong side. Same in financial markets. I mean we’re in a decade that is a make-or-break decade. And we’re in a decade where, for example, on climate change there is absolutely no global regulatory regime.

So what we need is leadership. Now, not everyone can be herded together, can’t get all the financial markets in the right place at the right time, but what we do need is a critical mass of those who get it. And what we’re seeing in the private sector is actually some pretty good leadership. Now there are some in the private sector that are totally on the wrong side of the debate. But those who are on the right side are making a difference.

Caio Koch-Weser, vice chairman of Deutsche Bank, likes to say that in the old days it was NGOs, civil society, persuading governments, governments acted and then a reluctant private sector would come onboard. Now adays, it’s some of the vanguard in the private sector together with civil society having fairly grown-up discussions with government and if they’re smart, communicating well, as you’re saying.

For example, I sit on the B20, which is the sort of business version of the G20. It’s mainly CEOs, but they have a few people like me from Quasi-public organizations. We’ve just made a very tough report, presented it two weeks ago to President Cauldron and his entire cabinet. He’s now going to present it to the G20 and this is the private sector saying, look, subsidies, at the time of Rio were $300 billion for fossil fuels, they’re now about $450 billion including $70 billion in rich countries. That’s not acceptable. Change it. Carbon taxes. It’s the only way to go. Putting a price on carbon.

That doesn’t mean we should raise the overall tax level. You should lower other taxes. We should start taxing things that are bad, like greenhouse gases into the air and we should stop taxing things that are good like labor and so on. So that’s another one, free trade in technology they’re arguing for and some very specific asks and recommendations on financial products so to speak.

Similarly, look at the Sustainable Energy for All initiative, which Ban Ki-moon set up, co-chaired by Chad Holliday, chair of Bank of America. There’s a whole bunch of leading financiers that are chivying things along. Two weeks ago in London, they met with the Ministers there and said, can you help us out on this? They’re going to Rio, they’re going to present this thing there.

Now, is it enough? The answer is it’s not enough. If we do not grapple with things in this decade, we’re in trouble. What do we need to do? We need to get these private sector leaders and those of us in this space to look at what China’s doing, which is introducing a cap and trade system this year in five cities and three providences. It’s going to be nationwide in China by 2015. By 2020, China’s going to be part of a global integrated carbon market and we need to get these private leaders to say: hey, that’s what we want. That actually gives us confidence.

So the fact is that South Africa is introducing a carbon tax, the fact that there are now 40 developing countries that have fed in tariffs, and 120 countries have a target for renewable energy. We need the private sector and us to really think through, right, how do we highlight that? How do we communicate it?

Just back to the communications point that you were talking about a little while ago, Mark is absolutely right and you’re right what you said—if you do a survey in a New York airport of people flying to Los Angeles and you say: look, you’re going to pollute as you go there. Would you be willing to pay a $20 carbon tax extra to your ticket? Only about 25 percent will say yes. But if you
say, would you be willing to offset what you’re doing because it’s hurting the atmosphere and would you be willing for that money to go to something that would actually sequester carbon? Sixty-five percent will say yes. So we’ve massively failed to communicate this; and we’ve done dozens of dozens of tests.

If, for example, you ask an electricity consumer in a home, would you be willing to pay 20 percent more for your electricity if it comes from renewable, only about 15 percent will say yes. But if you start with a higher price and you say, would you like a lower price and by the way if you take a lower price you’re polluting electricity? Only 10 percent will say yes to that. In other words, it’s how you package it and here again is a role for the private sector because the private sector is actually far better at packaging things and in communicating things than many of the rest of us are.

JO CONFINO: Thank you.

ALEX CHAVAROT: Could I raise one thing? It just strikes me that we’re talking about the great challenges this decade. It seems to be there are at least two, maybe there are a lot, but the two are climate and debt. Unless, as an economist, I’ve missed something, if you put a carbon tax on, you can repay your debt if that’s one of the proceeds you want to do with that. So whether it’s cap and trade, which is, I think, is highly complex in many politicians’ minds and leads to questions about the role of the financial system. Simplest point, economists have always said carbon tax is probably the most efficient way of executing a carbon price—a carbon tax combined with some element to that paying down debt. It seems to me to be a no brainer, that one. But we’ll wait to see how the politics play out.

If China’s leading the way and they’re not only doing cap-and-trade systems, they’re going to experiment with taxes too because China is going to see what works. I think it’s very interesting to wonder if later in this decade you can see it coming together as some of these problems [revolve] around a more coherent and approach to the whole thing.

JO CONFINO: Great. Thank you. We’re going to take care of a couple of questions now. So, Ashley, are there any questions out there that you think are relevant to the discussion we’re having?

ASHLEY HOUSE: Plenty, Jo, lots and lots of questions coming up. We’ve got a huge amount of activity on Twitter, Facebook and in the video box below where the speakers are as well. Let me start with one for you that’s a little bit complicated to read out, but I’m sure your guests will get it. The question is what are the financial sectors doing to support innovators within their sector and the context of that being that leadership and innovation from the investor community is so important if we’re going to develop technologies to tackle climate change. So what are they actually doing in their sector?

JO CONFINO: Thank you. Paul, is that something you can answer?

PAUL SIMPSON: I can say something about that. Certainly, if you look at the pension funds we’ve talked a lot about, many of the big pension funds—either public pension funds like CalPERS, CalSTRS, the Danish Pension Fund ATP and the Dutch ones—have said what we’re going to do is create a specific fund. We’re going to take some of our investment money and create a specific fund and focus that on low carbon investment. And we know from that they’re learning a lot. They’re finding new opportunities, they’re realizing what the challenges are and doing that.

There was some other great and Mark talked about them earlier, what you might call think tank groups in the investment world who really are challenging themselves to come up with solutions to new finance. We see some great work now in micro finance that’s been going on for a long while, but now micro low-carbon finance is really starting to happen, bringing solar lanterns, solar cookers to people in Africa and other continents.

MARK FULTON: Can I just say to me this is a question of private equity and venture capital. So essentially, that’s where America wins, by the way. That’s the good news for America. The largest flows of money in the climate finance space come from American private equity and venture capitalists. And, indeed, the American government’s doing a great job with what’s called Author E, which is they’re putting targeting breakthrough technologies within the DOE and the national labs to look at how that’s going to interact at the R&D university level. So I think there’s a huge amount of activity in that space.

ANDREW STEER: Could I just add a word here as well? I think the previous two speakers are being very modest because both of them are leaders in precisely this kind of innovation. Think of the Carbon Disclosure Project. I mean 10 years ago, companies weren’t...
disclosing what they're emitting. Why are they? Is it because they've suddenly got religion? No, it's because they're investors and they're shareholders. I'm telling them if you want to us to hold your stock or lend you money, we need this information. And so it was a brilliantly clever idea.

The Carbon Disclosure Project works at both ends, it doesn't work only with the companies that are going to reveal their disclosure. It works with those who are going to buy their shares and say, you know, you really ought to ask for this. That's a very, very clever innovation.

Mark has led the world on this, which is all about feeding tariffs, it's innovative ways of thinking through how are we going to not only finance those feeding tariffs, but also how we are going to address the risk relating to the confidence we have in those rather troubled policy environments sometimes that governments will honor. So there are some pretty exciting innovations.

We're privileged at the World Bank to be overseeing what I call the Climate Investment Funds, $7.2 billion and we're getting about a leverage about 10 to 1 by being really creative about putting in guarantees. And what we're finding, for example, is getting the private sector to invest in wind in Mexico only needs an economic subsidy about 1 to 1/2 percent. But it needs other things as well, it needs some clever management of a risk entanglement with international financial corporation and some serious market-based money.

JO CONFINO: We're going to out in a short while, so I just want to get each of the panel members, because, Andrew, I was very taken by what you were saying about this being the make-or-break decade. So what I'd like each of the speakers to talk in a very short amount of time, half a minute each, on what do you see happening over this next make-or-break decade? What's the trajectory you see of where the big changes are coming from? As I said, we've only got half a minute each so, Andrew, if you can kick off?

ANDREW STEER: It is the make-or-break decade. Basically 700 million people will move to cities in this decade. What sort of cities will they be? We need absolutely the best technologies that are being developed to help China and other countries that are going to massively urbanize and we need the financial sector engaged with that. But the biggest issue is how do we bring down those cost curves so that, as in the case of wind now which you never thought [become cost-efficient]; as in the case in some places with photovoltaics, which we never thought would; and certainly in the case of energy efficiency which is all win/win, but doesn’t happen.

How do we analyze those barriers that are preventing that from happening and how do we creatively in the financial sector [convince] those who are privileged to be able to channel funds. How do we create the financial instruments and bring down those risks so the investment will not be $250 billion, but will be $1 trillion by 2020 in renewable energy, for example.

JO CONFINO: Thank you, Mark. Again, in a half minute, where do you see things moving over the next decade?

MARK FULTON: First of all, everything Andrew said, all of the above. We need to do everything. We're working on building retrofit to financing models to, it's absolutely right on renewable energy. Costs are collapsing, scale needs to take place, all that's very encouraging. So all of that, but again I'll make my rather wild statement that somewhere later in this decade there should be a globally aligned carbon tax that helps pay down debt and sends a massive signal across all sectors of the economy that people are serious.

And it may not be that number itself is high enough to really make anyone do anything huge. But the signal, combined with everything else would be huge and I think it could be very good for combining a solution to all the problems.

JO CONFINO: Thank you very much. Alex.

ALEX CHAVAROT: Two things, one is I agree with all the above, but with one twist. I wouldn't call it a tax as Andrew mentioned earlier. I think we need to find a better way of communicating that incentive to our requirement to price the cost externally. The second thing is that I do believe and I do hope that there will be some very significant technology advances that we can't necessarily foresee today. That will partly help solve some of the issues, whether it be on the carbon capturing storage, whether it be on new clean energy technology, whether it be on conservation or any other areas. I would expect there will be some of these breakthrough.
JO CONFINO: Thank you. Paul, very quickly.

PAUL SIMPSON: I would like to see mass engagement with the incumbents now doing more, really grappling with the information that’s provided by CDP and others to integrate that into investment decisions. And, as we’ve heard already, green and carbon bonds be created through public/private partnership to fund the low carbon technology that’s needed.

JO CONFINO: Thank you. We have to stop there, so first of all, thank you so much to everyone on the panel and now we have to move back to you, Ashley.

ASHLEY HOUSE: Jo, thank you very much, indeed. Thank you to all your guests as well and thank you to all of you who are watching. We’ve got lots of questions coming in over the Web from India and across Europe. A lot of them are directed at the automotive sector, so I’m very pleased to say that in five minutes, we’ll be dealing with exactly that topic as we talk about Advances in the Transportation and automotive Sector. See you then.

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