INVESTMENT

Here to stay

Ophélie Mortier **explains how sustainable investments will continue to make their mark in 2019**

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Whether we are talking about the conclusions of the IPCC or the preliminary conclusions of the latest COP: climate change is here to stay and countries are not on track to achieve the climate objectives set by the Paris Agreement. Current commitments and initiatives are not enough; progress is too slow, and some countries are even downgrading their ambitions.

We need a mechanism that goes beyond simply punishing and excluding the biggest polluters, issuers or sectors.

First of all, we need a genuine environmental policy for energy transition at the level of not only international bodies but also local players. Examples from Sweden or Denmark show that a transition to a low-carbon economy is possible, including through punishment by taxing carbon emissions while reducing the overall tax burden.

Indeed, public players have an important role to play in energy transition. Several governments and municipalities have announced that they will quite simply ban vehicles with internal combustion engines (by 2040 in France and the United Kingdom) or have set quotas for electric vehicles, as is the case in China. These recent initiatives are contributing to a faster adoption of electric vehicles.

Secondly, the compatibility with the 2°C scenario must be accelerated by further integrating approaches that are more innovative and still controversial such as carbon capture and storage. Technology and R&D have a major role to play to enable countries to achieve compatibility with the 2°C scenario.

Finally, the energy mix should be revisited. The renowned International Energy Agency has integrated a climate scenario within its various energy scenarios.

The rapid fall in renewable energy costs will ensure an important position for renewable energy both in the current energy mix today and in the mix that is projected for 2020. Coal is becoming public enemy number one among investors and is not a viable and credible backup solution for times when renewables are not able to generate energy. Indeed, due to its high fixed costs and stranded assets risk, coal is dying slowly but surely.

This transition requires a great deal of investments. According to the latest study by the International Energy Agency, annual average investment in the energy sector will amount to an estimated $3.5 trillion between 2016 and 2050. The major changes are related to investments in efficiency gains on the demand side, namely the real estate, industry and transportation sectors.

Climate change: A key element in the social challenge of our demographic development

The sense of urgency on climate change is also dictated by the human requirement to ensure the right to food in the light of sustainability. The agricultural sector is at the vanguard of challenges related to population growth, climate change and food security. The right to food aims to guarantee:

1. Availability: securing the right to food for a growing global population regardless of environmental conditions;

2. Accessibility: economic and physical access to food resources, namely affordable prices and physical accessibility to all; and

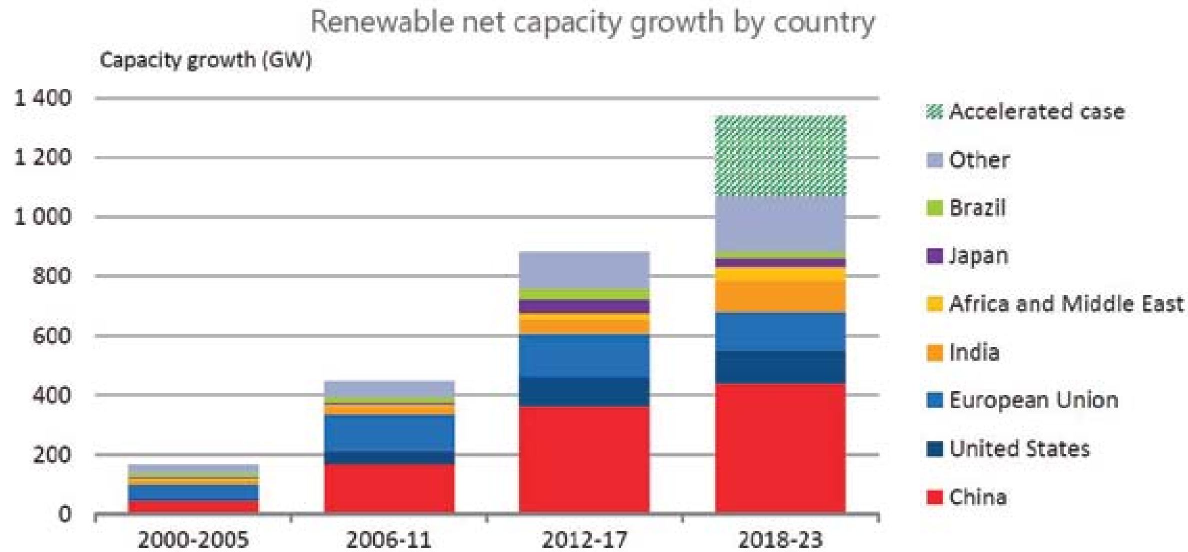
3. Adequacy: meeting individual nutritional requirements with a healthy and edible diet.

The agro-food challenge lies at the heart of several SDGs, in particular number 1 (no poverty), 2 (zero hunger), 3 (good health and well-being), 6 (clean water and sanitation), 12 (responsible consumption and production), 13 (climate action), 14 (life below water) and 15 (life on land). The interconnectivity between the various sustainable development challenges is evident.

Technological development: The panacea?

Since the first industrial revolution, technology has continuously led to emotional and controversial debates. In the 19th century, the Luddites, a group of English weavers, burned and destroyed weaving machines in protest against technological progress. They feared that their profession and craftsmanship would be destroyed by machines and that their jobs would disappear. This term of ‘luddite’ is now used to refer to people who scorn IT and new technologies. In addition to concerns that some professions may disappear,

A REAL PLACE FOR RENEWABLES IN CAPACITY GROWTH, AND WITH THE APPROPRIATE POLICIES



other risks related to technological development have emerged, in particular the increase in cyber-attacks or the potential abuse of private data.

Boston Consulting Group has analysed the economic scenario of the fight against climate change. Its analysis focuses on the seven major global economies, which together account for more than 60 per cent of global emissions. According to this consultant, these savings may reduce by as much as 7 per cent the gap between their current emissions and their individual 2°C objectives by 2050 thanks to proven and recognised technologies. However, in order to reach the 2°C target by 2050, additional investments are needed. They vary between 1.5 per cent of GDP for the United States and Germany, but go up to as much as 6.1 per cent of GDP for Russia.

All sectors will need to step up their efficiency efforts. Indeed, the investments that are required are substantial and are estimated at a total of $1.6 trillion by 2050 (i.e. 1.1 per cent of annual GDP). However, the return on investment is positive and estimated at nearly $20 billion.

WE NEED A MECHANISM THAT GOES BEYOND SIMPLY PUNISHING AND EXCLUDING THE BIGGEST POLLUTERS

The energy transition goes hand in hand with job creation. The ‘just’ energy transition, as dubbed by the latest cooperative study of the Grantham Research Institute on Climate Change and Environment, the Initiative for Responsible Investment, the Hauser Institute for Civil Society at Harvard Kennedy School, and lastly, the London School of Economics and Political Science, represents a major driver of economic development and job creation. The just transition corresponds to the integration of the dimensions of employment, decent work and communities. According to the International Labour Organisation, compatibility with the Paris Agreement objectives should create nearly 24 million jobs in the industries of clean energy generation, electric vehicles and energy efficiency sectors and will destroy six million jobs, i.e. a net job creation of 18 million.

It is essential that the energy transition also includes the social aspect and does not focus solely on the environment. This is the objective of the just transition.

Regulations and disclosure: A blessing in disguise?

In the past few years we have seen a substantial acceleration of the regulatory framework with regard to the sustainability and responsibility of non-financial and financial companies. Following the pressure of civil society and the various corporate governance codes that have been established here and across the globe, this evolution is gaining momentum and the structural trend towards sustainable and responsible investment is undeniable. ■

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