Enabling LCSs: Investment

Takejiro Sueyoshi

The key messages relating to LCS investments are as follows:

- Strong, early action is critical to reduce emissions as it can dramatically limit the long term cost of addressing climate change
- Government is expected to push behaviour of change through mitigation and adaptation policy; Clear policy initiatives, regulations and incentives are needed that encourage public-private collaboration in the desired direction of investment
- Response from financial markets is not enough, thus new regulatory framework is required to steer much greater investment from the private sector; at present the investors may find it difficult to make desired investment

Main recommendations for the policy makers are:

- To end the uncertainty over international climate policy post 2012 by coming out with clear phase-2 of Kyoto or its successor and setting binding commitments as the investors need investment horizon of 10-20 years
- To provide compatible regulation on carbon markets and further globalize the carbon markets, so as to initiate early actions in developing countries as well; this will involve widening the scope of ETS, reducing transaction costs, setting international standards; carbon market is one of the ways to achieve increased investment in renewable energy
- To overcome policy barriers by reducing subsidies in less efficient or less clean options, and removing standards that inhibit implementation of low carbon solutions
- To encourage desired investments by introducing carbon tax, tradable rights, fiscal incentives, direct support for low carbon activities, and providing data/information helpful to investors
- To encourage innovations through international collaborations and informal arrangements such as APP

Financial flows need to increase substantially in the next 10-20 years. The financial sector has the following roles to play in mobilizing the right investments:

- Act more aggressively by cutting off financial support to high carbon investments
- Factor climate risks into lending policies, investment decisions, and insurance risk calculation and pricing
- Financial institutions need to integrate climate change related risks and opportunities into their core financial operations
- Engage with government decision makers to optimize the allocation of available funds to combat climate change and to promote innovation and technology development
- Reduce one’s own direct impact contributing climate change and report emissions transparently.

Financial institutions have a pivotal role to play in guiding investments towards climate friendly direction so that the world economy becomes more stable and viable