After Copenhagen: Have National Policies Become the Drivers of Green Investments?

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The recent resignation of Yvo de Boer, the top United Nations climate change official, was probably the clearest sign of the Copenhagen Summit's failure to produce a binding agreement to curb global greenhouse gas emissions. The big political uncertainty following the summit was further increased by the US administration's apparent drawback in the pricing of carbon dioxide (CO_2)—a necessary political advance for private investors to consider committing the investment needed in clean technology. The decision by some big energy corporations like BP, ConocoPhillips, and Caterpillar to quit the US Climate Action Partnership is an additional sign of the private sector's current unwillingness to engage further on the issue.

From an investment perspective, the ambiguity over the climate change policy agenda after Copenhagen is generally viewed as damaging, since investors want policies which are as unambiguous as possible, consistent across jurisdictions, long-term, and enforceable in order to have enough confidence to commit capital (Calvello 2009, p. 154).

Despite the general disappointment (which should be viewed within the context of the sky-high expectations attached to the Summit), there were some positive developments. First of all, the scientific community has become much clearer about the action required: defossilize the global economy over the next 40 years. The achievement of this goal has been basically accepted by the US administration as well—and just a few years ago this would have been simply unthinkable given the political atmosphere. These developments have allowed the magnitude of the investment required over the next few decades to be clarified. According to estimates by the International Energy Agency, investment in clean technologies should double by 2015.

Secondly, the failure of the Danish Summit has thrown the focus on national policies, particularly those of the emerging superpowers. The industrialized countries currently facing the fallout from the global recession are being "caught" in economic terms by a new set of superpowers, especially China, India, and Brazil, where the impact of the global recession has been much milder and capital for green tech investment is large, thanks to low debt levels and high reserves. China already made clear its intention to dominate the clean tech industry in the medium term and, along with other Asian emerging economies, is investing heavily in green projects. According to the UN Framework Convention on Climate Change, of the 1,890 projects for generating credits under the Clean Development Mechanism, more than 70% are in Asia, and most are in China. China is already the biggest producer of solar energy and now aims to the biggest producer of wind energy by 2012.

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In line with this strategy, in November 2009, China Investment Corporation, the state-controlled sovereign wealth fund, spent $2.2 billion of public funds to buy 15% of shares of AES Corporation, the US power company controlling 35% of the wind power business. In another example of the current appetite among emerging markets for clean tech technology in the wind arena, London Array, a large offshore wind farm, was able to replace Royal Dutch Shell with Masdar, an Abu Dhabi clean energy company, in its search for funding.

The failure of Copenhagen shows that what will happen in the private sector depends on national policies rather than diplomatic negotiations. So the key questions become: “Will the US administration, soon as the economic recovery is firmly established, finally accelerate the pricing of CO_2 as promised by President Obama? And are European Union countries politically ready to convince their citizens to pay more for green energy, or will they continue cutting subsidies to renewable energy as recently announced by Germany? The summit in Mexico, due by the end of 2010, could provide a new impetus, but ultimately the key policy drivers for private investors remain in the hands of the national governments.

Reference

Calvello, Angelo A. 2009. Environmental Alpha: Institutional Investors and Climate Change. John Wiley & Sons Inc.

Biography

Massimiliano Castelli holds a PhD in Economic Policy and an MSc in Economics from the University of London. He has several years of experience in analysing economic and financial developments in Emerging Markets. Until 1997, he was a Lecturer in Public Finance at the Department of Economics, University of Rome, Italy. In 1997, he left academia and became a professional economist and worked as an international consultant on several assignments in Emerging Markets and developed countries. His main areas of expertise include macroeconomics, political economy and capital markets. He is currently an Executive Director at UBS AG in Zurich.

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