Climate Change: Banking on Banks

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What's Next after Cancun

It's clear that money issue will feature strongly in any binding scheme that the international community would eventually agree on to carry forward the fight against climate change. On this, the Global Energy Policy Centre [(1)] proposed a Green Fund to solve half of the "legal binding" issue but is the traditional funding approach the most appropriate way to reach its objective?

Green Bank to the Rescue

In the UK, its government has pledged to invest £1 Billion to kick start a Green Investment Bank (GIB). According to an interview in Oct 2010, Chancellor George Osborne was reported saying that up to £1 Billion funding would go towards building one of the first power stations in the world with technology to capture and permanently store carbon emissions, to help cut greenhouse gases from electricity generation. However, he cautioned that with the government will go ahead with the funding, he hoped much more would be raised by private sector investments and the future sales of government assets.

While this is good news, a new study "Capitalising the Green Investment Bank[(2)] " by Ernst & Young (EY) estimated that up to £450 Billion of low carbon investments would be needed by this new Green Investment Bank (GIB) to push UK to become a low carbon economy by 2025. Of the £450 Billion needed, EY's report projected that £50 to £80 Billion will be available from traditional sources of capital, eg: utility companies, project financing and infrastructure funding. The shortfall of £370 Billion will have to come from a dedicated investment vehicle. Ben Warren, partner and head of EY's Energy and Environmental Infrastructure Advisory team emphasized that the time frame (2025) and scale of the investments represent an enormous challenge, especially at a time of austerity and deficit reductions. If left to the industry to evolve organically, he warned that access to capital to meet the investment gaps will take much longer, be less efficient and less cost effective.

US Lagging Behind

According to HSBC, the global low-carbon market will triple to US$2.2 trillion by 2020 as investors' uncertainties are replaced with optimism that world governments are beginning to seriously taking more actions to tackle climate change issues. While the UK and some European countries such as Germany are doing more in the area of clean energy investment, the US has been slow in establishing low-carbon growth policies due to its inability to pass clean energy and climate change legislation amid conservative attacks in Congress. This week, Republican Representation Fred Upton, chair of the House Energy and Commerce Committee, released a draft legislation [(3)] to block the Environmental Protection Agency's ability to pursue its cap-and-trade agenda. The bill, entitled the Energy Prevention Act, 2011 would permanently stop the Environmental Protection Agency (EPA) from implementing regulations to prevent climate change. The bill according to Mr Fred Upton's website will help protect American jobs and manufacturers from overreaching EPA regulations that hinder the country's ability to compete with China and other countries

According to Rebecca Lefton, Policy Analyst at American Progress, the lack of US clean energy policies threatens to rollback existing regulations, increase investor uncertainty and reduce domestic demand for these technologies. Not only clean energy technology innovation would be threatened; Ms Lefton was concerned that US may well miss out on this next industrial revolution.

As the country go through its political "yo-yo" on climate change policies and legislation, some US banks are taking matters in their own hand. For instance, Wells Fargo announced 2 days ago that it had completed tax equity financing for 6 megawatts' worh of solar photovoltaic projects in California. This project was a US$100 million partnership with China's GCL-Poly Energy Holdings, China's largest polysilicon producer. According to the bank's press release, "Wells Fargo has since 2006 deployed more than US $2.1 billion of tax equity into more than 250 renewable energy projects in the US. The projects account for over 4,200 MW of new clean energy capacity across 25 states. Combined, these projects generate approximately 12 terawatt-hours of electricity per year, which is enough clean, renewable energy to power about 1 million American households."

Challenges Ahead

The UK government must be given credit for taking steps in the right direction to start a Green Investment Bank (GIB) but there are concerns from various quarters on this initiative. Firstly, some felt that besides the £1 billion funding, the UK government should encourage greater innovations in clean energy technologies through tax breaks and capital allowances. Secondly, the existing planning and approval process has to improve as a number of renewable projects (17.5 Giga watts of projects) announced earlier are stalled pending planning approval. Finally, the government should review its existing regulations to offer carrot for investments in clean energy technologies and give the stick to carbon dioxide emitters. So funding for GIB is only the first step and for the bank to succeed, a number of measures within the clean energy ecosystems need to be revamped.

Notes:

(1) *Global Energy Policy Centre: http://www.global-energy.org/international/cancun-climate-summit*

(2) *http://www.ey.com/UK/en/Newsroom/News-releases/Power---10-10-13---Green-Investment-Bank-needs-to-plug-UKs-%C2%A3370-billion-low-carbon-funding-gap*

(3) http://www.ecoseed.org/en/politics/laws-and-regulations/article/34-laws-regulations/8967-republicans-unleash-new-bill-versus-greenhouse-gas-regulation

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