Green Frontiers

Highlights of Barclays’ first green finance conference, held at the Royal Geographical Society in London in Summer 2018
Green Frontiers

The impact of climate change on business and the benefits of investing in the low-carbon economy.

There is a strong will in the UK – among politicians, businesses and the public – to take action on climate change by accelerating the transition to a low-carbon economy. This transition can only be achieved through innovation – by finding alternative methods for heating our homes, powering our cars, running our factories and producing our food.

Of course, innovation needs to be funded. In March 2018, the Green Finance Taskforce – set up by the UK Government to boost business green investment, across every aspect of financial services – published its report, Accelerating Green Finance. The report set out 30 recommendations for the Government to consider with regard to stimulating investment into environmental technology, infrastructure and services. These recommendations range from creating a unified brand for green investment activities, through to clarifying investors’ responsibilities and issuing a Sovereign Green Bond.

Climate change brings threats, but it also brings opportunities for established businesses and entrepreneurs. At our Green Frontiers conference, we brought together different parties to address the

The true cost of climate change*

- $306 billion: the economic cost of global disasters in 2017
- $2-$4 billion: the annual direct impact on health costs due to climate change
- $90 trillion: the amount that needs to be invested in sustainable infrastructure globally by 2030 to reduce risk in line with the Paris climate agreement
- 660,000 refugees annually: the additional asylum seekers who could flee to Europe by the end of the century to escape rising temperatures
- 250,000 additional deaths per year: the expected lives lost between 2030 and 2050 as a result of malnutrition, malaria, diarrhoea and heat stress

* Sources: Swiss Re, United Nations, World Health Organization, World Economic Forum
In conversation with Claire Perry

Q. Which sectors do you see as the most exciting for investment and growth in the clean energy space?

A. The obvious sector is power, but there are also unstoppable changes happening in transport. The third sector, for me, is heavy industry – industries that have very difficult processes to decarbonise. We need innovation in those processes and finance is the key that will unlock much of this thinking.

Q. What do you see as the role of financial services in supporting clean growth and maintaining London’s position as a green finance hub?

A. We already have a great depth and breadth of knowledge in this area. It’s not just the people doing the deals; it’s the whole supporting ecosystem. So I think we have a great story to tell about our commitment to low-carbon innovation. There is also a huge opportunity in the financial retail space to think about how we motivate people to make green investments.

Q. The Financial Stability Board and the Bank of England are taking a strong position on climate change. What role will regulators have in future?

A. There will be new responsibilities for regulators and potential opportunities for companies that do the right thing. If we start to see a differentiation in the way regulators treat companies that assess climate risks and prepare for them, and companies that don’t, this would be a great motivator. But, ultimately, the regulator is there to ensure that standards are defined and adhered to.

Q. Are you hopeful that the global community, including the UK, will meet the commitments set out in the Paris climate agreement?

A. I am hopeful, but I think it’s going to be more difficult than we think. Multinational agreements involving 195 countries are hard to manage and there are inevitably differences of opinion. A deal’s not done until it’s done.
have an immense opportunity,” said Perry, “both to be financing our own transition, but also, helping the world.”

**Mobilising the money to finance the Paris climate agreement**

The first panel discussion explored the opportunity to finance the $90 trillion in infrastructure investments that will be needed as a result of the 2016 Paris climate agreement.

Investors and investor institutions are becoming increasingly interested in green finance and green accredited bonds, observed Sir Roger Gifford, Chair of the UK Government’s Green Finance Taskforce and the City of London’s Green Finance Initiative. “These kinds of discussions didn’t exist 10 years ago. Now green has become a global language.”

Meaghan Muldoon, Head of Sustainable Investing, EMEA at BlackRock, concurred, saying that she had seen investor demand for green products more than double over the past 18 months. Nevertheless, as Sacha Sadan, Director of Governance at Legal & General, pointed out, many investors still need to be educated to understand that sustainable investment is no longer a niche product set – it is moving into the mainstream. He added that members of defined contribution company pension schemes could play a part in this education process, by influencing the scheme trustees to invest in sustainable companies and funds.

Sir Ian Cheshire, Chairman of Barclays UK, commented that the trustees of company pension schemes are often constrained by mandates that require them to focus on quarterly performance, even though their schemes might have a 25-year time horizon. Turning to fund managers, he said that they should apply lower discount rates to companies that operate more sustainably and suggested that regulation could help to change corporate behaviours, with the 1996 landfill tax being a good example of how to get companies to put a higher value on the environment.

Nikhil Rathi, CEO, London Stock Exchange Plc, said that the issuance of corporate green bonds in London had increased significantly over the past few years, both in the UK and beyond, with landmark inaugural international issuances from China, India and the Middle East. Investors have a particularly strong appetite for green bonds, the proceeds of which are used for a variety of purposes. Some issuers have been able to pay a slightly lower premium for green bonds, compared with conventional bonds, and pricing has been tighter for green issuers in the secondary markets.

**Driving change**

The panellists debated the options for accelerating the rate of transition to a low-carbon economy. “The only way to get change is by drilling down into the very detail on how decisions are made, and how the right decisions are based on the right information,” said Gifford.

London Stock Exchange is working with a number of stock exchanges around the world to develop harmonised guidelines for disclosure, explained Rathi. He added that it is important to get CEOs to buy in to the green agenda because, when this happens, “all the obstacles that you think you might find suddenly disappear”.

Muldoon called on financial services professionals to be “very clear about the products and the terminology that we’re using”, suggesting that finance firms should collaborate to develop a green lexicon.
Investors generally should engage with companies around decarbonisation, said Sadan, but index funds should take a particular interest since they keep stock for the long term. He added that consultants, as the gatekeepers standing between funds and companies, must also make climate change one of their priorities.

Cheshire wanted to see customers get involved in the change process, something that the finance sector could stimulate through the launch of green ISAs and green mortgages. Additionally, he noted that climate change is not the only major force driving decarbonisation. There are also political drivers involved. The Chinese government, for example, intends to reduce its reliance on coal by actively bringing down the cost of solar power.

**Vision 2030 – Empowering and investing in entrepreneurship to tackle climate change**

The second panel examined the role of private equity and venture capital in sustainable investment, including green and green tech early-stage innovation. Opening the discussion, Damian Payiatakis, Head of Impact Investing at Barclays, said that governments and the private sector must work together to tackle climate change and ensure that entrepreneurs secure the necessary funding to develop innovations that will accelerate the transition to a low-carbon economy.

**Growing pains**

Entrepreneurs operating within the green economy face notable funding challenges, especially if they are building a technology that has not yet been adopted by the market, said Daniel Epstein, CEO of the Unreasonable Group, which provides investment and a global network of support to entrepreneurs solving societal challenges. Alongside Unreasonable Group, Barclays has co-founded Unreasonable Impact, an initiative focused on supporting the efforts of growth-stage companies in the sustainable economy by aligning them with the resources and mentorship needed to scale their impact worldwide.

Erik Fairbairn, CEO of Pod Point, a provider of charging infrastructure for electric vehicles, highlighted the ‘innovator’s dilemma’, saying: “You innovate and invent things before the mass population wants them. So in the first five years of doing this, I was trying to sell charging points for a thing that didn’t exist. So the issue is, can you sustain the business in the gap between coming up with the idea and the market wanting it?”
As the business has grown, the funding challenges remain but they have taken on a different form. “We’re no longer venture and equity play because we’ve proven the business model and we’ve scaled up the business,” said Fairbairn. “Neither are we pure infrastructure debt because we’re not like a wind turbine where you can predict the output over the next 20 years. In the markets, we sit between two places. We’re not debt and we’re getting a bit late stage for equity financing.”

An investor’s view

Ian Simm, CEO of Impax Asset Management, shared an investor’s perspective on investing in green and green tech businesses. “Clients want to meet their liabilities over the long term and in a responsible way,” he said. “The way to mobilise capital, from our perspective, is to design packages that those clients can use to meet their needs and allocations. We’ve been able to demonstrate through strong returns that what you can get by investing in the environmental market is just as competitive as any other specialist form of investing.”

Equities are a good story to tell, Simm continued, since investors are attracted to investing in companies that are at the pre-IPO (Initial Public Offering) stage, particularly at the small-cap end of the market. “There’s also an opportunity in the large-cap space as big companies buy up these smaller, rapidly growing specialist companies and integrate them,” he added.

Regulation comes with pros and cons, commented Simm, but stable regulation is critical for enabling early-stage businesses to grow and it can also create opportunities for companies.

Where does the Government fit in?

The UK is targeting an 80% reduction in greenhouse gas emissions by 2050, said a senior civil servant from the Department for Business, Energy & Industrial Strategy (BEIS). Although innovation is essential to meeting this target, the Government sees its role as being to support the early research and development phase of innovation, and to try to bring down costs, rather than to financially support start-ups as they expand or to subsidise commercially available technology.

Fairbairn agreed that while the Government should not own innovation, it could potentially offer incentives through the taxation system, similar to the incentives already in place for electric vehicles.

Epstein highlighted that power and transport are not the only sectors where green investment opportunities exist. He gave the example of Memphis Meats, a food technology company that grows sustainable, cultured meat by harvesting animal cells, and Lanza Tech, which converts waste gases into fuels and chemicals. “The green economy is the new economy,” he said.

The cost of carbon is unaffordable

In his closing remarks, Sir Ian Cheshire, Chairman of Barclays UK, said that the climate crisis showed that the cost of carbon has become unaffordable. At the same time, transitioning to a low-carbon economy will bring benefits to businesses. “It is a national strategic objective and it also plays to our strengths as a global financial centre,” he said. “Governments are engaging with us and, fundamentally, every change creates opportunity.”
Seize the opportunities:

Recommendations for individuals

- Be the de facto manager of your own pension fund. Look for asset classes that deliver sustainable returns over the long term.
- If you extend your home, or undertake another building project, ask your builder to use environmentally-friendly products and appliances.
- If you invest or borrow credit, apply for green products, including ISAs, loans, and mortgages.
- Buy or lease an electric car, while attractive tax incentives still exist.

Recommendations for businesses

- Think about how your organisation is going to manage the transition to a low-carbon world – and talk through your strategic plan with your investors.
- Assess where your business is most vulnerable to climate-related disruption. Can the organisation partner with an early-stage entrepreneur and fund innovation in this area?
- Use the Task Force on Climate-related /Financial Disclosures framework to develop robust disclosures.
- Give the trustees of your company pension scheme a mandate to make sensible environmental investments that align with fund members’ long-term priorities.
- Look for opportunities to launch new sustainability-related projects that would be eligible for green finance products, such as green bonds and green loans. Talk to your bank about the options that exist.
- If you are constructing a new building, or another infrastructure project, consider whether the investment will contribute to global temperatures rising above two degrees Celsius.
- Introduce electric vehicles into your company fleet.

To find out more about Barclay’s green solutions, or to investigate other ways in which Barclays can help you to achieve your environmental goals, visit https://www.barclayscorporate.com/green or speak to your Relationship Director.

barclayscorporate.com

The views expressed in any articles are the views of the author alone, and do not necessarily reflect the views of the Barclays Bank PLC Group nor should they be taken as statements of policy or intent of the Barclays Bank PLC Group. The Barclays Bank PLC Group takes no responsibility for the veracity of information contained in the third party guides or articles and no warranties or undertakings of any kind, whether express or implied, regarding the accuracy or completeness of the information given. The Barclays Bank PLC Group takes no liability for the impact of any decisions made based on information contained and views expressed. Barclays Bank PLC is registered in England (Company No. 1026167) with its registered office at 1 Churchill Place, London E14 5HP. Barclays Bank PLC is authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority (Financial Services Register No. 122702) and the Prudential Regulation Authority. Barclays is a trading name and trade mark of Barclays PLC and its subsidiaries.