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# **Policymakers versus Investors: towards an economics of Radical Transformation (in Democracies in Peacetime)**

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**9 October 2013 Parker Seminar**

## Policymakers versus Investors – the Disconnect

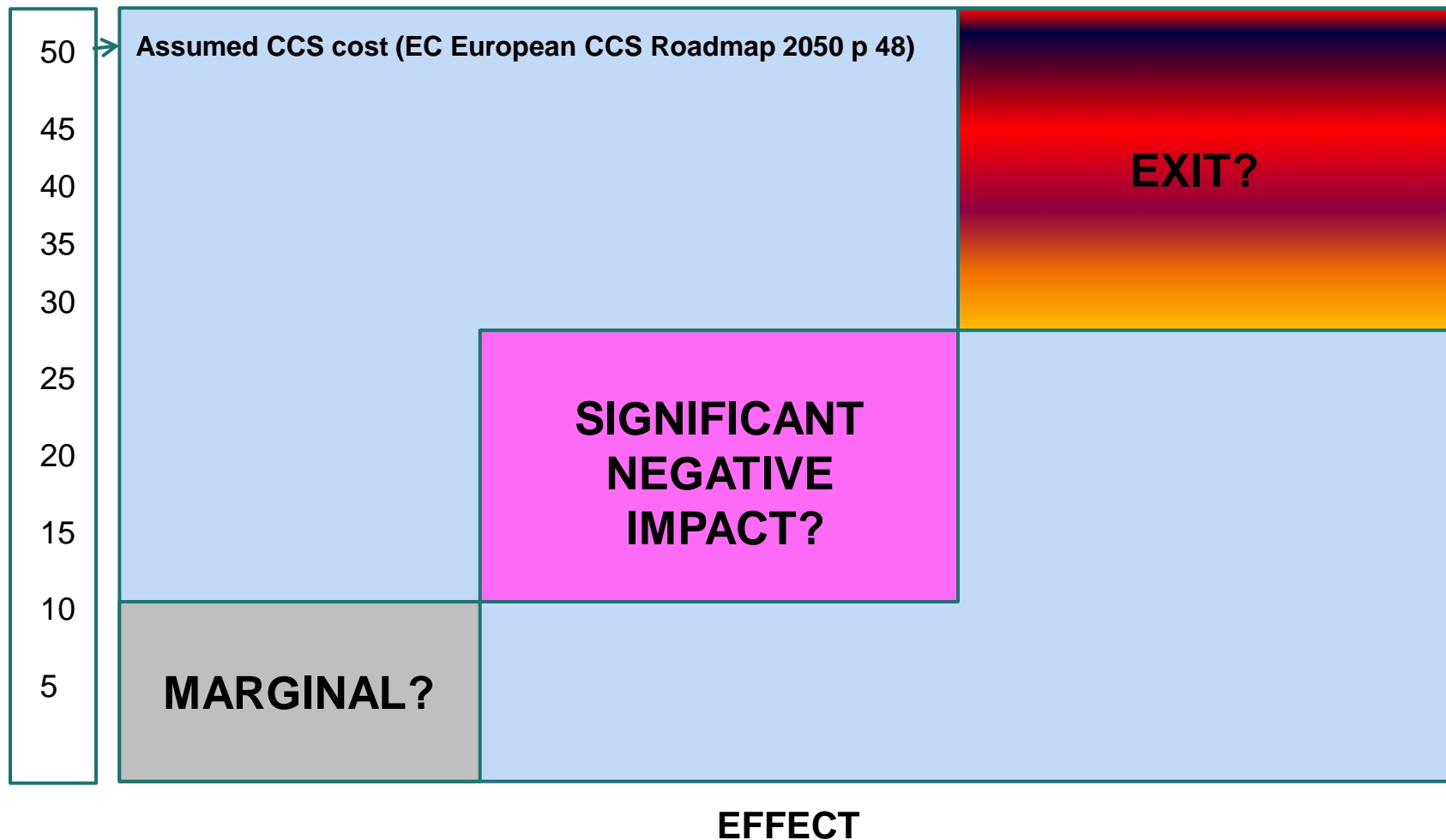
- **CCS : the impasse in Industry**
- **Why investors want to burn the “unburnable”**
- **Financing Radical and Disruptive change in Power:**
  - **towards a new Microeconomics of Climate Policy**

# ETS Prices and Steel Industry Investment



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ETS EUR pt





- **The Steel and Cement sectors emit about 12%+ of CO<sub>2</sub> with no technological alternative**
- **The ULCOS Florange EUR 500 million Demonstration project; why was it withdrawn from EU NER-300 financing in 2012?**
- **The crisis of the Steel sector in the EU**
- **Financing terms for the NER-300**
- **Competitive Industries: Obstacles to financing CCS projects**



- "Unburnable Carbon: Wasted capital and stranded assets" (June 2013):
  - "demand for (fossil fuels) will decline sharply over the next decades" Lord Stern (Intro)
- HSBC: analysis of oil price at US\$50 p/b:  
low risk gas versus higher risk oil
- The World in 2050: Feeding and Housing the 9 billion  
Resources and "A Perfect Storm"?
- Shell New Lens Scenarios - Oceans, Mountains: "Oceans could eventually lead to a level of climate turbulence which severely damages the economy.."
- IPCC September 2013 – 1,000 Gigatonnes of Carbon = 2°C Limit

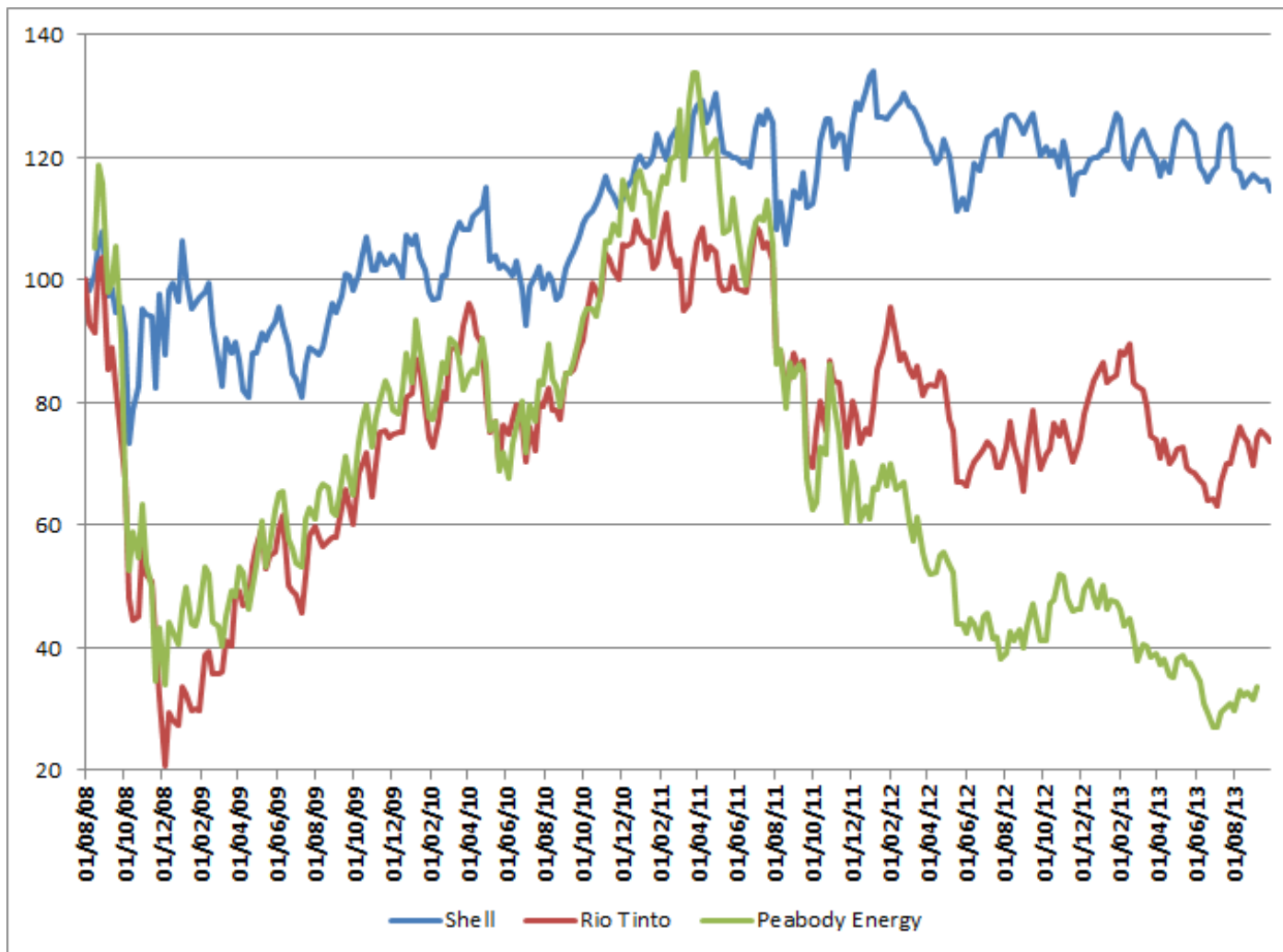
**BALANCE OF RISKS FOR INVESTORS: 9 bln people v 1,000 Gigatonnes Carbon**

*(Carbon Tracker/LSE-GRI)*

# Equity values since August 2008: SHELL, Rio Tinto and Peabody



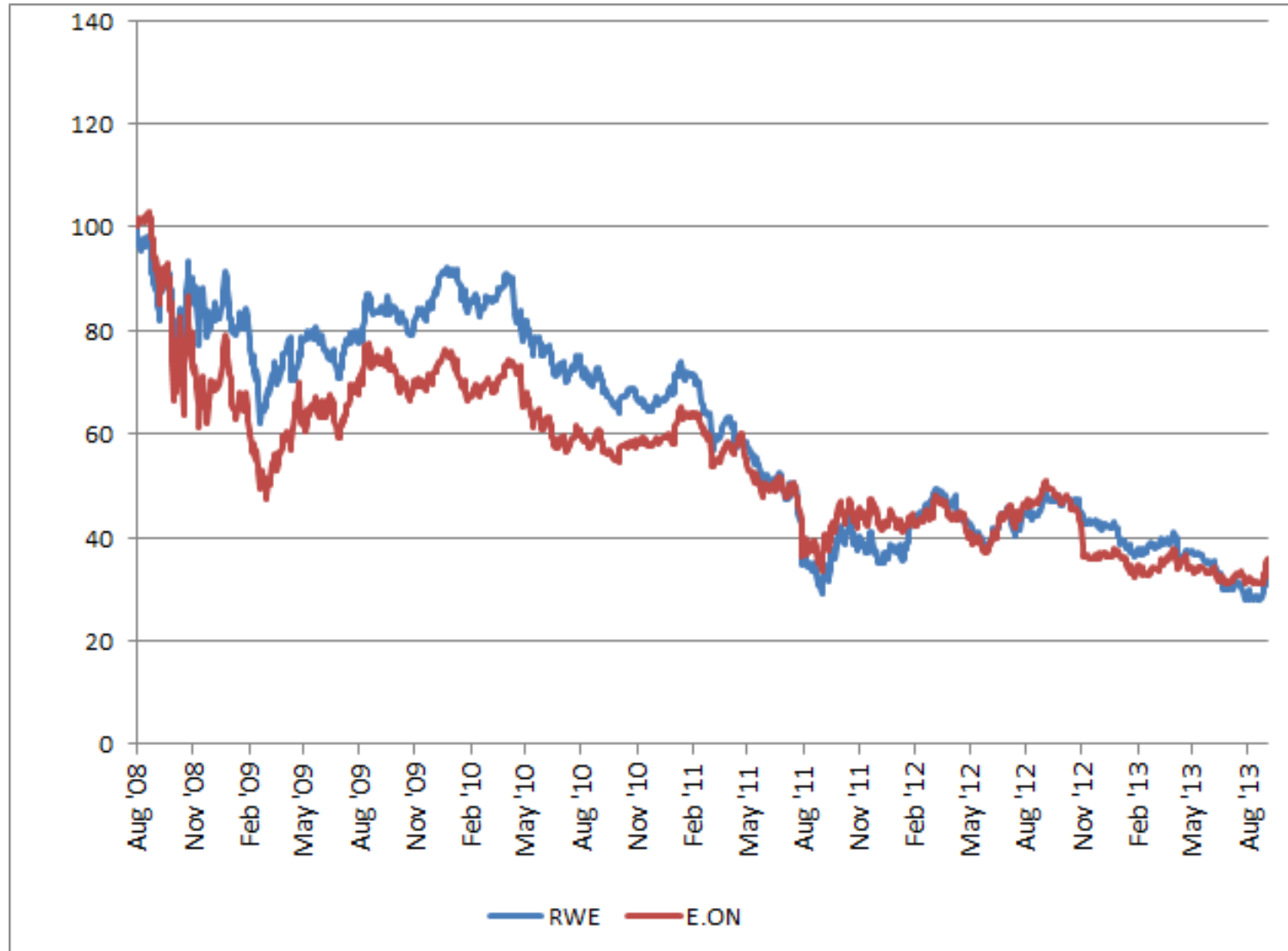
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# Equity values since August 2008: RWE and E.ON



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- **Financing: Issues of Risk and Return**  
**Apple, Nokia, Blackberry versus E.ON, RWE, EDF:**  
**The Paradox of Investors' Preference for Low-Risk Utilities**
- **Economics : Incremental Change versus Radical Change:**  
**Managing uncertainty**
- **Politics : Consumers and Voters :**  
**Peter Atherton (Liberium) and Ed Miliband**





## INTELLECTUAL

- \* Carbon Pricing (ETS) → versus Regulation (Automotive Standards, Coal Phase-Out)
- \* Carbon Pricing → versus Public Support for Innovation (R&DDD)
- \* The Green Paradox (Sinn); higher carbon taxes affect prices, not volume
- \* Long term Capex: the lessons of Hinkley C
- \* Role of Backcasting, Roadmaps, Targets (IEA, EC, CCC)

Based on the experience of 2005-2013, can we now begin to create an effective Microeconomics of Climate Policy?



## INSTITUTIONAL

- \* **Creating the Policy Stability needed for Investment, by building Regulatory Bodies with competence and sustained public support?**
- \* **The role of Green Investment Banks:**
  - public partners in financing
  - mitigating policy risk
  - making backcasting financeable
- \* **Lessons from: China, 13<sup>th</sup> Plan ?**
  - Germany, Energiewende?
- \* **Towards**
  - "Nationally Appropriate Innovation Actions" (Hartwell Group)?
  - CCCs for all major emitters? With teeth?