Seminar of Governmental Experts (16-17 May 2005)
Abstract of a presentation by France on behalf of the European Community and its member States

The investment challenge

The International Energy Agency has estimated that meeting global energy demand will require cumulative investment of around $16 trillion by 2030, for production and distribution, about half in industrialised countries, half in emerging economies and other developing countries. Significant investment is also underway in other sectors, notably urban infrastructure, transport, and building stock. The long-lived nature of these investments means that equipment built now will still largely be around in the middle of the century and decisive for long-term emissions profiles. The right choices will facilitate the transition to a low carbon future. However, the choice of inefficient technologies, infrastructures or technologies that are not compatible with future improvements, will lead either to stranded capital, or to "lock in" which will limit future options to tackle climate change. The challenge is to find ways to influence and to facilitate such decisions over the coming 10-20 years.

The international financial institutions have a key role to play in directing investment decisions, through integration of climate change considerations into their appraisal processes, and their influence on bilateral and commercial practices. However, the real challenge is to influence private investment decisions.

A global carbon price is at the heart of creating the incentives needed to meet the investment challenge. The European Trading System is already making emissions trading a reality so that business can start to integrate climate policy into investment decisions, with a link to the Kyoto Protocol project mechanisms (CDM and JI) which provide a further innovative tool. However current arrangements appear inadequate given the scale of the investment challenge. We need to explore options (including e.g. mainstreaming of climate considerations in investment decisions in other policy areas) that build on and strengthen existing bases and provide the visibility and certainty needed to influence these globally crucial and urgent investment choices, particularly in sectors where there is a long period for capital stock turnover. A predictable global framework can provide this certainty.