Economics and Environmental Policy Research Network

Research Symposium

February 27th – 28th, 2020

Session Notes for Day 2 Plenary: Sustainable Finance - Developing the Incentives to Drive Low Carbon Investment

1. State of Existing Research and Discussion Context

This session sought to explore strategies for promoting sustainable finance for low carbon investments in Canada.

Key themes discussed in the session include:

- **Low-Carbon Investments:** Canadian investors are still predominantly investing in fossil fuels rather than green projects. Canada's biggest sectors (e.g. housing, industry, and transport) require significant investment in infrastructure, meaning that the transition will require large-scale upfront capital.
    - **Challenges:**
        - The Canadian market will need to transition away from their heavy reliance on the oil and gas sector.
        - Progress in sustainable and climate finance has been very slow in Canada.
    - **Opportunities:**
        - Public-private partnerships can play a large role in funding green/environmental projects.
        - As is currently done in the UK, the bank could set the interest rate for green loans based on financial and environmental indicators.
        - The number of assets under management (e.g. Blackrock) that have signed the UN-backed Principles for Responsible Investment continues to grow each year. Moving forward, it will be crucial to see Environmental, Social, and Governance criteria to reduce risk included in investment portfolios.
        - Investors are beginning to pledge to (and measure) the carbon intensity of their investment portfolios.
        - The Canadian Pension Plan Investment Board was the first global pension fund to issue a green bond, and they now have two. These bonds have the potential to have a huge impact on hard assets around the world.
        - Innovation in sustainable finance and climate finance has been one of the most significant advances in the last two years for the transition to a low-carbon economy.
        - Publicly owned coal stocks have decreased significantly since the 1950s, and there has been a major shift away from the oil sands since 2014.
        - The public sector can help to create a green market; the private sector can engage in the financing of the green market; and the highest emitters can be targeted by regulations and policies.

- **Climate Risks in Asset Pricing:** The top climate risks include extreme weather and climate action.
    - **Context:**

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        - Brown (emitting) firms are reducing their carbon emissions, but at a slower pace than green firms.
    - **Challenges:**
        - Measuring carbon risk remains difficult due to low quality data, little data, short or volatile time series, and uncertain transitions (e.g. regulations, elections).
        - On average, brown firms have lower equity prices.
    - **Opportunities:**
        - Firms that are becoming unexpectedly browner (emitting more) are seeing their equity prices quickly drop, possibly because investors know that emissions are correlated with more risk.

- **Role of the Insurance Sector:** The insurance sector has been at the forefront of the climate debate for decades.
    - **Challenges:**
        - Severe weather events lead to losses for the insurance industry, as severe weather damages property, which raises claims. E.g. flooding in Canada is expected to worsen.
        - Although voluntary risk disclosure has been on the rise for the past two years, the quality has been very poor and there have been no commonalities.
        - The Canadian insurance industry must currently purchase flood risk data from third party private firms in Europe and the USA.
    - **Opportunities:**
        - The insurance sector can play a role in smoothing out the risks, by generating disaster funds, helping to update building codes and standards, and scaling-up resilient infrastructure.

2. Research Questions Identified

- **In what ways can private investment be used to leverage a shift toward greater investment in municipal, provincial, and federal sustainable infrastructure opportunities?**

- **Why do firms that are becoming unexpectedly browner (emitting more) see their equity prices drop quickly? Do investors (implicitly or explicitly) know that emissions are associated with more risk?**

- **What is preventing the increased flow of sustainable finance in Canada? What are the barriers beyond data availability?**

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