

The 10th German World Bank Forum, November 20, 2008

Panel: “Too hot in Asia? – Investment Decisions in light of Climate Change Cost and Opportunities”

Discussion Summary

The Panel discussing the climate change related cost and opportunities specific to Asia - and whether and how they would influence investment decisions in the region - took a look at all aspects driving these decisions. The panel concluded that there are important climate-change driven changes in investment-relevant regulations, but also in firm and consumer behavior, that either are already taking place or are to be expected, and that any firm interested in the region would do well in acquainting themselves with these. Various governments across the region, most notably in India and China, are well aware of the related challenges to their countries and are moving to address them, albeit at different paces and using different instruments. In both countries in particular, coal fired power plants are still very much the norm, and lowering these plants' carbon profile is the concern at hand. In the meantime, both large economies have now the opportunity to build their economic activities with the climate change imperatives in mind, not having to repeat decision that were taken years ago in OECD countries that put these on such high-carbon consumption patterns.

Prof. Dr. Claudia Kemfert brought the perspective of the Deutsche Institute for Wirtschaftsforschung and made participants aware of the economic drivers that will affect economies around the world as a result of the emerging changes in the climate conditions. In Asia, these relate in particular to changes in agricultural yield, as well as to higher risks of droughts, floods and other natural disasters. Asia is a key region in today's climate change negotiations, more so than many other regions, as investment decisions taken today are likely to more than proportionately affect the speed and degree by which the climate around the world would actually change - simply because of the size of the economies in the region.

Dr. Dirk Messner, head of the German Institute for Development Policy, added his very concrete and recent experience of advising the Chinese government on options for low carbon growth to the discussion. He noted the strong commitment he has witnessed among the leadership in China to addressing the challenge of climate change, as well as the careful approach taken to analyzing various avenues for intervention. Dr. Messner discussed at some detail the various economic sectors that are key for interventions (energy generation, buildings, transport, etc.) and highlighted various forms of regulatory intervention open to governments in general. Many of the interventions that German enterprises are familiar with tend to be related to either tax reductions or other monetary incentives; these may not be available to governments in Asia at large, nor may they be fiscally sustainable in the long term. Therefore, a functioning carbon market would be critical to progress made, as well as accompanying regulatory and procedural adjustments for business and consumers as well.

The perspective of the private sector company investing in China was brought by Peter Schenk, CEO of Viessmann, a leading manufacturer of heating and renewable energy systems, based in the region of Hessen, with a sales volume of Euro 1.3 bn and 12 manufacturing facilities around the world, including China. For Viessmann, Mr. Schenk pointed out, as well as for other companies involved in climate change relevant manufacturing, investing in Asia is not an option but a must. Despite huge challenges with regard to intellectual property protection, manufacturing in China, and competing on the Chinese markets, is critical to remain competitive in the fast developing field of products that either save energy use or promote alternatives to energy use. Viessmann, as well as other companies in similar positions, are thus involved not only in producing and selling their current portfolio of products but also in constantly developing new solutions. Importantly, Mr Schenk pointed out that - if the world was to get serious about climate change and the needed changes in consumption patterns, then the resulting demand for relevant products could not possibly be met by existing companies and their facilities. Governments would need to engage more closely with industry, to be aware of the very concrete steps that would need to be taken, and to ensure investors have the right opportunity to take decisions even on component manufacturing and staff training necessary to respond to the huge challenges ahead.

The perspective of the financial sector was added by Jean-Pascal Tranie of the Aloe Group, a private equity fund with interests in climate change relevant technologies and manufacturing in both India and China. In his view, business models based on government subsidies (and therefore subject to budget cuts) will be viewed as more risky by investors than those based on strong economic fundamentals which offer a better profile. Therefore, new start-ups and early stage technology investors benefiting from direct or indirect subsidies should be hit by the financial crisis - notwithstanding climate change induced regulatory changes of today or tomorrow. At the same time, the current economic downturn may well provide an opportunity both for equity investors - to be able to purchase equity at more realistic evaluations - and for the firms themselves, to make necessary productivity adjustments. Mr. Tranie pointed to the huge needs in terms of technological investments that are awaiting the economies around the world in light of the climate-change induced need to massively change energy consumption patterns. In his view, there is no lack of good and sustainable projects in the sectors of climate change combat, renewable energy and environment protection. But there is clearly a lack of available funds in particular regarding loans which have almost disappeared in the recent period. Without debt financing, profitable businesses in emerging countries will not be able to expand. In light of their positive economic and environmental impact, Jean-Pascal Tranie calls for a global action to increase the loan packages in emerging countries.