

**Statement by Alain Grisay, Chief Executive, F&C Management Plc,
to the Congressional Select Committee on Energy Independence and Global Warming**

**Wednesday 10 October, 2007
Washington, D.C.**

Mr. Chairman and Members of the Committee,

On behalf of F&C Management and fellow members of the UK and EU Corporate Leaders' Groups on Climate Change, I would like to thank you for giving me this opportunity to testify before the Congressional Committee on Energy Independence and Global Warming.

F&C is a leading European asset management company that serves a wide range of institutional and retail customers with assets of over \$200 billion. Our mission is to deliver competitive investment returns to our clients, and to act on their behalf to ensure that investee companies generate profits for their shareholders, while ensuring that their businesses will be around for the long term. We take our role as active investors very seriously, and in so doing, do not shy away from taking a strong stand on matters of public policy where we believe these to be of vital interest to our clients. Climate Change is one such issue.

I have travelled here today from London to share with you the fruits of our thinking and experience, both as an institutional investor, and as a business that has played a leading role in voicing the concerns of business to UK and EU policy makers on Climate Change.

My message is simple: business and investors can only play their part in tackling Climate Change if government takes decisive action to make this possible. The costs of moving forward today, in a planned and deliberate way, are modest and will even yield profitable business opportunities for many innovative companies along the way. These costs are dwarfed by the costs of inaction, when one considers the human, natural and economic consequences of a business-as-usual approach. In short, we simply cannot afford to put our head in the sand.

Most important of all, this problem will not get solved through market forces alone in the time that we have left to act, because Climate Change presents a textbook example of market failure. This means that voluntary targets won't do: business needs a level playing field in order to take on the financial risks that adequate action on Climate Change requires. Business will play a pivotal role in marshalling capital to fund the innovative technologies that will overcome Climate Change, but it needs government to set clear long-term rules and standards.

I have therefore come here to ask you, as legislators in this planet's most powerful nation, to play an historic part in this effort. Only with long-term legislative clarity can investment companies like mine return to their day jobs, and begin the task of shifting capital on the scale that is needed to transform the global economy to one that runs on low-carbon energy.



What does this mean in practice? That we as investors, and the companies in which we invest, need the US Government to:

1. Define Climate Change policy as a top national priority, and set binding national targets that will be translated into clear, long-term rules, regulations and standards.
2. Play a leadership role in engaging other national governments to establish binding global targets and standards.
3. Introduce policy instruments, including cap-and-trade mechanisms, fiscal measures and regulatory standards that will result in a viable carbon price. So long as carbon is valued at zero, capital investment in innovative low-carbon technologies will remain embryonic and fail to deliver the economic transformation that is needed.

In conclusion, Mr. Chairman, Members of the Committee, we have two choices: we can act now, with the benefit of a bit of time and planning, thereby enabling business to manage the transition efficiently and government to cushion the blow for those affected by the inevitable disruption. Or we can act later, and pay a much higher price. There is no third option. Innovative companies and investors stand ready to act – but we cannot compromise our economic survival without clear signals from government that reflect the new economic reality.

I hope that the work of this Committee will enable you to lead your nation, and the community of nations, in embracing this challenge, and create the conditions for business to play its vital role in delivering the solutions to Climate Change.

Thank you very much.

BACKGROUND NOTE

Overview:

- Although investment in climate-friendly technologies has accelerated in recent years, it has yet to reach the scale required to achieve a wholesale shift to a low-carbon global economy, because the risk-reward ratio of this investment is too high to attract large pools of capital.
- The only way to solve this conundrum is for the risk levels associated with investment in low-carbon products and services to be reduced. To achieve this, we need government to introduce clear, long-term policies that ensure that the true cost of carbon is fully reflected in economic transactions and capital planning. This requires binding policy instruments such as a carbon cap-and-trade system, carbon taxes and regulatory standards on energy efficiency.
- This process has begun to a modest extent, through the introduction of the European Emissions Trading Scheme, which has started to affect some energy-intensive sectors in the EU. The ETS is in its very early stages and has yet fully to deliver on its promise, but it is a very welcome start, and needs to be extended and strengthened, through a clear global commitment to achieving significant cuts in carbon allocations.
- The scale of the challenge is such that a combination of policy tools must be considered.
 - **Cap-and-trade** offers real benefits insofar as it can enable the greatest possible carbon savings at the lowest possible cost – but its success requires strict, independently-set targets to ensure the emergence of a strong carbon price.
 - **Fiscal measures** can influence capital flows by penalizing high-carbon energy and rewarding low-carbon alternatives.
 - **Regulation and energy performance standards** can accelerate investment and purchasing decisions when poor information and inertia interfere with economically rational choices.

F&C supports:

- **Binding global targets** on emissions reductions that flow through to legally-binding national legal laws and regulations.
- Development of national and international policy frameworks that **map the next 30 years or more**, thereby enabling business to factor future estimated carbon prices into its capital planning.
- The emergence of a **US cap-and-trade system** that is consistent with the European Emissions Trading Scheme and other national/regional systems that may emerge.
- A strong commitment by the leading industrial countries to **engage and support the G20 nations** in tackling climate change.
- Strong product and energy performance **standards** for more energy-efficient goods.
- Rationalization of **fiscal policies** to remove hidden subsidies for higher-carbon fuels, penalize dirtier fuels and rewards cleaner ones.

F&C's view on biofuels:

- Biofuels have great potential to cut transport emissions.
- But evidence is growing that many biofuels are coming from unsustainable sources, and may actually be resulting in more CO₂ emissions than they are saving (e.g. where forests are destroyed to grow them).
- Strong standards for sustainable sourcing of feedstock need to be in place to prevent these unintended consequences.
- In the long term, the answer lies in new technologies that can use non-food crops grown on non-forested, non-cultivated land, as well as agricultural waste.
- National subsidies that favour domestic sources of biofuel over imported ones can have extremely perverse outcomes. It is vital to carry out a complete life-cycle analysis of carbon emissions of any given biofuel when determining tax and regulatory policies, so as to ensure that there is a net climate benefit.