



# Climate Change and Sustainable Investment in Natural Resources: From Consensus to Action

Conference Outcome Brief

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In 2015, the world's governments adopted the Sustainable Development Goals (SDGs) and signed the Paris Agreement to address climate change. These landmark agreements clearly lay out the global consensus on the need to curb human-induced climate change and to achieve sustainable development. These concepts are linked. Not only does curbing climate change underpin the success of the other SDGs, but the Paris Agreement itself also recognizes that the reduction of greenhouse gas emissions should be "on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty." In other words, the urgency of addressing climate change is critical for global efforts to reduce poverty and advance sustainable development, while climate change mitigation must be pursued in a manner consistent with ending poverty, promoting economic development, respecting human rights, and ensuring social inclusion.

The linkage of the SDGs and climate change mitigation has important implications for the world's approach to natural resource investments. To date, no coherent vision has emerged to guide how global actors can shift the trajectory of natural resource investments in a way that leads to deep decarbonization, addresses the development needs of resource-dependent low-income countries, and promotes a global governance structure that supports rather than inhibits national-level actions on climate change and development. These challenges were recently explored at the 2016 Columbia International Investment Conference (CIIC), on "Climate Change and Sustainable Investment in Natural Resources: From Consensus to Action," hosted by the Columbia Center on Sustainable Investment, in partnership with the Sabin Center for Climate Change Law and the UN Sustainable Development Solutions Network, and with support from the Norges Bank Investment Management. The CIIC brought together representatives of national governments, international organizations, the private sector, and public interest organizations to discuss how countries can reduce their greenhouse gas emissions in accordance with the Paris Agreement, while also advancing the 2030 Agenda for Sustainable Development and achieving its 17 SDGs. Key topics and takeaways are summarized below.

## THE NEED TO TRANSFORM GLOBAL ENERGY SYSTEMS

- Achieving net-zero greenhouse gas emissions by mid-century requires fundamental changes in global energy systems. Many government leaders, companies, and other stakeholders do not yet grasp the scope and depth of the needed changes, nor do they yet have concrete plans regarding how to achieve them.
- The transformation of energy systems necessitates a rapid shift away from carbon-based fuels. Nearly all CIIC participants called for a rapid phase-out of thermal coal. Commentators questioned whether natural gas should be used as a short-term "bridge fuel" while zero-carbon technologies develop. Experts highlighted that the cost-benefit equation regarding use of natural gas differs depending on the country context; while it may be rational for low-income gas-abundant countries to scale up the gas sector, especially since the scale of use in low-income countries is small on a global scale, it may be a costly detour for high-income countries to move from coal to gas and then to renewables, rather than directly to renewables (or other zero-carbon energy sources).

- There was broad agreement among participants that, in the long term, all fossil fuels will need to be replaced by zero-carbon energy sources unless the fossil fuel use is offset by carbon capture and sequestration (CCS) solutions. Yet the economic viability of large-scale CCS remains in question. Many participants supported additional research into CCS, and also the deployment of “biological storage” through reforestation and improved land-use practices.
- Participants agreed that decarbonizing national and regional energy systems will require coordinated action by national governments, the private sector, and civil society. Many called for the adoption of more coherent long-term (20-year to 40-year) energy policies, establishing a framework for transitioning to zero-carbon resources. There was broad agreement, particularly among the private sector participants, that introduction of a carbon pricing scheme will be vital to support this transition as a market signal and incentive to private companies.
- Participants recognized that energy system decarbonization will lead to the stranding of fossil fuel resources. The stranding of resources will give rise to equity (fairness) issues as fossil fuel extraction may continue in some countries but not others. The stranding of fossil fuels in resource-rich, low-income countries could affect their ability to achieve development objectives.
- Many participants argued that fossil fuels should be developed on a merit order basis, taking into account both efficiency of production and environmental criteria. A representative of an oil and gas major noted that stranded asset theory should prevent oil and gas companies from exploring in the arctic and deep sea, for instance. Some participants expressed concern that development on a merit order basis could result in the stranding of fossil fuel resources in resource-rich low-income countries where development tends to be costly, affecting the ability of those countries to leverage their natural resources for broad-based sustainable development.
- Opinions differed as to whether, given low-income countries’ small contribution to global greenhouse gas emissions, they should be allowed to continue developing fossil fuels. Some argued that continued development is necessary to expand energy access and enable low-income countries to industrialize. Others asserted that those countries should “leapfrog” fossil fuels and move directly to renewable energy sources, acknowledging, however, that this would require overcoming a number of political and regulatory obstacles, as well as financial concerns.
- Given their patient capital and their wide presence in low income countries, oil and gas company representatives asserted that they can play an important role in expanding access to energy in low-income countries alongside the countries’ energy transitions, for instance, through the use of associated gas to bolster grid-connected gas power plants or through the development of renewable energy – based mini grids.

## **THE NEED FOR LAND USE TRANSFORMATION**

- The CIIC explored the potential impact of land use shifts tied to resource investments on the achievement of climate change and development goals.
- Participants agreed that changes in land use, particularly the conversion of forest land to other uses, is a key contributor to climate change. These changes may also have other adverse effects, particularly on communities relying on the land. Negative effects on communities may also result from climate-friendly projects.
- There was broad agreement that improved land management will be vital to mitigate climate change. Participants emphasized the need to prevent land clearing, for example for agriculture, and to promote reforestation of previously cleared land.
- Participants explored the possibility of incentivizing forest protection through payments for ecosystem services (PES). A Brazilian PES program discussed highlighted one key challenge: while the program has been successful and economically rational for participating small-scale farmers, the payments have not been sufficient to change operations of large-scale agribusiness. Participants noted that, alt-

though there is growing private sector interest in financing ecosystem services, including through carbon credits, there is not yet a coordinating hub to oversee payments and credits.

- Several participants called for a strengthening of land governance systems in countries with weak governance. Participants noted that inadequate protection of land rights increases the potential for land use shifts to adversely affect local communities. It also discourages communities from investing in the land, including to mitigate and/or adapt to climate change.
- Many participants expressed concern about inadequate consultation on land use changes, noting that there is often a failure to obtain free, prior, and informed consent from affected communities. There were repeated calls for greater transparency.
- Participants agreed that governments should strengthen consultation requirements and otherwise enhance the protection of land rights. Many argued that private companies, particularly those making land-based investments, should push for such changes. They also emphasized the role that individuals, including consumers, can play in encouraging action by companies.

### **THE PRIVATE SECTOR'S ROLE IN FINANCING CLEAN ENERGY SYSTEMS AND LAND USE TRANSFORMATION**

- The private sector's role in supporting the energy system and land use transformations needed to achieve the Paris Agreement's 2°C temperature goal was a key focus of discussions at the CIIC.
- Most participants were optimistic that private companies can and will play an important role in the transformation process. With respect to land use, for example, many noted that consumer-facing companies have an incentive to push for stronger land rights as this reduces the potential for conflicts with local communities and can thus protect the companies' reputation.
- There was extensive discussion among participants of fossil fuel companies' role in the transition, leveraging companies' risk appetite, experience in developing large-scale investment projects, large balance sheets and availability of top engineering skills. Participants welcomed recent efforts by some companies to diversify and invest in renewable energy projects. All agreed, however, that there is a need for significant additional investment and at an accelerated pace, as well as mobilization of capital from the private sector, to enable the transition in the short time frame required.
- Some participants expressed concern that efforts by fossil fuel companies to diversify may be opposed by shareholders concerned about the high risks associated with renewable energy projects. Others, however, argued that shareholders may support such changes, as highlighted by recent shareholder resolutions submitted to energy and utility companies. Participants recognized that as some companies are proactively diversifying their investment portfolio toward a renewable future, others continue to deny that this drastic shift will be necessary, leading to divergent approaches within the private sector that were not apparent even several years ago.
- Participants discussed the recent growth in shareholder engagement around climate change, noting that shareholder resolutions have been used to force companies to report on climate risks, invest in clean energy, and reduce their greenhouse gas emissions.
- Participants identified other ways in which shareholders can influence company behavior. Some called on shareholders to vote down company board members opposed to action on climate change. Others advocated that shareholders divest their holdings in companies that fail to act.
- In recent years the divestment movement has gathered significant pace with universities, pension and philanthropic funds divesting from fossil fuel investments. While unlikely to have immediate impacts on companies, divestment strategies were highlighted as being important tools to send a clear message. While selective divestment strategies, whereby progressive companies within a sector are rewarded and 'laggards' are divested from, could provide an incentive for companies to adopt more climate friendly strategies, there are currently no matrices in place that would help investors to determine what defines a progressive strategy.

- State-sponsored institutions can play a crucial role in helping to fill the financing gap by drawing much needed private sector capital into clean energy markets. The green bond market has also grown exponentially in recent years highlighting private sector interest in this market.

## ENSURING GLOBAL GOVERNANCE FRAMEWORKS SUPPORT TRANSFORMATION

- CIIC participants agreed that achieving climate change and development goals will require concerted action by both the public and private sectors. Participants agreed that legal frameworks must be designed to send the right signals for action to all actors.
- Participants expressed differing views on whether existing legal frameworks support or hinder climate action. The debate focused on the impact of international economic agreements, including the World Trade Organization (WTO) agreements, and international investment agreements (IIAs) such as the 12-country Trans-Pacific Partnership (TPP). It was noted that these agreements deal with or impact a host of relevant issues covered elsewhere at the CIIC such as rules on product labeling, subsidies for renewable energy and fossil fuels, development of new energy reserves and infrastructure, zoning measures for adaptation planning, and even tort liability of multinational enterprises for environmental harms. Their breadth is thus wide and impacts deep.
- Participants noted that WTO agreements leave member states free to decide on their own policies, including with respect to climate change, and require only that those policies be applied on a non-discriminatory basis. Thus, for example, these agreements would not prevent member states from adopting nondiscriminatory policies to limit greenhouse gas emissions. However, the way that these agreements have been interpreted by dispute panels has limited the scope of government actions.
- Participants also discussed issues relating to subsidies and tariffs. Some argued that restrictions on subsidies in WTO agreements may prevent government support of clean energy and other climate-friendly investments. Others expressed concern about inadequate tariff delineations, noting that, under the current WTO system, governments might be unable to legally distinguish between climate-friendly and unfriendly products when setting tariffs.
- Many participants expressed concern that IIAs and free trade agreements with investment chapters, including in particular the TPP, may hinder policy changes aimed at mitigating or adapting to climate change. They pointed to the inclusion of investor-state dispute settlement (ISDS) clauses in such agreements, which can and have been used by companies to challenge new environmental and other regulations, administrative decisions, enforcement or other government actions (or inactions) that impact investor profits, including potential profits. It was highlighted that in ISDS, and in dispute settlement under the WTO, the identity and quality of the decision-maker is important in shaping the meaning given to these agreements and, consequently, their impacts on climate change policies.
- It was highlighted that both at the domestic level, and in connection with international negotiations, there tends to be a disconnect between the roles and responsibilities of government officials with respect to, on the one hand, climate policy and, on the other, trade and investment strategies, leading to a lack of policy coherence. Several participants called for climate change impact assessments of trade and investment agreements, to understand better the impacts of existing and especially new agreements on climate change and climate policies.
- While one cautioned that trade and investment treaties should not be used to achieve climate change goals, others underscored the need to, at a minimum, align these economic agreements with climate action and development agendas.

For more information or to get involved, email us: [ccsi@law.columbia.edu](mailto:ccsi@law.columbia.edu)

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