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BUSINESS

Davos: Green transition is '$50-trillion investment opportunity'

Financing the global shift away from fossil fuels could earn investors trillions, according to discussions at the World Economic Forum. But there's not enough data to get the money where it's needed.

With the right data, private investment could fund the global energy transition, business leaders have said

The investment opportunity presented by the transition to a green global economy has been a key topic on the agenda at the 2021 World Economic Forum.

The weeklong summit — held online this year due to the global coronavirus outbreak — devoted over a day's worth of discussions to issues surrounding climate change, including how to restructure an economy based around the consumption of carbon-producing fossil fuels.

Over several panels, both politicians and business leaders highlighted the economic potential of the green transition. The real challenge, they said, will be getting investments where they are needed most.

From shareholder to stakeholder

The transition toward an environmentally stable global economy represents a $50 trillion (€41 trillion) investment opportunity, said Bill Winters, Group CEO of the UK-based Standard Chartered Bank, speaking on a panel about how to finance the transition to a global society free of carbon emissions.

"These are interesting assets," he said, "both for social reasons, and because they should generate an acceptable return" for investors.

A sunny outlook for Germany's solar industry

"Businesses realize you can't succeed in a failing world," said Ann Cairns, executive vice chair of Mastercard, in a session on pathways to global transformation.

There is "pressure from all sides for sustainability," from shareholders as well as from consumers. "Consumers are protesting with their feet," she said.

Mairead McGuinness, the EU commissioner in charge of financial services, pointed out that investors' increasing sensitivity to climate issues would affect investment strategies.

"There was an enormous amount of investment into brown technology until now," she said, referring to technologies using traditional fossil fuels like oil and coal, which are destructive to the environment.

US companies are starting to move away from "shareholder capitalism" — when a company's primary purpose is to deliver a return on investment for its stockholders — something that has already been happening in Europe for some time, said Christian Mumenthaler, the CEO of Swiss-based reinsurance company Swiss Re.

"Shareholders are changing their opinion," he said. "The public opinion is shifting. Major shareholders are pension funds. Pension funds feel the pressure, and they start to put pressure on companies," he said.

Cutting costs for the climate

The trillion-dollar question

But a payout on investments into climate change solutions will first require paying in. Mobilizing the funds necessary for the transition to a sustainable global economy was another main topic of discussion.

"We can fish the waters empty and have a great quarterly return. And then what?" said Inger Andersen, executive director of the United Nations Environment Program (UNEP).

"This is an existential crisis, and without financing or support this is not going anywhere," she said.

The transition to a carbon-neutral economy will require between $3 trillion and $7 trillion per year "for many, many years to come," according to Philip Hildebrand, vice chairman of BlackRock, one of the world's largest asset managers.

"The key now is a willingness to use public money to get private money flowing," he said. "Because no matter how big the commitment from the public side, it will not be enough to get those trillions of dollars a year."

To this end, Hildebrand called for public policy that would establish incentives to get private capital moving.

Developing countries have significant potential when it comes to the energy transition, said Standard Chartered's Winters. But the fallout from the coronavirus pandemic has scared off private investors, a point echoed by Fatih Birol, the executive director of the International Energy Agency (IEA).

"If our aim is to reach net-zero emissions ... there is no way without hugely accelerating clean energy investments in emerging countries," he said, adding that over two-thirds of global carbon emissions come from these markets.

"Emissions don't have a passport," Birol said.

How sustainable is hydrogen production?

Out with oil, in with data

Many panelists said greater data monitoring and analysis will be essential in making sure investments get where they are needed.

Consistent global data is "the missing link" for investment clients looking to make environmentally and financially sound decisions, said Suni Harford, member of the executive for Swiss investment bank UBS.

The CEO of Samsung LG Chemical in South Korea, Hak Cheol Shin, similarly called for the "full deployment of data science and artificial intelligence (AI)" toward the issue of climate change.

Pachama, an Argentine company using satellite imagery and AI to fight deforestation, participated on another panel. Fellow participants were also enthusiastic about the role a company like Pachama could play.

"We need that kind of technology in monitoring and data," said UNEP's Andersen, a fellow panelist. She called for a global environmental data strategy and for equal access to information generated.

"This data needs to get out there and people need to understand it," she said. "We also need intermediaries to monitor the data and hold companies accountable."

Will the pandemic bring us closer to the climate target?