FOREWORD

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The past 12 months have seen some progress in the international negotiations on climate change. However, there still remains insufficient understanding of the urgency with which the science indicates we should be dealing with this challenge.

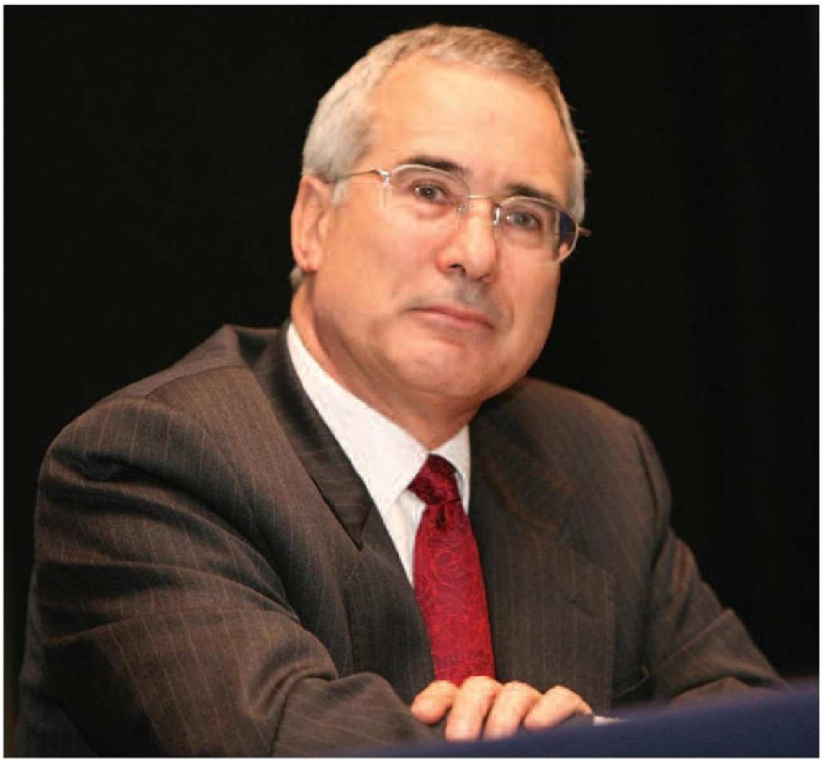
After the disappointment with the outcome of the 15th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, COP15, in Copenhagen in December 2009, the subsequent conference – COP16 in Cancun, Mexico at the end of 2010 – was constructive both in atmosphere and outcome.

However, over the last two years, climate change has slipped down the agenda in many parts of the rich world. This reflects the understandable refocusing of attention to the financial and economic crisis and the targeted yet dishonest assault on the climate science. In the United States, the mid-term elections of November 2010 seemingly put paid to the possibility of strong federal climate legislation for the near future.

Yet the risks from climate change remain ever-present. There is mounting evidence that absorption of carbon dioxide in some oceans is falling more so than predicted by many models, emissions are growing faster than we thought, and that the melting of Arctic sea ice and ice sheets and damages to ecosystems are happening faster than we thought. If the science is right, and we lock into high and rising concentrations of greenhouse gases, the risks associated with trying to address the problem later could be overwhelming.

Yet there exists a unique opportunity for action. Climate policies and focusing on the economic recovery are complements and not substitutes. By sending a credible signal in the form of clearly-identified market-based policy instruments – involving long-term carbon pricing, standards and regulations, together with carefully designed support for technology – governments across the world could unlock private investment in renewable energy, energy efficiency and low-carbon vehicles on a vast scale.

They would do so by utilising the record pool of available private saving rather than drawing on scarce public funds. This would unleash sizeable macroeconomic benefits by boosting private spending, creating jobs and generating tax revenues. The time to



"THE TIME IS RIGHT FOR G8 GOVERNMENTS TO GRASP THE GREEN OPPORTUNITY TO SUPPORT INNOVATION AND UNLEASH HUGE PRIVATE INVESTMENT OPPORTUNITIES"

Above: Dimitri Zenghelis

Left: Nicholas Stern

invest in change is when economic activity is slow and the competition for natural and human resources is reduced. There is currently very little fear of "crowding out" alternative investment, or displacing jobs. The challenge is to launch a new industrial revolution in energy: putting the science and the economics together tells us that we must start it now.

The good news is that many emerging-market economies such as South Korea and China have understood the logic of this approach. China has moved decisively to embrace low-carbon growth, notably in its stimulus package of 2008-2009 but also, and more importantly, in its outline for the 12th five-year plan.

This plan sets strong targets. China and other countries that recognise the way forward will lead the "green race," one that has already begun. Those that deliberately opt out may find they miss out on the fastest growing markets and have their exports taxed as "dirty" a decade or so from now. History shows that investment flows to the pioneers of the revolutions.

Even in the developed world, we are likely to see Europe press ahead with action to reduce emissions and with the possibility of raising targets for emissions reductions between 1990 and 2020 from 20 to 30 per cent. And it should not be forgotten that many states, cities, and firms in the United States are applying ambitious climate policies. California, for example, has developed a successful cluster of "clean invention," and in November 2010 an attempt (Proposition 23) to undermine climate legislation was defeated and a climate-aware governor, Jerry Brown, was elected.

Many businesses see the opportunities that will be presented by the transition to the low-carbon economy, and are recognising the opportunities the coming energy industrial revolution presents. However, innovators and investors seek credible government policies, at the national and international levels, in order to ensure that this revolution is efficient, rapid and on a sufficient scale to make substantial profits.

The further good news is that green technological development has continued apace over the last two years, with growing recognition of the potential of this new energy-industrial revolution. Across all key economic sectors – agriculture, building, transport, new materials, renewables, or smart grid – innovation is advancing and new competitive technologies are being developed. Not all will work, but there are so many exciting innovations underway that we can be confident that many will.

The time is right for G8 governments to grasp the green opportunity to support innovation and unleash huge private investment opportunities. If instead countries fail to act, they risk locking themselves into a high-carbon infrastructure, falling behind technologically, unnecessarily delaying economic recovery and being shut out of markets a decade or two from now. ■

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