

## Climate expert Nicholas Stern backs de-carbonisation but rejects straight divestment

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Climate economist Nicholas Stern\* has backed Swedish buffer fund AP4's de-carbonization strategy but sees straight fossil fuel divestment as a "blunderbuss".

He was speaking at Bank of England research event, in a session on climate change. The bank was unveiling its new One Bank Research Agenda, an ambitious project aimed at transforming the central bank's research process. *BoE has developed five core themes to guide its research, one of which is its response to fundamental technological; institutional; societal and environmental change* such as ageing populations, crypto-currencies and climate change.

AP4's strategy underweights high carbon assets. "It's an intelligent way of motivating behaviour rather than directly divesting out of oil," said Stern. "Divesting is a bit like a blunderbuss, it doesn't give any incentives for companies. With the AP4 way you get incentives from companies in industry to perform better. AP4 has found that performance has improved in straight vanilla finance."

Each theme was discussed, with a specific focus on the sub-theme of climate change. Stern warned that if the world were to keep global temperatures under 2°C alongside a rising, more city-based population in the future, then investment was necessary to make emerging cities' infrastructure less congested and polluted. "How can we mobilize finance to make it easier to do clean investments?" he asked. "If we can't get investments through public investment, we have to look at the role of development banks and the private sector being enhanced through well-defined research questions."

Stern also said pension funds should be interested as a long-term investment in infrastructure matched their liabilities. Stern also praised BoE Governor Mark Carney for his letter to the chair of the UK's environmental audit committee, in which he promised to "deepen and widen" the inquiry into the topic of stranded assets.

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\* Nicholas Stern is Chair of the Grantham Research Institute at the London School of Economics and was adviser to the UK Government on the Economics of Climate Change and Development, where he was Head of the Stern Review on the Economics of Climate Change. From 2003 to 2005 he was Chief Economist at the World Bank.