Allianz SE

Group Communications & Corporate Responsibility

Media Release

G20 Nations Jeopardize Energy Transition

- **Growing gap between investments and needs**
- **South Africa has the highest investment needs**
- **G20 putting climate goals and competitiveness at risk**
- **Germany, UK, France and China the most attractive for investors**

The G20 nations are at risk of falling short of the climate goals they set in Paris in December 2015. The reason: a growing gap between current investments in renewable energy sources (2015: USD 286 billion worldwide) and future needs. The International Energy Agency (IEA) projects the need at USD 790 billion a year as early as 2020, and USD 2300 billion per year by 2035.

Analyses by the Allianz Climate & Energy Monitor place the blame on inadequate or nonexistent climate strategies, together with their deficient implementation in the energy sector. "If the G20 countries don't have a sufficiently comprehensive strategy for the energy transition, they won't just fall short of their climate goals," explains Karsten Löffler, Managing Director at Allianz Climate Solutions. "In the longer term, they'll also put their competitiveness at risk because they'll be so late in changing direction in the necessary technologies and infrastructures. Waiting will result in stranded investments and extra costs."

South Africa's investment needs

South Africa together with India and Indonesia, China and Brazil will need to bridge 50% of this investment gap – having the highest investment needs – owing to their market size and development needs. This percentage increases when the overall vulnerability of their power infrastructures to the impact of climate change is taken into account.

"South Africa along with the mentioned countries nevertheless has an insufficient investment framework. To attract substantial private investment, stringent and long-term policy action will be required. Absolute investment needs are approximately USD 14 billion per year, up to 2035. The country still has a significant share of its population without electricity access (15%), creating additional investment needs. Though stakeholders generally apprehend the importance of decarbonizing the country's electricity sector, progress has been slow in the past and fossil fuel lobby groups dominate the public debate," says Löffler.

Germany and UK in the lead

So far, Germany and the UK are the only G20 states that have a concrete strategy for an emission-free energy sector, including converting their power grids. They offer the most attractive conditions for investors, followed by France and China. But even here, there's a threat of a massive shortfall in investment. "It's surprising that none of the G20 countries offers sufficient conditions for investors. All of them will have to up the ante," says Niklas Höhne, founding partner of the NewClimate Institute and co-author of the Monitor.

As a leading investor in renewable energy, Allianz is prepared to support the energy transition with even more investment. At present, Allianz's total investment in renewable energy comes to EUR 3 billion. "Demand from private investors is substantially greater than supply," says Axel Zehren, CFO at Allianz Investment Management. "To adjust supply to the actual need for investments, it will be essential to rethink conventional assumptions. Almost every G20 state still places unnecessary restrictions on commitments by private investors, or fails to offer adequate legal safeguards, for example when they change terms retroactively." According to the OECD, another impediment for institutional investors is the European Union's unbundling regulations, which prohibit investing in energy generators and energy grids simultaneously. Yet the potential advantages to countries are not just financial. "As experts in risk management, we are in a better position to help manage investment plans and project risks," Zehren points out.

85 percent from private investors

Energy production and energy consumption are the biggest sources of emissions. If global warming is to be limited to 1.5 degrees Celsius, these need to become emission-free by 2055; to limit the increase to 2 degrees, emission-free energy must be achieved by 2080. For that, it will be essential to change the system in the power sector. In spite of the high initial investments involved, the transformation can be achieved at neutral cost, as analyses by the IEA in 2015 and by Allianz in 2014 have shown. That's because the cost of coal, oil and natural gas will gradually be eliminated.

Private investors will have to supply 85 percent of this investment, according to the UN's Intergovernmental Panel on Climate Change (IPCC). Insurers are especially desirable here, as well-capitalized investors with a long-term investment horizon and suitable expertise in risk management. Viewed from the opposite direction, these investments are well suited for the insurers' long-term liabilities to their life insurance clients.

The Allianz Climate and Energy Monitor

The Allianz Climate and Energy Monitor measures the need for investment for an energy transition among the world's most important 19 countries (the G20 includes these 19 countries plus the EU), and ranks them on their attractiveness as potential destinations for investments in low-carbon electricity infrastructure. Whether and where investors will provide funds depends on a reliable climate and energy strategy in the country concerned, as well as on specific, transparent support mechanisms, fair competition with fossil energy sources, the influence of contrary lobbies, and market experience with renewable energy. These are in addition to general factors like inflation, an openness to foreign investors, and legal certainty.

Click here to download the full report.

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This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

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