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Climate Change and Insurance: Invitation to Cool Earth 50

by Former Prime Minister of Japan Abe

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delivered by Former Minister of Japan Abe at the General Assembly of The Geneva Association,
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1. Introduction

I am pleased to have this opportunity to speak to you, the top representatives of the world's insurance companies.

Kyoto is the former capital of Japan, its thousand year capital, with a deeply rooted history and traditional culture that can still be seen today and which has made it a famous tourist destination for people from around the world.

In addition, Kyoto is known worldwide for having lent its name to the Kyoto Protocol. Drafted here in Kyoto in 1997 after concerted debate and discussion amongst countries from around the world, the Kyoto Protocol represents a historic first step in the fight against global warming.

And it is this topic of global warming which I would like to talk about today.

Prior to the G8 Summit at Heiligendamm in Germany almost exactly two years ago, I offered the world an "Invitation to Cool Earth 50". Since that time tackling the challenge of climate change has become my life's work.

2. Invitation to Cool Earth 50

I would now like to once again present my thoughts on "Cool Earth 50".

Specifically, my proposals entail a strategy comprised of the following three pillars.

The first pillar is a long-term strategy for reducing greenhouse gas emissions worldwide.

The second pillar is a proposition of three principles for establishing an international framework to address global warming from 2013 onwards.

And the third pillar involves the launching of a national campaign to ensure that Japan achieves the Kyoto Protocol target.

Of these three pillars, today I would like to focus on those that are at the forefront of international discussion and debate. I am specifically referring to long-term strategy and the three principles of a post-Kyoto framework.

To begin with, I will discuss the first pillar, which is long-term strategy.

In order to achieve the objective of the United Nations Framework Convention on Climate Change to stabilize the level of greenhouse gas concentrations in the atmosphere, we must curb global greenhouse gas emissions to the same level as the capacity of natural carbon sinks. The question is when and by what path will we achieve this.

I proposed setting a long-term target of reducing global emissions to half of their current levels by 2050. Of course, some countries insisted on even stronger targets. President Sarkozy and Chancellor Merkel took an extremely hard-line stance. However, any attempt to address the issue of climate change would require gaining the understanding of the United States and China, as they represent 40 per cent of global carbon dioxide emissions. During the Japan-U.S. Summit meeting two years ago, I remember that then President Bush was extremely receptive to ideas for some sort of policy change. I believe this is what led to a last minute agreement being reached at the Heiligendamm Summit. China's President Hu Jintao and Premier Wen Jiabao also included environmental issues among key challenges facing China and confirmed their commitment to working with Japan to address them.

In order to reach this global target for emissions reduction, Japan and the rest of the developed countries of the world must have a shared vision for reducing their emissions by 60-80 per cent of their current levels. Also, in addition to the continued efforts of developed countries to cut emissions, emerging economies and developing nations must also be asked to make drastic CO₂ reductions to levels well below those that result from the natural increases stemming from economic development. This is an immense target, but for the sake of humanity's future it is a target which the world needs to work together to achieve.

It will be difficult to achieve this long-term target utilizing the technologies and economic paradigms which have served us up to now. Humanity has reached a point where it must clearly acknowledge the need to break with the fossil fuel civilization which has been cultivated over the last two centuries since the Industrial Revolution. The issues of global warming and ensuring energy security must be addressed together.

At the G8 Summit at Heiligendamm I felt there was significant momentum towards making major technological and economic paradigm changes. Countries are competing to develop national strategies for creating low-carbon economies; corporate activity is assessed according to how much it reduces its carbon emissions; and global human resources, technology and capital are being poured into energy-saving, clean technologies. A low-carbon revolution is taking place, with carbon reduction itself serving as a source of added economic value. And the pace of this momentum is sure to pick up with the arrival of the Obama administration. I would even venture to say that we are entering the era of the carbon standard system.

In order to achieve this long-term goal of halving carbon emissions by 2050, the two elements of low carbon society creation and innovative technology development need to be strongly promoted in tandem with one another.

Low carbon society creation hinges on the question of how best to permeate society with the technologies currently available. I will address this question later when I discuss medium-term targets for the post-Kyoto framework.

Innovative technology development is the only approach which will allow us to reach the long-term goal of halving carbon emissions by 2050. Even under an ideal post-Kyoto framework where the result of international negotiations is that all countries agree to participate, if we utilize only those technologies which are available to us now, we will have difficulty directly achieving our goal by 2050. We will need the development and commercialization of innovative technologies which do not yet exist.

While I was Prime Minister I put forward the Innovation 25 roadmap for innovative technology development by 2025, as I believe that innovation is the key to overcoming the problems of global

warming and population decline facing Japan. The top priority of Innovation 25 is contributing to global issues, which include global environmental issues, and thus it emphasizes the need for open innovation which transcends national borders in bringing together knowledge and ideas.

Tackling the issue of global warming will require more than what each country invests in and strengthening their systems for promoting innovation; an open research system in which researchers from around the world can freely participate is urgently needed.

Next, I would like to talk about the second pillar of the Cool Earth 50 Promotion Programme, which is the three principles for establishing a post-Kyoto framework.

There is no doubt that the Kyoto Protocol was a crucial first step by humanity in addressing the issue of climate change. Unfortunately, however, with the limited number of countries participating in the Protocol it goes without saying that it has insufficient power to combat climate change. Thus, the post-Kyoto framework to be adopted in 2013 must be such that it engenders unwavering, long-term commitment from the entire global community to work together to overcome the challenge of climate change.

The first principle is that all major emitters must participate, thus moving beyond the Kyoto Protocol, leading to global reduction of emissions. In order to ensure that the fight against global warming is worldwide, we must create a framework in which all major emitters of carbon dioxide participate, including the United States and China, the world's largest, and India, the fifth largest. Carbon dioxide emissions are currently split 50/50 between developed nations and developing nations; however by 2050, developing nations will constitute 60 per cent of all carbon emissions. Thus participation by the entire world is a prerequisite for this framework.

The second principle is that the framework must be flexible and diverse, taking into consideration the circumstances of each country.

If amongst developed, emerging countries and developed countries, or even amongst developing countries, an equal amount of responsibility is foisted upon one another, the same mistakes of the Kyoto Protocol are likely to be repeated and we will accomplish nothing.

Each country has an obligation to reduce emissions under the principle of "common but differentiated responsibilities and respective capabilities." Developing countries are likely to balk at being asked to assume the same level of measures as developed nations, and even within developing countries, capabilities and circumstances differ between emerging economies and other countries. The framework must start from the standpoint of respecting the fundamental situation of each country and using that as a base from which to work. First the developed countries will take the lead in setting overall reduction targets and drawing up action plans for achieving those targets; this can be accomplished effectively by creating a mutually collaborative system of ongoing review and enhancement. It is crucial that countries commit not simply to target values but also to the underlying action plan. Meanwhile, developing nations should not abdicate all responsibility to developed nations; they should examine what targets are realistically feasible for them, such as reduction targets from natural growth, reduction targets for CO₂ unit output, or major sector-specific reduction targets, and commit to them.

Climate change framework negotiations have a different character than WTO negotiations. Delays are not acceptable. We cannot bring to the table the bargaining mentality that accompanies tariff reduction negotiations; we need to be united in fighting for a shared aim and purpose. This is why I have chosen to use the phrase "*invitation to the beautiful planet*" in my "Cool Earth 50".

The third principle is that the framework must achieve compatibility between environmental protection and economic growth by utilizing energy conservation and other technologies. A global response will require compatibility with each country's economic growth. If the framework required economic growth to be sacrificed, the participation of many countries cannot be expected. As I said earlier, the key to achieving compatibility is technological development and its widespread use. The participation of the entire world will become possible by creating a framework which promotes advancements in and use of cutting-edge technologies. Regardless of the lag which exists, it is important that both developed countries and developing countries create rules which promote the pursuit of the highest global standard of energy efficiency which is technologically possible and the investment of financial resources towards a shared goal. In other words, what are called for are rules which promote more ambitious carbon productivity for countries which seek greater economic growth. Naturally, developed countries will need

to support and assist developing countries with the necessary technology and investments to make this possible.

3. Direction of Future International Discussion

With respect to the Invitation to Cool Earth 50, specifically the shared global target of halving emissions by 2050 and the three principles for the post-Kyoto framework, the leaders assembled at the 2007 G8 Summit at Heiligendamm agreed to seriously examine ways of halving global emissions by 2050.

At the following G8 Summit in 2008, which was hosted at Toyako, Hokkaido in Japan, further progress was made on the agreement reached at Heiligendamm, with leaders agreeing to call for the adoption by the signatories to the United Nations Framework Convention on Climate Change of a shared goal to reduce global emissions by at least 50 per cent by 2050. Furthermore, the leaders agreed to implement ambitious, country-specific mid-term goals in order to achieve absolute emissions reductions amongst all developed nations.

As I have said repeatedly, the fight against global warming will require a framework in which the whole world participates. The COP13 meeting which took place in Bali at the end of 2007 provided a forum for negotiations surrounding a new, post-Kyoto framework, and countries are currently engaged in serious discussions aimed at reaching an agreement on this framework for the COP15 meeting scheduled to be held at the end of this year in Copenhagen.

My fervent hope and conviction as a politician is to see the realisation of a shared long-term target and a framework in which all countries participate. Achieving this will require that the leaders of the world's nations demonstrate real leadership. Our ability to stop blaming with one another, adopt a broader perspective and create large-scale momentum in addressing the shared issue of global warming is being tested. It is by no means an easy task. Our greatest enemies will be despair and resignation. However, I believe that if all countries work together in hope, determination and faith, the path ahead will inevitably open to us.

4. Effects of the Financial Crises / Economic Downturn

Today, since we have the leaders of the world's insurance companies assembled here, I would like to touch upon the relationship between global warming, finance and the economy.

No doubt your greatest concern is how we will overcome the financial and economic crisis.

During the 1990s Japan fell into a long-term economic slump which was the result of the collapse of its bubble economy. The current crisis, however, does not affect only one country; rather it extends throughout the world and its scale is beyond comparison. Clearly we seem to be in the middle of a once-in-a-century economic crisis.

This crisis, though, is different from the Great Depression of 80 years ago. We no doubt have the knowledge and the means to prevent the current crisis from expanding to become a truly once-in-a-century economic crisis, and I would like to lay out four points for achieving this.

This crisis was caused by financial uncertainty, and thus stability needs to be returned to the financial system. Looking at Japan's experience after the collapse of its bubble economy, it was after financial institutions got rid of their toxic assets and carried out thorough and strict appraisals that sufficient capital injections were made, bolstering inadequate shareholder equity and restoring market confidence in the financial system. The world's governments have already taken steps to inject capital into financial institutions and to buy up assets. What is left is to push onward without faltering. The current sickness, so to speak, cannot be cured without surgery. This is the lesson that Japan's 15 lost years have taught it.

At the same time, this surgery which is needed in order to help the financial system recover its health is going to be accompanied by pain. The fact is that uncertainty will continue while the surgery is taking place. Thus, what we might call 'blood transfusions' are needed in the form of decisive macroeconomic measures. This is the second point. The central banks of the world's nations are already entering the domain of financial policies which do not conform to traditional methods, and demand creation through financial policies will become increasingly important. Amidst an evaporation of private sector demand for such items as homes and automobiles, it will be through policy that demand will have to be created. In

order to respond to the sudden drop in demand worldwide, I want to emphasize how important it is that the world's major countries work together as much as possible to create demand.

The third point is that we owe it to those who have been significantly affected by the current economic and financial crisis to take steps to ensure that this sort of thing does not happen again and that the health of the financial system is maintained in the future. This cannot be achieved without reforming the financial system. We of course cannot allow any business category or area to escape from the net of necessary regulation and oversight. Excessive leveraging resulting in abnormally high risk and rating firms which gave lenient ratings should be regulated and supervised accordingly.

Regulation and oversight up until now has focused on the financial soundness of the individual financial institutions; however, I believe a necessary lesson of this crisis is that a perspective of "macro-prudence" needs to be introduced which carefully examines how risk is being expanded for the financial system as a whole and reflects it in the oversight process. At the same time, we need to confront head on the issue of "business cycle co-movement" with regard to how regulation and accounting can contribute to exacerbating the economic and financial situation. With rigid mark-to-market accounting which lowers capital-to-asset ratios and increases unwillingness to extend new loans, the negative spiral will never come to an end. What is called for is a safety valve that will allow the downward spiral to stop.

The fourth point is something which must be kept in mind when handling this financial and economic crisis and this is not to become introspective and short-sighted.

The bigger the crisis, the calmer and cooler people's judgments and actions need to be. Looking back at the Great Depression which began in the United States, we see that it led many countries to pursue protectionism which in turn helped lead to the calamity of a world war; thus, it is important that we firmly oppose the temptation to turn to protectionism.

I would like to interject something positive into this unhappy topic of financial and economic crisis. I anticipate that the current crisis will provide opportunities to greatly advance the fight against global warming. One example of this is the opportunity that this crisis provides for the world to recognise anew the necessity of building a fair and sustainable foundation for the global economy. It is believed that behind the current crisis lay a global macroeconomic structural problem embodied by nations that engaged in excessive borrowing and consumption and excessive dependence on foreign demand. This crisis has made us aware once more of the need for balanced and sustainable development in all countries, including in developing countries and emerging economies, and for the international cooperation and coordination which will allow us to achieve it.

Another example is continuing strategic investment in the fight against global warming. Currently, many countries are engaging in unprecedented levels of financial stimulus. This stimulus is not taking the form of merely increased spending, however; countries are strategically investing it in areas that will be important in the medium to long term. In particular, the majority of countries are putting in place fiscal measures which encourage technological development and which promote more widespread use of energy-conserving products and products which utilize new forms of energy. I believe it is safe to say that this plainly indicates that many countries consider the fight against global warming to be a key strategic area.

5. Role of Finance and Insurance in Tackling Global Warming

When we talk about the fight against global warming, we have a general tendency to focus primarily on the manufacturing, energy and transportation industries; however, greenhouse gas emissions are an issue which concerns all industries and consumers. There is no debate that the financial industry also needs to work to curb its own emissions.

However, it is my fervent hope that the financial industry's contribution to the fight against global warming will not stop at curbing its own emissions but will also include undertaking an intermediary role which facilitates the active engagement of all parties in combating global warming.

Greenhouse gas emissions are inextricably linked to economic activity and, in most cases, money. It is impossible to talk about how to achieve both greenhouse gas reductions and positive economic activity without discussing how much economic incentive should be offered and how much capital should be diverted to combating global warming. The traditional function of finance has been to allocate money

from areas with a surplus to areas without enough and in the process provide merit to both the party supplying and the party receiving.

It is extremely regrettable then to look at the recent situation centering on a subset of financial institutions where excessive leverage was being exerted with the sole aim of making more money. At the same time, however, it is worrying that during the financial crisis, financial institutions are undergoing excessive contraction which greatly reduces their ability to act as suppliers of capital. I hope, therefore, that the financial industry will return to the basic idea of finance to allocate money to areas which are useful, and that they will actively assume a role which facilitates those elements, such as investment and research and development, needed to combat global warming.

The financial industry is also an information industry. Through the many transactions it carries out with companies and individuals it accumulates micro- and macroeconomic information which represents a tremendous management resource.

One feature of the insurance industry is that it promotes the decentralization of risk by spreading it amongst a group so that what one entity cannot bear alone, the group can bear collectively. I am sure that insurance companies have a wealth of useful insights to share with regard to risk management.

As the economy and society have grown and developed, so too has the insurance industry; what began with marine insurance has expanded to encompass such risks as fire, natural disasters and automobile accidents. Global warming is a new risk which represents a clear business opportunity for the insurance industry. Today, I take the fact that the leaders of the world's insurance companies are holding a conference on the topic of global warming as an indication of the industry's resolve to actively contribute to the fight against global warming.

I believe that it is when all the world's players take part in combating global warming that we will be able to see results. And it is my hope that the financial industry, including insurance, will actively contribute by serving as an intermediary in the conveyance of funds and information for the different players involved in economic activity.

6. Conclusion

My time is coming to an end, and so I would like to ask in closing, "*What is it that is asked of us in this present economic situation with regard to global warming?*" The answer is: the strength of will to make decisions and carry them through.

The fate of humanity rests upon whether or not the politicians and business leaders have this strength.

Let us therefore work hand-in-hand to show that we do.

Forthcoming:

The insurance industry and climate change – Contribution to the global debate, Geneva Report No. 2, The Geneva Association, July 2009

The Geneva Papers on Risk and Insurance – Issues and Practice, Special issue on climate change and insurance, 34(3), Palgrave Macmillan, July 2009

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