



Scottish Government Debate: Green Investment

21 February 2012

The Green Investment Bank

Green investment is one of the best ways to ensure a sustainable economic recovery. As the fourth largest financial centre in Europe and one with unrivalled experience in resource based industries and offshore development, Edinburgh is the natural location for the Green Investment Bank (GIB). However that bank must have powers to borrow and issue bonds, as well as a mandate to fund energy efficiency, including through the proposed Green Deal. In addition, the rest of the financial sector, particularly the taxpayer-owned Royal Bank of Scotland, needs to up its game, disinvesting from destructive fossil fuel financing such as tar sands extraction in Canada and investing in green technology in Scotland and the UK.

The need for borrowing powers

The GIB must have powers to borrow and to issue bonds, and a mandate to fund energy efficiency and renewable energy. Preventing the GIB having proper borrowing and lending powers until 2015 undermines its purpose - to be a bank. In addition, the requirement that the GIB can only borrow from 2015/16 if the structural deficit is eliminated creates further uncertainty about whether the GIB will ever actually gain borrowing powers. The Office of Budget Responsibility suggests this will only be met by the slimmest of margins and other economists, including Mervyn King, have suggested it may not be met.

The wider financial sector

Banks and other financial institutions occupy a uniquely powerful position among private companies to influence the course of future global climate change. The financial sector in the UK handles trillions of pounds of finance and investment every year and affects the activities of millions of corporate clients. With this influence, comes the potential to bring about the necessary speedy transition to a low carbon economy and extremely significant greenhouse gas emission reductions in the economy as a whole.

At present however there remains a systematic failure of risk assessment and management with respect to social and environmental risks – notably those associated with climate change, which have the potential to be transformed into highly significant financial risks much sooner than widely understood. This can be seen through continued investment in offshore oil exploration and drilling, tar sands exploration and gas fracking. Earlier this month, a coalition of over 20 leading experts, investors, NGOs and universities wrote to the Bank of England warning of the dangers of a ‘carbon bubble’ where Britain’s exposure to polluting and environmentally damaging investments might pose a systemic risk to the UK financial system and prospects for long term economic growth.¹

Friends of the Earth Scotland would urge parliamentarians not just to work together to support Edinburgh as the location for a Green Investment Bank but to also work together to consider the wider implications for the finance sector, and for Scotland’s economy, of failing to address the risk inherent in business as usual banking behaviour.

¹ <http://www.climatechangecapital.com/news-and-events/press-releases/bank-of-england-urged-to-review-uk-exposure-to-high-carbon-investments.aspx>

Cleaning up the Royal Bank of Scotland

Following the UK Government's bail out of the Banks, RBS – one of the four biggest banks in the world before the recent financial crisis – is now 84% Government (and therefore taxpayer) owned. Yet it continues to invest our money in companies involved in dirty projects that damage the environment and threaten people's human rights. These projects involve tar sands extraction on indigenous land in Alberta, Canada - a process that has been described as the most environmentally damaging project on earth.² In addition, a report published in late last year also showed that RBS is the seventh largest global investor in coal mining and coal power plants.³

Over the past 5 years, we've seen RBS do a U-turn in its rhetoric on fossils and climate. From calling itself 'The Oil and Gas Bank', the bank has become increasingly conscious of the negative perception that this association could promote in a more climate-conscious public. Having said this, while it has promoted various green initiatives, such as 'climate week', the company has refused to address the issue of its provision of finance to those industries that are largely responsible for it.

At the same time as funding climate-trashing projects on the other side of the planet, RBS is failing to sufficiently invest in projects which would help our transition to a low carbon economy. Orkney Sustainable Energy, a renewable energy consultancy that promotes community wind farms, have repeatedly tried and failed to get finance from RBS. This is despite increased investment in renewables being in line with Government's objectives to cut carbon in line with climate targets and create green jobs.

The role of Scottish parliamentarians

We are calling for MSPs' and Ministers to proactively apply pressure to RBS, UKFI and the Treasury to ensure that all bailed-out banks, including RBS: immediately stop investing in projects and companies that destroy fragile and irreplaceable eco-systems; refuse to finance businesses or ventures that fail to uphold human rights or have close links to oppressive regimes; set and publish annual reduction targets for the emissions resulting from lending to fossil fuel projects and companies; prioritise lending to low-carbon companies, technologies and infrastructure; and consider the job opportunities in Scotland and the UK in financing the shift to a low carbon economy.

Conclusion

Friends of the Earth Scotland support the establishment of a Green Investment Bank in Edinburgh. Such a Bank - with proper borrowing powers - could have an important role in moving Scotland and the UK towards a low-carbon economy. Yet this in itself is not enough. The whole financial sector must clean up its act. Bailed out banks such as RBS should move their investment away from dirty development to green projects. Scottish MSPs and Ministers should use what leverage they have to apply pressure on RBS, UKFI and the Treasury to ensure all banks properly play their part in financing the transition to a low-carbon economy.

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2 For more information see: <http://www.foe-scotland.org.uk/tarsands>

3 'Bankrolling Climate Change' (November, 2011), Banktrack:

http://www.banktrack.org/download/bankrolling_climate_change/climatekillerbanks_final_0.pdf