



Media release

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Copenhagen climate summit: Outcome uncertain – renewable energies will profit in the long term

The 15th conference of the United Nations Framework Convention on Climate Change is due to be held in Copenhagen from 7 December to 18 December 2009. The outcome will have differing impacts on global climate policy and affect financial markets in different ways, depending on whether the participants only manage to make general declarations of intent or actually agree on concrete emission targets. But even if Copenhagen is not a resounding success, as many people predict, the restructuring process that has already begun in the energy industry will not be stopped. The renewable energy sector will benefit from this, and remains an attractive investment in the long term.

The purpose of the conference being held in Copenhagen is to produce an agreement to replace the Kyoto Protocol of 1997. Both the industrialised countries and – with their financial support – the developing economies are supposed to commit to both long-term (2050) and mid-term (2020) reduction targets. The outcome of the negotiations is uncertain, but there are few signs of optimism. Despite this, the pressure on individual nations to take action is steadily increasing. Given the planet's dwindling oil and gas resources, a radical overhaul of the energy system is required that follows the same direction as other initiatives to solve the global warming problem.

Copenhagen: two possible scenarios for climate policy and investors

Depending on the outcome of the Copenhagen conference, Sarasin envisages two possible scenarios:

In the **pessimistic scenario**, conference participants will only agree on general declarations of intent to reduce greenhouse gas (GHG) emissions by 2050, and not set any mid-term goals for 2020. Although large emitters of greenhouse gases, such as the USA and China, will continue their national initiatives, they will not speed them up. As far as climate policy is concerned, the status quo would therefore be maintained. The USA and developing countries would continue to lag behind the efforts of other nations. In the long term, however, there has to be a shift away from carbon-intensive energy sources. With this scenario, no significant reaction is expected from equity markets.

The **optimistic scenario** assumes that participants - including the USA – will manage to agree on binding mid-term reduction targets for 2020 and a solution will be found for financing the necessary initiatives in developing economies. Because such an outcome is probably unexpected, it could trigger a “Copenhagen rally” in the short term. International subsidy programmes would significantly boost demand for renewable energy solutions. Shares in this sector could therefore gain ground, while energy intensive industries such as electricity providers with a higher proportion of coal-fired generating facilities could come under pressure in the mid-term.

Restructuring process underway at national levels

Subsidy programmes that have already been approved at national level in many countries have already provided a significant boost to the renewable energy sector and energy-saving technologies in general. The solar industry, for example, has risen to global prominence thanks to increasing demand on the back of state subsidies, and should continue to enjoy rapid growth, according to Sarasin's latest forecasts. An international agreement on binding climate targets could accelerate this trend in the short term and provided a tailwind to the shares of sustainable companies that are better equipped for the future. Conversely, businesses that continue to rely on "dirty" energies such as coal will be on the losing side.

Even if no agreement is reached, sustainability pays off

If this year's climate conference fails to bring any international binding agreements, initiatives to cut GHG emissions will continue to be undertaken by individual countries, so the consequences for global financial markets are likely to be negligible in the short term. In the long term, however, it is worth investing in companies with sustainable business practices, since efforts in this area will still need to be stepped up, irrespective of any international agreements. The ideal candidates here are the suppliers and developers of renewable energy and energy-saving technologies. This is particularly true for Europe, which will continue to play a leading role in climate protection targets. By contrast, the electricity generating industry is more likely to face risks as the world's biggest producer of greenhouse gas emissions. It therefore makes sense to cast an eye over companies which already boast low CO₂ emissions, such as those with a high proportion of hydroelectric power. One company in the energy utility segment that meets Sarasin's strict sustainability criteria is the Austrian electricity provider Verbund. But natural gas suppliers stand to benefit as well, because natural gas has the lowest GHG emissions of all fossil fuels and is therefore suitable as an interim solution until a carbon-free "energy revolution" takes place. Of the various European and North American gas producers that could potentially benefit from stronger demand, those which meet Sarasin's criteria for sustainable investment include, for example, BG Group, Statoil, Southwestern Energy and Encana.

What is Sarasin's understanding of sustainability as practised in business?

At Sarasin, we understand sustainable development to mean the provision of goods and services in a socially responsible way, using production methods with the lowest possible social and environmental impacts.

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