Metropolitan Policy Program at BROOKINGS

Global Metro Summit: Delivering the Next Economy

Keynote Address, Dr. Josef Ackermann

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Good morning, Ladies and Gentlemen. I'm very pleased to be here at the Metro Summit in Chicago. This summit is challenging us to address the question: "How to deliver the next economy." I'd like to offer you my thoughts on how we could and should achieve that.

Ladies and Gentlemen: this is a time of tremendous economic uncertainty. We've been through the worst crisis in 80 years, and our situation is still fragile. The world has been saved from depression, thanks to extraordinary policy intervention. Here in the U.S. there are fears of a double-dip recession. In many parts of the developed world – Germany being a notable exception –, growth is weak, at best and the outlook for job growth is uncertain.

At the recent G20 Summit in Seoul, the world's leaders agreed: **rebalancing is all-important**. We must tackle **global** imbalances – between deficit and surplus countries… and **national** imbalances, between the state and the private sector, after 2 years of exceptional intervention and stimulus. It is absolutely imperative that we find a path to fiscal sustainability in the mid-term, if we want to restore the confidence of markets and investors around the world and achieve sustainable growth. If you look at public debt projections, it's clear how urgent this is: According to our baseline scenario, the public-debt-to-GDP ratio in developed countries is predicted to soar to 133% in 2020, from around 100% in 2010.

At the G20 **Business** Summit in Seoul around a hundred of the world's CEOs came together to discuss how business can help stimulate sustainable growth. As part of that discussion we spent a lot of time talking about **green**, or low-carbon growth.

This relates to today's question: "How do we deliver the next economy?" There are many facets to that, ranging from the shifting geography of growth to shifts between industries. One thing is clear: The next economy must be cleaner and more energy-efficient if we want to drive further global growth and, at the same time, keep our climate intact. This transformation will be nothing less than a new industrial revolution – a revolution that will change the way we live.

More than anything, the new industrial revolution must transform the way we live in our **cities**. Urbanization is the defining trend of the early 21st-century world. Deutsche Bank and its Alfred-Herrhausen Society have led the way in studying the economic importance of cities with our series of "Urban Age" conferences.

By 2050, around 70 percent of the world's population will live in cities. That's more than 6 billion people. And that means we need to make massive improvements in infrastructure. Transportation, buildings, power supply, water supply… it all needs to become much more resource-efficient, and energy-efficient. At a time of fiscal stress, paying for these improvements is a big challenge.

Today, I'd like to address three questions:

First: Why 'green growth' is at the heart of a new industrial revolution - and, in the near-term, why it can help set us on the road to global economic recovery;

Second: The race for leadership in energy technology. For private companies and for governments: what does it take to win?

Third: How do we pay for the next economy? What mechanisms do we use to finance the transformation we need? How can the public and private sectors work together to do this?

Let me start by sharing with you how I see 'green growth' at the heart of the new industrial revolution.

Green growth is not only about combating climate change. Green growth is also a question of energy independence and therefore energy security, in other words, national security. Green growth is also good economics. Energy efficiency makes sense. In mature economies – including the U.S. – it has already created thousands of jobs, at a time when job creation is very important. In emerging markets, populations are growing, and energy needs are increasing. This puts stress on conventional sources of energy. All of these considerations point in the same direction: economizing on energy and other resources, developing alternative sources of energy, and limiting the environmental impact of economic activity.

This involves a huge paradigm shift: we need to set up the infrastructure to deliver low-carbon energy. We must also restructure the supply chains which deliver conventional, high-carbon energy. This will take innovation, leadership, perseverance and – undoubtedly – time.

But our actions can also have an impact in the near-term. Providing low-carbon energy is a business which will triple in size over the next ten years. By some estimates, it could be worth around two trillion dollars by 2020. All around the world, companies are sensing the

opportunity, investing in it, and capturing leadership positions in new technologies. And governments are creating incentives for them to do so.

The recent crisis has turned out to be a catalyst for action. Globally, around half a trillion dollars has been set aside for 'green stimulus spending'. In China, 'green stimulus' accounted for 40 percent of total stimulus spending in the years 2008 and 2009. In South Korea, the figure was 80 percent. Clean energy investment in Asia as a whole rose 37% in 2009. Here in the U.S., the Recovery Act included 90 billion dollars of green stimulus spending. So far, around 20 billion has been spent. That created 190,000 additional jobs.

Short-term spending measures can be useful as shock absorbers after a crisis. But Ladies and Gentlemen: they are not the only answer. **The real key lies in a clear, long-term strategy of transition.** Delivering the next economy will involve significant investment. And investors are looking for a policy framework that delivers on three counts: it must be **transparent**, it must be **long-term**, and it must be **certain**.

Let me turn to my second question: **who wins the race for leadership?**

Before we talk about the **players**, let's first take a look at the **playing field**.

Last year, according to the International Energy Agency, subsidies for renewable energy amounted to around 57 billion dollars. But we spent around 312 billion dollars , globally, on subsidizing fossil fuels. That's six dollars on subsidizing the old paradigm for every dollar we invest in the new. We should correct this imbalance, as the G20 recommended last month.

To create a coherent alternative energy policy, there is one essential first step: we must establish **a price for carbon**. The world needs an estimated 45 trillion dollars of investment in clean energy between now and 2050, if we are to limit global warming to 2 degrees Celsius. Last month, an advisory group of finance ministers and some private sector experts, including a senior representative from Deutsche Bank, delivered its report to the United Nations. The experts concluded that unless we have a carbon price of at least 25 dollars per ton, it will be difficult to raise the 100 billion dollars per year in funding for emerging economies which was promised by industrialised nations in Copenhagen last year.

There are several ways to price carbon. In Europe, it's explicit, via the cap-and-trade system. But carbon is also implicitly priced by official standards - for vehicles and buildings in particular. Here in the U.S. for example, fuel economy standards for cars were raised and that has reduced carbon emissions per mile by 14% in the last 5 years. And then there are so-called feed-in tariffs. These have been very influential in accelerating the development of wind and solar power. In Germany, the feed-in tariff has helped create a 30 billion dollar renewable energy industry, and 300,000 jobs, in a few years.

Now let me turn from the playing field to the players:

China has established itself as a world leader in green technology. It is now number 2 in wind power, with 22 gigawatts of installed capacity in 2009 – enough to power about 17 million homes. China is the world's largest manufacturer of wind turbines and solar panels, and is fast-growing in battery technology and electric cars. China has the potential to become a major manufacturing hub for electric vehicles. Already, there are 120 million electric bicycles on Chinese roads.

Last month, I was in Beijing. The message I got from every quarter was clear: China is determined to be a winner in the race for energy technology leadership. China's leaders see green growth as an integral part of the country's future growth story, and an essential element of China's energy security. They plan to invest 750 billion dollars in the next decade. In China, green growth will shape the next economy.

The **United States** has the potential to be a winner in energy technology and lead the world, as it has in so many other areas. But to do that, the U.S. must make bold decisions and commitments – and soon, so as to avoid falling behind. I have strong faith in the entrepreneurial and innovative spirit of this great nation. The United States can seize this opportunity. Make no mistake: a new world order is emerging. The race for leadership has already begun. For the winners, the rewards are clear: Innovation and investment in clean energy technology will stimulate green growth; it will create jobs; it will bring greater energy independence and national security.

The private sector does not need to wait for agreements between the world's political leaders. Examples of the private sector in action are there to see: **Desertec,** to name just one, is a private-sector project in which Deutsche Bank is an investor. This initiative involves unique collaboration between North-African, Middle-Eastern and European partners. We aim to harness the potential of wind farms and solar power plants in the Sahara desert. This could produce up to 15% of Europe's electricity by 2050. The people of North Africa will gain new access to energy. The project will stimulate the economy of the Mediterranean region. It is ambitious; it is even bold; but it will provide benefits for all involved.

This brings me to my third question: **how do we pay for the transition to the next economy?**

Here, I see three imperatives. **First**: public and private sectors must come together to finance the investments that green growth needs. **Second**: this commitment involves sharing the risks. And **third**: carbon markets need to be developed a lot further.

There's a huge potential for private investment in green growth – if we create the right environment for investors. The U.N. advisory group I already mentioned estimates that

private investment in developing nations could grow to 400 billion dollars per year by 2020. About half of that would come from foreign investors.

But there are barriers to this investment: Start-ups face challenges; domestic capital markets in some nations are still underdeveloped; some do not cater for inflows of foreign capital. Technology can be risky. These barriers to investment need to be removed. The public and private sectors need to work together to provide financing and assume risk.

The US Department of Energy loan guarantee program is an example. Public money is tight, so it's important to make public spending go as far as possible – and leverage the multiples provided by private-sector finance if we can. In Germany, the government recently set up the Global Climate Partnership Fund, together with the country's development bank, KfW. The Government and KfW will put in around 70 million dollars, including first-loss equity capital. This will leverage at least half a billion dollars of joint public and private investment. Together, the government and private investors will finance renewable energy projects in small businesses and private households in 13 developing countries.

But the most effective way to kick-start private investment is to develop **robust carbon markets**. Even in Europe, these markets are still small. We need to scale them up. To do that, the design of these markets needs to be reformed and more nations need to adopt carbon constraints. Both China, in the city of Tianjin, and Brazil, in the city of Sao Paolo, are taking a lead here. They want to use carbon markets to manage their carbon footprint.

We now have 6 years' experience of emissions trading in Europe. Based on that experience, carbon markets need to develop in two ways: **First:** as in other asset markets, mechanisms need to be established that ensure a stable market environment, where market integrity is ensured and price disruptions are avoided. **Second**: emissions trading systems need to be stable enough to generate forward prices with a time horizon of at least 7-10 years. Green growth requires long-term investment. We need a market that allows investors to hedge that long-term investment.

Ladies and Gentlemen, the potential for investment is huge… but investors have choices. Investors want to see consistency, transparency, and longevity in the markets they invest in. That's true for any well-functioning market, and carbon markets are no exception.

Before I conclude, allow me to say a few personal words. Some of you may be asking yourselves: **why does a bank CEO spend time thinking about green growth?** I'll give you two reasons.

First: Because it's an **exciting business opportunity**. Climate change and energy usage are becoming ever more important topics for our clients. Deutsche Bank's profile is ideally suited to serve our clients in this area. We're leaders in capital raising, asset financing, trading and risk mitigation in some of the world's most complex markets. We're a very large

asset manager. We're present on the ground in every significant emerging market. We're uniquely placed to accompany and advise our clients – governments, private sector companies, and investors – who are involved in delivering the next economy. And if we perform for our **clients**, we'll perform for our **shareholders**. My aim is to keep Deutsche Bank at the forefront of green growth.

Second: Because we can **all play a part in using energy responsibly**. As I speak, nearly 3000 of my Deutsche Bank colleagues are in the process of moving back into our headquarters in Frankfurt. We spent two years, and more than 200 million Euros, turning it into one of the most resource-efficient and energy-efficient office buildings in Europe. We radically changed the way we use power and water, and increased the proportion of our energy which comes from renewable sources. Result: we reduced the carbon footprint of the building by 89 percent. Our goal is for Deutsche Bank to be carbon neutral by 2012. As we deliver the next economy, I want Deutsche Bank to be a leader – not only in the way we serve our clients, but also, in the way we conduct ourselves and serve society as a whole.

Now, Ladies and Gentlemen, let me conclude.

The challenge is huge. So is the opportunity. We can transform the way we use energy - in our companies, our cars, our homes and elsewhere. We can create new industries. We can create new jobs. We can safeguard and even increase the independence and security of our nations in questions relating to energy supply. The costs of this transformation are considerable. Investing 45 trillion dollars, globally, by 2050 – that's a big ask. But the costs of doing nothing are much higher.

We, in the financial industry, must play our part. And it cannot be financed on bank balance sheets alone. We must come up with new ways of financing green growth. We can form alliances across banking, insurance and fund management to connect investors with innovators. We can help connect government funding with private capital. And we must work with regulators, and each other, to develop efficient, transparent and robust energy trading markets around the world.

We will only succeed if we work together: Nations must collaborate with each other. The public sector and the private sector must work together. We must share the burden of financial commitments. We must share the risks. But above all, let us share a vision of the mutual benefits of succeeding. This really could be a second industrial revolution.

Let's get to work on delivering the next economy.

Thank you for your attention.