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UNEO FI/VfU Roundtable 2017
29.11.2017

Climate Change in the international Finance System – is there a real change in thinking?

1. Yes, there is a real change in thinking; I remember that when the concept of „carbon bubble“ first came up, some people in the banking world (and not only there) had a hard time grasping it, accepting that real action to fight climate change might happen, lowering the value of assets they hold; in a discussion with a bank representative 2-3years back the carbon bubble/stranded asset risk was even dismissed as „esoteric“.

With Mark Carneys speech, the Task Force on Climate related Financial Disclosure and the High Level Expert Group on Sustainable Finance discussing sustainable finance and “long term material risks”, this has changed. Even Blackrock has issued climate change warnings.

2. Unfortunately changing the thinking is not enough. Blackrock is a good example; they issued the climate change warning and had very good PR success when they voted against ExxonMobil management this May, forcing the company to report on the impact of global measures designed to keep climate change to 2 degrees centigrade.

But understanding the risk doesn’t mean they themselves would shift current capital allocation from an unsustainable pathway to a sustainable one. We will publish in December a study on who are the investors into the 120 biggest coal plant developers, those are companies that aim to expand the world’s coal-fired capacity by over 550.000 MW and represent 2/3 of the global coal plant pipeline. Now guess who is the biggest investor into those? It is Blackrock (holdings worth over 11,5 bio. USD). So they understand the problem, but apart from talking publicly on it they don’t really ACT on shifting capital.

This shows one major problem: The discussions still focus very much on „the sustainability of financial markets“ and the "risk of climate change for a bank's or investors’ portfolio and performance”. The discussion DOES NOT yet center around the "stability of climate" and the "risk finance industry poses for the climate“. But from a climate change point of view this is where the discussions need to be and especially thinking is not enough, institutions need to walk the talk! So far we still see great incoherence between the talk and the financing decisions and portfolios of financing institutions. So there is space and need for more ACTION to actually shift capital allocation from unsustainable to sustainable.

3. And there is much to do! In the light of the Paris Agreement, banks and investors need to look much more seriously into their portfolio and assess how this needs to change in order to achieve WELL BELOW 2° C. Yes, we see some announcements especially on coal even with the big laggards. On the last count we had 14 banks acting on coal. We appreciate to seeing movement, but these are babysteps in light of the challenge of climate change.

4. Banks and investors like insurers, or asset managers need to look forward and stop any financing in new coal infrastructure which is often financed by companies rather than project finance. And just looking into coal obviously isn't enough: other fossils need to be included and carbon intensive industries. So great the thinking changed but there is still a long way to go. The French bank BNP Paribas recently announced that they will no longer do business with companies whose principal business activity is the exploration, production, distribution, marketing or trading of oil and gas from shale and/or oil from tar sands. They also said that they will cease financing of projects that are primarily involved in the transportation or export of oil and gas from shale or oil from tar sands. Additionally they announced they will not finance any oil or gas exploration or production projects in the Arctic region.

One remark to the audience here is: in 25 years working on finance institutions we have unfortunately never seen German institutions as first movers, at best as quick followers and often not even that. It would be great to see that change.