Published on *The Parliament Magazine* (https://www.theparliamentmagazine.eu)

Green economy players should reap rewards

Written by By Lorna Hutchinson on 7 November 2018 in Event Coverage
Event Coverage

Public finances are not enough to fund efforts to keep a global temperature rise to below two degrees, so the onus is on the financial sector to make strides for climate change.

Photo credit: François de Ribaucourt

Green bonds are a way forward in sustainable finance, but incentives are crucial.

This was the message at an event on reorienting capital flows to low-carbon and sustainable activities, organised by EDF and the Parliament Magazine and co-hosted by EPP group MEP Anne Sander and ALDE group MEP Lieve Wierinck.

Opening the event, Veronika Milewski, Senior Advisor for EDF European Affairs, said that if emissions continue on their present pathway there will be no chance of limiting global temperature rises, even to 3^{o}C.

“Time and carbon budgets are running out. According to climate scientists, if we carry on as we are, we have twelve years until we hit the 1.5^{0}C tipping point. To make the needed transition happen, finance and realignment of capital flows into sustainable finance will be crucial,” she said.

This echoed the findings of a report published by the United Nations Intergovernmental Panel on Climate Change (IPCC) in early October, which said urgent and unprecedented changes were needed to keep global warming to a maximum of 1.5^{0}C.

EPP group MEP Anne Sander said that the IPCC objective of keeping a global temperature increase to below 2^{0}C required the mobilisation of all sectors, adding “public finances are not sufficient to drive this transition.”

Sanders said that the issuance of so-called ‘green bonds’ showed that green finance was growing rapidly. These are bonds specifically earmarked to be used for climate and environmental projects. They are typically asset-linked and backed by the issuer’s balance sheet.

> “Keeping a global temperature increase to below two degrees requires the mobilisation of all sectors. Public finances are not sufficient to drive this transition” Anne Sander MEP

“Sovereign wealth funds are investing more and more in green economy … but the amounts [of capital invested] remain relatively modest,” Sander added.

Claude Nahon, EDF Group senior vice-president for sustainable development, explained that as there was currently no financial advantage in raising a green bond over an ordinary bond, ideas were needed for offering remuneration for sustainability.

“We were the first corporate emitter of a green bond … There need to be ideas on how to provide remuneration when there is a demonstrable commitment to sustainability,” Nahon said.

Green bonds differ from conventional bonds in that they involve a two-fold commitment: first, a commitment to allocate the funds raised to support projects that contribute to sustainable development. Second, a commitment to transparency via a monitoring system that confirms that the raised funds have financed the projects specified.

“We are already a CO2-free company, but we are not rewarded for that at all by the financial institutions. This is a major issue for us,” Nahon added.

ALDE group MEP Lieve Wierinck agreed, saying “we are in a new age of sustainable finance,” but noted that, “If you want change, you need to provide a clear incentive to drive this change.”

Sven Gentner, head of the asset management unit in DG FISMA, was also of the opinion that good behaviour should be rewarded. He agreed that incentives should be created to drive sustainable financing, but warned that, “at the moment we’re not quite there.”

> “There need to be ideas on how to provide remuneration when there is a commitment to sustainability” Claude Nahon EDF Group senior vice-president

The commission is at the forefront of public policymaking on sustainable finance, with its so-called Taxonomy proposal - a unified EU classification system that specifies what can be considered an environmentally- sustainable economic activity.

In May 2018, the commission advanced the first legislative proposals for its Action Plan on Sustainable Finance. The proposed regulation will clarify how financial market participants should integrate environmental, social and governance factors in their investment decision making and will set a new market standard that would reflect companies' carbon footprint.

"There is a sense of urgency when it comes to these initiatives. We all know that making the financial sector invest more heavily in sustainable activities, in 'greening' the financial sector, is a very important task. What we need to do here is create the right information and develop the right incentives," Gentner told the audience at the event.

He said that the issues had to be addressed in a relatively short timeframe, before the upcoming European elections in 2019.

"We only have a few months left as we need to reach an agreement in Council. We should also hopefully reach an agreement here in Parliament. We think time is of the essence."

Sylvain Vanston, Group Sustainability Officer at AXA Group, agreed that disclosure was key, adding "we are accountable for what we stand for. We all agree that disclosure is important - we disclose [information] and we want all the companies that we invest in to better disclose. We all agree that a clear Taxonomy is a key part of the answer, and I truly hope that it will be feasible despite the elections next year."

Vanston explained that AXA, which is divesting from fossil fuels as part of a responsible investment approach, now has an ambitious green investment strategy. "We started working on climate risks as an investor five years ago. We had a green investment target in 2015, which was €3bn by 2020 - we have now ramped this up to €12 billion by 2020."

About the author

Lorna Hutchinson is a reporter and sub-editor at The Parliament Magazine

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