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Vice-President Dombrovskis: Sustainable finance speech – European Parliament

***** EMBARGO TIME 13.40 CET TODAY 06/06 – PLEASE CHECK AGAINST DELIVERY*****

Dear colleagues, Honourable Members of the European Parliament,

Ladies and gentlemen,

Thank you for the opportunity to speak about green and sustainable finance today. It is the right time, as we reaffirm and strengthen our commitment to protecting our planet.

The Paris agreement is a landmark agreement. It is ambitious and fit for purpose.

We regret last week's decision by the Trump Administration to withdraw from it. But the Paris agreement will not be reversed.

While some choose to look backwards, Europe will look ahead to the (low-carbon) future.

The world can count on us for global leadership in the fight against climate change.

- This means we need to accelerate the transition to a low-carbon economy.
- This means we need more jobs, innovation and investment in renewable energy and energy efficiency.
- And this means that sustainable and green finance will be decisive for providing the actions we need to meet this challenge.

And as the EU and China made clear during their summit last Friday, we will act together with our partners.

This will provide businesses, investors and researchers around the world with the certainty they need to build a global low-carbon economy.

Today I would like to discuss three aspects of our work to improve the conditions in the EU the growing sustainable and green finance sector:

- First, on the role that the financial sector can play in ensuring a greener and more sustainable future.
- Then, on our work to develop a comprehensive strategy on sustainable finance.
- Finally, on our Capital Markets Union, which we are reviewing this Thursday to include an even stronger sustainable investment dimension.

[importance of finance for renewable energy transition]

We need investment of about €180 billion per year, notably in clean energy, over the next decades to keep the increase in global average temperature to well below 2 degrees Celsius.

The Paris agreement itself underlined how central the finance sector is to meeting this enormous challenge.

This shows the need to turn financial flows towards green and sustainable efforts. It is crucial for tackling climate change, as well as wider environmental and sustainability challenges.

With the European Fund for Strategic Investments, the EU is already working to accelerate investment in sectors such as renewable energy and energy efficiency.

So far, the fund has helped to provide more than €180 billion in financing for investments all over Europe.

But we need to move beyond public finance. And we see private investors already starting to rise to the challenge:

- In 2015, over €300 billion was invested globally in the clean energy sector, six times more than in 2004.
- So far, 8.1 million jobs have been created globally by the renewables sector, including over 1.1 million in Europe.

And we see new solutions for investors who are conscious of sustainability and wish to support suitable projects and companies.

One example is the green bond market, which is booming.

France has issued its first green bonds to the tune of €7 billion, and Poland has issued €750 million's worth earlier.

The EU is already at the forefront of integrating sustainability in financial regulation, and the European Parliament has been a driving force in many of these changes:

- As of next year, large companies listed in EU markets will be required to disclose relevant information on environmental, governance, social, and human rights aspects of their business activities.

This added transparency will directly benefit investors.

Here we are also following the work of the Financial Stability Board on climate-related financial disclosures. We took their recommendations into account as much as possible in our guidelines on non-financial reporting, which we will adopt at the end of this month.

- We have taken steps to incentivise pension funds and shareholders to take sustainability into account in their investment decisions.
- And our recently agreed rules on securitisation introduce environmental, social and governance criteria, in particular by requiring the disclosure of available data on the environmental impact of residential mortgages and auto-loans packaged in securitisations.

[the role of HLEG in charting the way ahead]

Deep and efficient capital markets can make a powerful contribution to funding the transition to sustainable societies.

These investment needs are far too large to be met from the public purse. Private capital will need to be mobilised.

We need to reconfigure the economic and financial system so that private capital is redirected towards more sustainable uses.

There is also a financial stability dimension. Long-term investment decisions properly must properly internalise environmental or other risks if financial systems are to be resilient.

But I believe the broader challenge is more fundamental than that.

To promote truly sustainable development from an economic, social and environmental perspective, we need a deeper re-engineering of the financial system.

This includes developing an overall vision of sustainable finance and clear criteria for what is green or sustainable.

We have created a High-Level Expert Group to help us develop this strategy.

We are eagerly awaiting their interim report to hear how they are getting on,
and we invite all interested parties to attend the stakeholder conference which will follow.

Ladies and gentlemen,

To expand green and sustainable asset markets and further develop green products, we need to give institutional and retail investors legal certainty.

In other words, a clearer understanding and more trust in the green or sustainable nature of investment projects.

This will help them better direct their capital towards a long-term impact.

For green finance, this would have to include:

- commonly agreed definitions,
- transparency on risks,
- and common standards and labels to make sure that investments comply with strict criteria and have a measurable positive environmental impact.

The High-Level Expert Group is also looking into this.

We see that Europe is becoming an investment destination for low-carbon investment.

But this is just the beginning. We should aim to be the global centre of gravity for green assets and investments.

We also need to attract those investors who are looking to fund the transition to a low-carbon economy.

For this, Europe will have to offer better regulation, concrete targets and standards.

This puts the work of the High-Level expert group into new light.

[CMU Mid-term review]

The Commission is not waiting idly by for the expert group to conclude its work.

Our flagship project for stronger and more integrated capital markets - the Capital Markets Union - has already placed sustainability at its core.

Well-developed capital markets are essential for funding the transition to sustainable societies.

Over the past 20 months, we have delivered more than half (20/33) of the measures announced in our Action Plan.

These actions will help free up funding for businesses in all stages of their development, to fuel innovation and growth.

Brexit makes this even more important.

As our largest financial centre leaves the single market, the rest of the EU economy needs deeper and more integrated capital markets more than ever.

That is why on Thursday we are entering phase two, by taking stock of what we have achieved and putting forward new actions that significantly raising our ambitions for integrating EU capital markets by 2019.

The Capital Markets Union mid-term review proposes some concrete examples of work that needs to start now:

- We need to be consistent throughout the investment chain in integrating green and sustainability considerations, for example by clarifying fiduciary duties of asset owners and asset managers.
- We will need to look at rating methodologies, as well as in the investment mandates of institutional investors and asset managers.
- Above all, we are proposing to evaluate sustainability considerations systematically as part of all upcoming reviews of financial legislation.

I am grateful for the helpful input of the European Parliament on these points.

[Conclusion]

Ladies and gentlemen,

The EU will stand by the commitment in the Paris agreement.

While we re-engineer our financial framework at home, we will continue to play a leading role at global level. This is more important than ever.

We already have an impressive track record on fighting climate change.

To stay ahead of the curve, we need to accelerate the transition towards a sustainable and low-carbon economy. Financial reform is only one part of this puzzle, but it is a necessary part.

By committing to this agenda, Europe can become a magnet for investment for sustainably-driven businesses, and the global hub for sustainable technological development.

I welcome your views on how to make our current financial system more sustainable.

And I encourage Member States, the European Parliament, and all interested parties to follow and support this very important work.

Thank you very much.