

## **ADDRESS TO THE EUROPEAN COMMISSION**

### **SUSTAINABLE FINANCE: INTERIM REPORT**

**Public hearing – 18th July 2017 Venue: European Commission Charlemagne building Alcide de Gasperi Auditorium**

**Bianca Jagger  
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Good morning distinguished members of the European Commission and Parliament, Ladies and Gentlemen. It is a pleasure and a privilege to be addressing you today. I would first like to thank Commission Vice-President Valdis Dombrovskis and Christian Thimann, the Chairman of the High-Level Expert Group, for inviting me.

In my speech today I will discuss how the recommendations contained in the High Level Expert Group's Interim Report, 'Financing a Sustainable European Economy', can provide a blueprint for the future. I will examine the role the financial sector has played, and explain why there is an urgent need to prioritise a long-term vision over a short-term profit. I will look at the significance of the Paris Agreement and how the EU could play a leadership role in times to come. I will briefly outline the threat of catastrophic climate change, and demonstrate that the only solution is to embark upon a renewable-energy revolution. I will tell you about some of my personal experiences that have led me to campaign for reforms to our model of development and financial systems. Lastly, I will present you with my hopes for the future of the EU financial sector.

Making the financial system more sustainable is not only desirable, but necessary. As Chancellor Merkel said before the recent G20 meeting in Hamburg: "It's not only about growth, but rather sustainable growth. We've got to have a 'win-win' situation for everyone. The issues obviously revolve around: how do we achieve inclusive or sustainable growth?"

The financial system will be central to how we generate this inclusive and sustainable growth.

### **INTRODUCTION**

Today we stand at a crossroads in history, facing various tipping points: climate change, financial crisis, resource scarcity, conflicts, and the threat of nuclear war. These challenges cannot be solved by the efforts of a single country or a single sector.

But the financial sector could and should become a positive driving force for change in the 21<sup>st</sup> century. I am convinced that the EU could be the leading progressive force to implement the agenda to tackle these crises.

That is why I am here to support, and to urge all of you to support, the High-Level Expert Group's ground-breaking report 'Financing a Sustainable European Economy' which provides a roadmap for a European financial system that fosters sustainability in environmental social and economic policies.

For decades the financial sector has operated in a bubble, as if it were disconnected from some of the most important issues facing our society: human rights, social justice and the environment. Too often, the financial system has failed to take into account key issues in its decision-making: inequality, poverty, unemployment, climate change, and mass migration. It has operated as if it were value neutral. Indeed, the very premise of modern financial theory is that value-neutral markets are by definition efficient and that allowing them to allocate capital according to the sole criterion of maximizing profits is in the best interests of everybody. Yet this idea is in itself a normative judgement, resting on the presumption that the entire environmental and social context in which we all live is irrelevant. It also rests on the assumption that prices reflect all costs. This is obviously not the case. Prices exclude many important environmental, social, and governance externalities, such as environmental degradation or social inequalities. What is more, these costs are often the highest on goods whose prices seem the lowest—coming from globalized production in developing countries under conditions where the externalities in terms of environmental destruction, pollution from transportation half-way around the globe and social exploitation are often massive. As crises we face become more acute, so the inadequacies of a financial and economic system that excludes these considerations become more and more evident. It is a system that confuses price with value.

That is why it is now time to integrate sustainability factors into finance and address these problems holistically. By challenging a system which favours short-term financial gains, over all other considerations, we can take significant steps towards the sustainable and inclusive growth Chancellor Merkel talks about. Reforming our financial systems in such a way that it not only creates wealth, but that it creates wealth, worth having; that is the challenge we now face.

## **ROLE OF THE FINANCIAL SECTOR**

It is undeniable that the financial sector has vast transformative global power, and a key role to play in the market economy. It has helped direct capital to where it is socially useful, it has driven innovation, funded investments and production, and it has created opportunity.

Edmund Burke said, 'If we command our wealth, we shall be rich and free. If our wealth commands us, we are poor indeed.' Currently, the quest for short-term profit is commanding the world.

The report contains innovative and much needed recommendations for promoting sustainable finance. The financial crisis of eight years ago raised important questions and prompted much soul searching. It exposed the lack of regulation to curb the greed and risk-taking of those in the financial sector who practised casino capitalism. Those who gambled with other people's livelihoods and lost; of those who caused homelessness, economic disaster, bankruptcy and poverty, wiping out the jobs and savings of millions of people; packaging worthless claims into complex structures with wrong ratings in the subprime crisis, wiping out billions of capital in the banks, and exacerbating inequality through excessive pay structures and short-term incentives. The financial market crisis shattered society's trust in the financial industry by revealing that

market prices were completely unreliable and that profits were mostly privatized, but losses were mostly socialised. The financial sector must get its house in order and financial markets must find more reliable and comprehensive ways to price assets.

Eight years later, how much has changed? A lot has been changed, and the European Commission has strengthened financial regulation and oversight considerably. However, while short-term financial stability is achieved, the financial system still encourages inequity and inequality. I don't need to tell anyone in this room that the financial economy has become increasingly divorced from the so-called real economy. The short-term ups and downs of financial markets, where the value of long-term assets and long-term oriented corporations changes by the day, the minute or even the second are an example of this divorce because this volatility is economically meaningless and socially harmful. As [Andrew Sheng](#), fellow of the Fung Institute says, 'In the past 30 years, with growth in technology and financial innovation, finance morphed from being a service agent to a self-serving principal that is larger than the real sector itself.'

For many years I have been [advocating critical reforms](#) to our models of development and to our financial institutions - to encompass principles of justice, respect for human rights, democracy, good governance, accountability, protection of the environment and sustainability. Today, I am calling for a shift in our European economic model, and finance must be part of that. I am calling for a shift in our fundamental values. Finance and economics should not just benefit the few, but should take into account the needs and aspirations of all sectors of society. We must move away from our obsession with profit, efficiency and growth based on incomplete price and cost metrics, focus instead on sustainable profit and growth based on full economic, social and environmental value. It is not only a question of moral responsibility and economic justice. The recommendations contained in the report will not only be beneficial and profitable for all - they will be critical for our survival.

We need a revolution in our thinking, a revolution of our financial institutions. Instead of behaving as if the world of money operates without consequences for lives, livelihoods and the environment, all investment should take into account environmental social and governance (ESG) externalities. We need to reconceptualise the idea of value, particularly regarding fossil fuels, to reflect not only their economic cost, but also their social and environmental impact. I welcome the report's recommendation to develop European-level principles for corporate governance and stewardship. Banks and investment funds must make transparent governance a priority. We also need a shift in the culture: instead of rewarding risk-taking behaviour with vast bonuses, financial institutions should reward ethical behaviour and investment.

## **PARIS AGREEMENT**

I do not need to tell anyone in this room that one of the greatest threats we face today is climate change. The Paris Climate Agreement, though not perfect, is the best roadmap we have for tackling it. As we all know Donald Trump announced on June 2<sup>nd</sup> that he is withdrawing the US from the Agreement. His action could have grave consequences for the climate and for the world. To throw out the Paris Agreement is to endanger our future. The effects of climate change are not local - we all physically share them. In the

end, we will all face the same fate if we fail to act now. Climate change is an existential issue for humanity.

But perhaps President Trump's decision will turn out to be a blessing in disguise, an opportunity for the European Union to step up and assume a new leadership role in the global arena. [Chancellor Merkel](#) said on May 28<sup>th</sup>, "The times in which we can fully count on others are somewhat over. We Europeans must really take our destiny into our own hands."

I believe that the EU could be the powerful force to carry out a long-term vision for a sustainable economy; it could play a critical part in safeguarding our future, and even the future of life on earth.

The European Commission has both the willingness and ambition to show leadership in the area of Climate Change. There is now a consensus emerging that implementation of the Paris Agreement must be accelerated.

## **CLIMATE CHANGE**

I remain concerned about the Paris Agreement's provision to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels." This is a dangerous equivocation. By now we all know that a 2°C target is woefully inadequate. Last year the world crossed the threshold of 400 parts per million carbon dioxide - an ominous development which is not likely to be reversed in our lifetime. The average global land and ocean surface temperature for January–April 2017 was 58.41 degrees Fahrenheit - 14. 67 Celsius - according to NASA - the second highest temperature recorded for this time of year since records began in 1880. The highest was in 2016.

197 countries have signed the Paris Agreement and 148 have ratified it. Scientists at [MIT](#) say that under the current Intended Nationally Determined Contributions (INDCs) the global average temperature will soar by as much as 3.7 degrees Celsius above pre-industrial levels by 2100. I don't know if you remember the World Bank report, 'Turn down the Heat: Why a 4°C Warmer World Must Be Avoided' : it describes the apocalyptic scenario for this sort of temperature rise: extreme weather events, water scarcity, reduced crop yields, coral reef degradation and rapid sea-level rise.

At the opening of COP21 in Paris President Hollande was the first world leader to acknowledge that '1.5 degrees is the absolute ceiling' for global temperature rise if we are to prevent climate catastrophe. We are already on a course for much higher temperatures than this 'absolute ceiling.' The record-breaking temperatures that made 2016 the hottest year ever recorded have continued into 2017, pushing the world into "truly uncharted territory". On March 21<sup>st</sup> the World Meteorological Organisation reported unprecedented heat across the globe, exceptionally low ice at both poles and accelerating sea-level rise. Three-quarters of the world's mega-cities are by the sea. 40% of the world's population lives within 100 kilometres of the sea. Climate change is not happening somewhere 'over there.' It is not something we merely read about. The effects are all around us, everywhere.

The World Bank is already advocating [migration programs](#) for Pacific Islanders whose homes will be submerged by rising sea levels, in an attempt to forestall a forced migration crisis in years to come. The impact of climate change will [drive](#) hundreds of thousands, probably millions of climate refugees from their homes, cause resource scarcity and ignite conflict.

The only path to economic and political stability is to slow the headlong acceleration towards climate catastrophe. We must integrate sustainability and the needs of the planet into financial and economic concerns as never before. We must ensure that the world of finance funds technological development in innovative ways. We must call on governments to abide by the Paris Agreement and ensure the integrity and resilience of ecosystems, restore degraded and deforested land, and transfer subsidies from fossil fuel and nuclear to renewable energy.

We must embark upon a renewable energy revolution.

## **RENEWABLE ENERGY**

Following the Paris Agreement at COP 21, the Commission recognised the need to develop and strengthen an economic strategy oriented towards long-term sustainable and climate-resilient strategies. One of the most critical reforms will be the conversion from fossil fuels to renewable energy.

I have been advocating for a renewable energy revolution for decades. Promoting renewable energy must now become a global and universal priority. My friend the late Hermann Scheer was a pioneer and a driving force of the renewable-energy revolution. Some called him the [“solar king” and the “sun god”](#). Hermann said, ‘These technologies are the only viable solution to the energy crisis. Nothing is macro-economically more necessary, more practical or cheaper than the conversion of our energy systems from conventional energies to renewable energy.’

It is ‘the best [investment](#) of the 21<sup>st</sup> century.’

In Germany the ‘Energiewende’ or energy revolution has been so successful that during the first weekend of May 2017 Germany broke a [new record](#), with low-carbon sources nearly obliterating coal and nuclear power. Energy from wind, solar, biomass and hydropower provided a record 85 per cent of the country’s electricity.

Although there was much reluctance from governments and financial institutions to initiate the move from a fossil fuel based economy to a renewable energy economy, the business community realised the profit potential of renewable energy.

We are currently experiencing a boom. According to UNEP in 2016 renewable energy accounted for 55% of all the gigawatts of new power generation added worldwide last year. The global renewable-energy sector employed 9.8 million people in 2016. At long last according to a [recent United Nations report](#) the needed ‘structural change is underway.’

In the [developing world](#) the paradigm shift to renewable energy is already transforming lives. 1.2 billion people still live without access to electricity and around 2.7 billion are

without clean cooking facilities. The process of providing electricity access through grid extension is becoming obsolete, as renewable energy technologies enable more and more off-grid markets, and stand-alone systems.

I recently attended the inaugural forum of the Norman Foster Foundation in Madrid, 'The Future is Now'. Lord Foster's speech was inspiring. He presented his vision of a long-term sustainable future for cities, architecture and the environment.

He said, 'Technology has a track record of responding to great crises.'

Today renewable energy is the technology that could pull us out of the toxic downward spiral of fossil fuel consumption, CO2 emissions and climate change.

## **PERSONAL EXPERIENCE**

I was born in Nicaragua, and for decades I denounced the neoliberal policies that have contributed to exacerbating poverty in the developing world. I have dedicated my life to defending human rights, civil liberties, social justice and environmental protection throughout the world.

I established the Bianca Jagger Human Rights Foundation (BJHRF) in 2005 to be a force for change and a voice for the most vulnerable.

I have witnessed the human cost of reckless development. The human rights violations and environmental crimes perpetrated by irresponsible oil, mining and hydroelectric companies in the name of profit, causing irreparable damage to communities, indigenous people and individuals.

I have supported many indigenous tribes in their struggle for justice and often for their survival against big corporations.

I supported the Cofán, Siona, Secoya, Kichwa and Huaorani tribes in Ecuador in their battle for justice against the oil company Texaco, now known as Chevron. The Bianca Jagger Human Rights Foundation and I have campaigned on behalf of the Kondh tribe in Orissa, India, to protect their sacred Niyamgiri Mountain from the proposed bauxite mine by Vedanta Resources Plc, a British-based mining company. The BJHRF campaign was instrumental in halting plans for the mine but this is an all too rare success. Today the BJHRF and I are campaigning against the Brazilian government's plan to build at least 256 dams [in the heart of the Brazilian Amazon](#). The dams will displace tens of thousands of people, destroy lives and devastate the environment, inundating at least 6,470 sq. km of the world's largest tropical forest and threatening the survival of the Munduruku, Kayapo, Juruna, Arara and Xikrin indigenous peoples among many others. Some of the dams, including [Belo Monte and Madeira](#) are already operational. Even now the river system that provides a fifth of the world's fresh water is being dammed, polluted and fouled up, causing irrevocable human and environmental destruction.

When I look back on my experiences and my work I cannot help but partly agree with my old friend Teddy Goldsmith, who founded the world's first Green Party in the UK. He said that "Economic growth is a device for providing us with the superfluous at the cost

of the indispensable." I hope we can recalibrate the financial system to benefit what is 'indispensable': human lives and the environment.

## **CONCLUSION**

The great German philosopher Arthur [Schopenhauer](#) said, 'Wealth is like sea-water; the more we drink, the thirstier we become.' Our task now is to break this cycle. We must change the incentive structures within financial institutions to favour long-term benefits over short-term profit. We must enlarge the focus of finance, to distinguish what is good and what is bad for people, the environment and the economy.

Business as usual is no longer an option. We need new thinking in all areas of finance and economics. We need to revise ideas about indicators and assessment periods. We cannot judge sustainability on a three-month basis— it takes years to assess sustainable finance.

And this idea is already being embraced by leading financial and political figures. Mark Carney's initiative as Chairman of the Financial Stability Board to launch a Task Force on Climate-related Financial Disclosures has produced ground-breaking recommendations for corporations, banks, and investors to provide much more meaningful disclosure around the long-term risks to their businesses posed by climate change so as to avoid the "Tragedy of the Horizon".

And I would like to quote Chancellor Merkel again: "If we simply try to carry on as we have in the past, worldwide developments will definitely not be sustainable and inclusive. We need the climate protection agreement, open markets, and improved trade agreements in which consumer protection, social and environmental standards are upheld."

To summarize, sustainable finance is an idea whose time has come. And as Victor Hugo said, nothing is more powerful than an idea whose time has come.

I commend the European Commission for having launched this initiative on sustainable finance and for providing the political will to put it into practice. By adopting the recommendations of the report, 'Financing a Sustainable European Economy,' the Commission can take a first important step to transform the European Union and its financial sector into a powerful instrument of change.

This Interim Report also lays out policy areas for further examination; I encourage the High-level group to develop equally relevant recommendation on these policy areas in the coming months as it has done on the early recommendations. Cast into a framework of sustainable growth, the European financial economy, instead of being part of the problem, can be an integral part of the solution.

Thank you.

Bianca Jagger  
Founder, President and Chief Executive, Bianca Jagger Human Rights Foundation  
Council of Europe Goodwill Ambassador

IUCN, Bonn Challenge Ambassador  
Senior Fellow, Centre for International Governance Innovation  
Member of the Executive Director's Leadership Council of Amnesty International USA  
*Twitter @BiancaJagger*  
*Facebook Fan Page- Bianca Jagger Human Rights Foundation*  
[www.facebook.com/BJHRE/](http://www.facebook.com/BJHRE/)