

# “The ECB must act now on climate change”

## Open letter to Christine Lagarde

November 28<sup>th</sup>, 2019

Dear Christine Lagarde,

As the new President of the European Central Bank you'll face many challenges in the years to come, but the most crucial one is to determine how the ECB will act to fight climate change and accelerate the transition towards a carbon-neutral economy. During your hearing at the European Parliament, **you rightly pledged to make sure the ECB puts the “protection of the environment at the core of the understanding of its mission.”** As academics, civil society and trade union leaders, entrepreneurs and citizens deeply concerned by climate change, we believe that the most powerful financial institution in Europe cannot just sit passively as we witness a growing environmental crisis.

Climate change not only imperils life-sustaining processes, it also threatens the financial stability, real economy and jobs. It has been estimated that without mitigation efforts, **physical risks related to climate change could result in losses of up to \$24 trillion** of the value of global financial assets<sup>1</sup>. For all those reasons, we need a massive shift of financial flows towards a low carbon and socially just transition, and this can hardly be done without central banks actively pushing the financial system in the right direction. This will not only make our economy more sustainable but it will facilitate job creation in less carbon-intensive sectors.

We know that this issue is being discussed among many central banks which are members of the “Network for Greening the Financial System”, including the ECB. But progress is much too slow and we are losing time. **We cannot wait for years to study the long-term financial risks involved; central banks must use all the tools at their disposal to proactively prevent these risks.** In that regard, it is particularly shocking that the ECB – in the name of market neutrality – is still buying assets on a massive scale from companies involved in carbon-intensive and fossil fuel-related industries. If the ECB is truly concerned by climate-related risks, it should recognise that its current monetary policy is part of the problem and is reinforcing a dangerous status quo.

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<sup>1</sup> Dietz, Simon, Bowen, Alex, Dixon, Charlie and Gradwell, Philip (2016) ‘Climate value at risk’ of global financial assets. Nature Climate Change, 6. pp. 676-679. ISSN 1758-678X

Without any further delay, the ECB should commit to **gradually eliminating carbon-intensive assets from its portfolios**, starting with immediate divestment from coal-related assets. Without waiting for the “green taxonomy” developed by the European Commission, climate-impact criteria should be used to screen all assets currently eligible for monetary operations.

As the emergency response to the last financial crisis showed, central banks are not lacking in imagination when the situation demands it. Under your leadership, the ECB could deploy similar ingenuity in addressing the threats posed by climate change; by re-designing “Quantitative Easing” or refinancing operations to ensure they are supporting investments contributing to the green transition.

You will inevitably face ideological resistance from those who think central banks should leave climate policies to others and remain “market-neutral.” But it’s time to revisit this principle. If one agrees with Nicholas Stern that “*climate change is a result of the greatest market failure the world has seen*”, then the idea that monetary policy should simply mirror the market amounts to adding a regulatory failure on top of market failure.

On the other hand, you will also find strong political support for resolute action. Fighting climate change is a major EU policy objective, and as such it fits in your mandate as defined by Article 127 of the Treaty on the Functioning of the European Union. This has been confirmed several times by the European Parliament<sup>2</sup>. In addition, the ECB as an EU institution is legally bound by the Paris Climate Agreement. And should there be any doubt on this point in the future, you can trust the European Parliament – to whom the ECB is accountable – to provide further clarity and guidance on the role the ECB should play within the broader EU climate strategy.

If you are serious about your pledge to put the ECB at the forefront of the fight against climate change, you can count on our support in contributing to this debate in a constructive and democratic manner.

We wish you good luck and success.

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<sup>2</sup> European Parliament resolution on sustainable finance, April 2018  
[https://www.europarl.europa.eu/doceo/document/TA-8-2018-0215\\_EN.html](https://www.europarl.europa.eu/doceo/document/TA-8-2018-0215_EN.html)

## Signatures from organisations:

1. Secours Catholique - Caritas France
2. Potsdam Institute for Climate Impact Research
3. Finnish Confederation of Professionals (STTK)
4. Greenpeace Netherlands
5. Confédération française démocratique du travail (Cfdt)
6. European Federation of Ethical and Alternative Banks & Financiers (FEBEA)
7. UNI-Europa
8. Stockholm Resilience Centre
9. Finance Watch
10. Institute for Climate economics (I4CE)
11. WWF European Policy Office
12. Fondazione Finanza Etica
13. World Future Council
14. Finanzwende
15. ASUFIN
16. FEPS
17. IPSO ECB Trade Union
18. The Club of Rome
19. Positive Money Europe
20. Veblen Institute for Economic Reforms
21. Centre des Jeunes Dirigeants
22. Greenpeace France
23. Fondation Nicolas Hulot
24. Attac Germany
25. The Shift Project
26. Rethinking Economics
27. Institut Louis Bachelier
28. KEDGE Business School
29. WEED - World Economy, Ecology & Development
30. Attac France
31. AXYLIA
32. 350.org
33. Society for International Development (SID)
34. Fondation Copernic
35. Urgewald
36. Sauvons l'Europe
37. BankTrack
38. Chaire Positive Business - Université Paris Nanterre
39. PowerShift e.V.
40. FISAC/CGIL
41. Sunrise Project
42. Green Economy Coalition
43. SOMO
44. Greentervention
45. The Green New Deal for Europe
46. European Alternatives
47. Réseau Action Climat

48. Fair Finance Institute
49. Federazione degli Organismi Cristiani Servizio Internazionale Volontario (FOCSIV)
50. Monetative e.V.
51. Observatorio de la Deuda en la Globalización
52. Attac Austria
53. Asociación de las Comunidades Autofinanciadas
54. Réseau International de recherche sur les Organisations et le Développement Durable (RIODD)
55. Schutzstation Wattenmeer
56. SDSN France
57. Edgeryders
58. WECF France
59. FISAC/CGIL
60. Banca Etica
61. Greenpeace International

## Signatures from individual experts:

62. **Adam Tooze**, Professor, Columbia University, European Institute, USA
63. **Adair Turner**, Chairman, Energy Transitions Commission & Former Chairman of the UK Financial Services Authority, UK
64. **Tim Jackson**, Professor, University of Surrey, UK
65. **Herman Wijffels**, Former CEO at Rabobank, Netherlands
66. **Panicos Demetriades**, Professor of Financial Economics, University of Leicester, UK
67. **Jézabel Couppey-Soubeyran**, Professeur, Université de Paris 1 Panthéon-Sorbonne, France
68. **Nick Robins**, Professor, Grantham Institute on climate change and the Environment, UK
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73. **Jacqueline Cramer**, Professor & Former Minister of the Environment, Utrecht University, Netherlands
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