Climate protection needs strong banks

28.12.2021
von

Christian Sewing, President of the Association of German Banks and Nicolas Théry, President of the French Banking Federation, wrote this guest article. It appeared in the German Handelsblatt and the French Les Echos on 28 December.

Just over two months after the Bundestag elections, the new governing parties, the SPD (Social Democratic Party), the Green Party and the FDP (Free Democratic Party) have signed their coalition agreement and elected Olaf Scholz as chancellor. This has enabled the new federal government to begin its work before the French Presidency of the Council of Europe starts on 1 January 2022. That is good news for Germany, France and Europe.

Because the sooner important decisions are made, for example on climate policy, and the sooner France and the new German government form a functioning duo at the European level, the better this will be for the entire continent. This applies particularly to the European banking sector. Climate protection is the new government's leitmotif, and the coalition agreement opens up new prospects in terms of how banks can participate in this century's biggest transformation project.

What is at stake and how ambitious Europe's climate policy plans are, is well known. With its European Green Deal, the EU Commission wants to make Europe climate-neutral by 2050. CO2 emissions across the EU are to be reduced by at least 55 percent compared to 1990 levels by 2030. In order to achieve these goals, a whole range of EU energy and climate policy laws will have to be adapted in the foreseeable future.

But how the huge investment that this will entail can be financed is at least as important. The figures speak for themselves. According to serious estimates, more than 350

Kurzgefasst

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billion euros will be needed annually to transform the European economy to address climate change. An additional 125 billion euros per year will be needed to finance the digital transformation, which in turn can contribute to climate protection. Private capital in particular must be mobilised for this.

Banks are already playing a central role in financing the green transformation in particular. Many French and German institutions are members of the Net Zero Banking Alliance and support the Principles for Responsible Banking. Together with their clients, they are now embarking on the path envisaged by the Paris Agreement. They are also providing tens of billions for the expansion of renewable energies every year. This trend will accelerate even more in the coming years.

That is why it can be said today that more climate protection is only possible if the banks are involved. However, in order to mobilise even more capital for this purpose, the banks need better framework conditions. This applies, for example, to the EU taxonomy, which will define the kinds of financing that will be considered sustainable in the future. We must not restrict ourselves to projects that are already clearly green. Rather, we must also support the gradual transformation of the economy towards greater sustainability.

It is also important to have an international approach so that the European Union's right and ambitious plans, catch on globally and do not become a disadvantage in competition with other regions. But that also means that the taxonomy should definitely not be too concerned with details. Above all, however, we need a strong European banking and capital market to be able to finance the transformation of the economy effectively and efficiently. The new German government is also committed to the goal of an efficient European capital market and a European Capital Markets Union.

Unfortunately, the Capital Markets Union is one of those projects that are under the radar of the public and also of large parts of politics, although they are of great importance for the sustainability and competitiveness of the European economy. It would therefore be in the interest of Europe as a whole if Germany and France threw their weight behind achieving significant progress on this issue. We hope that the French EU Presidency will provide further important impetus in the next six months.

However, financing the transition to a sustainable and digital economy could be jeopardised if the Basel capital standards become too restrictive for Europe. With its legislative proposal which was presented a few weeks ago, the European Commission has tried to take the specific European environment into account so as not to increase the burdens on banks in the EU too much. However, the proposed measures are temporary, with negative consequences for corporate financing.

The French and German banking associations will therefore continue to work with their European partners to ensure that the Basel rules permanently take into account what is important for the European economy. Our European universal banking model strengthens the European economy. It plays an important role in ensuring that our companies have comprehensive and efficient financing conditions.

On the other hand, strictly modelling regulation on the US model would restrict access to real estate credit and the financing of businesses and the economy as a whole and would thus hinder its transformation. For this reason, the specfic implications of the prudential debate, which may seem technical, although it is eminently political, should not be downplayed. Preserving the efficiency of our banking model means preserving the efficiency of our European economic model.

The pandemic shows that the European banking sector is stable and the business models are crisis-proof. The institutions play a decisive and responsible role in helping companies through months in which their existence is threatened, thus cushioning the impact of the lockdown and loss of revenue. It is all the more important now to use the potential of the European financial sector, but also of the European capital markets, for the even greater tasks of the future.

Germany and France, together with their partners, must pull out all the stops to ensure that a real European single financial market takes shape in the next few years. Profitable European banks and a unified European capital market are not only important for climate protection; they are also indispensable for the global competitiveness of the European economy and stronger European sovereignty in a world in which the balance of power is currently undergoing a tectonic shift.

The European community of states must strive to bring its great economic potential to bear in the international arena and to speak out forcefully for European values and interests. Germany and France, the two largest member states of the European Union, know what is at stake here. Only if they move forward together can Europe be the strong, sovereign and economically successful continent we all want it to be.