

From inspiration to action: COP24

Diario Expansión (Spain)

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27 Nov 2017

Climate change as a result of human activity is a fact, as is its impact on the economy and the financial system. In this last area it has evolved from being a reputational consideration into the study of how to manage the physical risks (changes in the frequency and intensity of catastrophic weather events) and transitional risks (guidelines and standards for bringing real activity and finances into line with the earth's resources). From rhetorically advocating care of the environment to answering specific questions: how to classify sustainable financial assets; how to measure risks, opportunities and impacts; how to obtain resources for mitigating their impact; and how to carry out the transition so as to be less dependent on polluting energy sources and/or promote clean ones. "From the Muses to the theatre".

The 2015 Paris Agreement (21st Conference of the Parties ("COP 21") of the UNFCCC (United Nations Framework Convention on Climate Change), signed by 195 countries, was especially positive because it opened the door to different speeds and requirements for emerging and developed countries, which are also different in their responsibility for the causes of climate change. This made it easier to reach agreements and acted as a lever for each country to increase its degree of commitment according to its capabilities. COP 23, which ended last week, was also productive in that it called for a greater degree of ambition and placed special emphasis on the most vulnerable countries.

The Paris Climate Summit of 12 December will be crucial for further adequate progress in answering the foregoing questions. The practical response has to take account of the following two key factors: firstly, global warming has a direct effect on the overall social wellbeing of countries in which industries operate; and secondly, the risks (and opportunities) must be incorporated gradually and smoothly into financial institutions' and companies' governance, strategy, business development, risk management and day to day procedures.

Achieving this will involve overcoming challenges. In the first place, disclosing information appropriately and communicating clearly and directly so as to add value and promote correct market discipline and price formation (which is currently more of an art than a science). Furthermore, there is a need for a standard, widely accepted, global classification allowing risks, opportunities and impacts to be compared and quantified. A legal, regulatory and supervisory framework also needs to be put in place to provide stability and certainty throughout project lifetimes and allow providers and seekers of financing to take a long-term view when making their decisions, with rational expectations based on the available information referred to previously.

At this current early stage it seems advisable to move ahead cautiously, with small, firm steps. An overly ambitious strategy aiming to do everything all at once right from the start could lead to paralysis and even to regression as a result of unwanted effects. It is therefore essential to have an orderly global plan coordinated on all fronts to avoid overlaps and inconsistencies with existing measures. For example, from the legislative, fiscal, regulatory and supervisory areas via emissions policies, through public investment and risk sharing.

Moreover, the common global strategy must allow some flexibility among jurisdictions depending on their differences in terms of development and capabilities (as was astutely acknowledged by the COP 21): an emerging country without infrastructure differs significantly from a European one with higher levels of consumption and welfare, which in turn is different from China with its intense growth model.

The last crisis showed that global cooperation and coordination are essential for measures implemented to attain or approach their respective objectives and that commitments need to be credible and ongoing, being adapted appropriately in a dynamic environment. Lope de Vega once said that more than a hundred of his works had taken only twenty-four hours to pass “from the Muses to the theatre” (de las musas al teatro), and de las musas al teatro is now used to refer to anything that goes from inspiration to tangible action. So it is to be hoped that COP 24, which will take place in December 2018 in Katowice, Poland, will confirm that, albeit not in twenty-four hours, more than a hundred works will have passed “from the Muses to the theatre”.