

Transcripts of the interview with Ingmar Juergens (Co-CEO and co-founder of Climate and Company) – December 2023

Caterina Rho:

Hello everyone. Welcome to the fourth episode of interviews with top sustainable finance scholars, the European Commission Sustainable Finance Research Forum Interview Series. My name is Caterina Rho, and I am the Secretary of the Forum. Today I have the great pleasure to have with me Ingmar Juergens, Co-CEO of Climate and Company, one of Germany's leading sustainable finance think tanks. Welcome, Ingmar!

Ingmar Juergens:

Thank you very much, Caterina.

C.R.:

Ingmar Juergens is one of the pioneers of carbon finance, and one of the most experienced experts in the field of climate economics and sustainable finance. He spent 15 years, from 2002 to 2017, in increasingly responsible positions within the OECD, the UN and the European Commission. Ingmar is amongst the very few experts covering the entire range of climate policy and finance dossier, from adaptation to mitigation, finance and policy, to the modeling of climate change impacts and the economics of climate change. Over the years, Ingmar published applied work about climate policy, finance and economics in areas standing from land use, industry, the energy sector, and the financial markets. He has been working as an observer with the German government's Sustainable Finance Advisory Committee, he has served as a Sherpa in the EU Sustainable Finance Platform, and he is a member of one of the European Financial Reporting Advisory Group's experts working groups for drafting the European Sustainability Reporting Standards.

Thank you very much again, Ingmar, for accepting our invitation to participate in our series of interviews on key challenges in sustainable finance. With all your experience, I am sure we will have a very interesting interview today. With respect to sustainability topics, then, according to you, what have been the major building blocks that the EU has achieved in this mandate? For the future, what should be on the agenda for the next one?

I.J.:

Yeah, thanks, Caterina. I think that is something that is very interesting to observe, this sense of leadership of the European Commission in this area of sustainable finance. I think the first and

foremost achievement was to really put sustainable finance on the top of the sustainability agenda and on top of the financial sector's policy agenda. I think that when nobody else was really talking about it, the European Commission set up the high-level expert group, set up the technical expert group, devised its strategy. I think that was extremely, extremely helpful. I was at the time working for the European Commission in Berlin as their Senior Economic Advisor, and this was a totally new impulse that we got there for the discourse, I think also in the Member States. So that maybe as a first one, as a soft, so to say, element here of what was a really, really real achievement.

And then obviously the Commission put flesh to the bone which was important not to have just high level expert groups but to actually follow suit. If I would select one thing that I think has been one of the major achievements, it is that: to put transparency and the importance of reducing information asymmetries about important sustainability issues very high on the agenda. The Commission did that obviously with the Taxonomy Regulation, with the Sustainable Finance Disclosure Regulation and the Corporate Sustainability Reporting Directive. I think this has been one of the key achievements. This has been a front-runner thing. When you're a front-runner, you also make – you can make mistakes. So I think the market is struggling somewhat with the uptake and the implementation of these policies. And so now what we will need to focus on, I think, in the next time, maybe also in the election year where we will not see any new regulatory proposals, is to focus on making it work. This will be really, from my perspective now, the Commission has put a lot on the table, thank you, that's important, to really give strong incentives for market players to deal with this sustainability challenge.

Now what we will need to see is, can we make it work? What does work? What does not work? Can we learn, and can we understand what are the remaining challenges? I think it is very important, we learn by doing. And I think we have to also allow for maybe mistakes by companies, because there are also many companies out there that will now be reporting for the first time about their sustainability impacts and risks. For them it is a new experience. They have to build up capacity, and we have to leave them the time for doing it. But it's important that we have this mandatory standards in place. So I think that's an important achievement, Caterina. And it is from a research perspective, so many of us in the Research Platform Sustainable Finance that we founded in Germany together with Frankfurt School of Finance, DIW Berlin, University of Kassel, University of Augsburg, University of Hamburg, all these brilliant researchers, many of us have done all this empirical research in the past that showed very clearly that voluntary reporting initiatives do not work. They do not effectively reduce information asymmetries between investors and investee companies. And so I think this one has been a very science-based approach of the European Commission by saying, yeah, okay, we have learned that lesson from that excellent empirical research that's out there, and we have understood that we have to put a mandatory regime in place. So I think, I mean, you ask a big question there, Caterina, right? I mean, so what has been a major achievement? I think they've done a lot. I try to focus on one area, which is transparency with a lot of different dimensions. I mean, what should be on the agenda next is, I think, again, we have to make it work. We have to work with it and then we have to also feed that back into the policy process, let's say in early

2025 or something, when the new commission is in place. And I think that's also would be my call for researchers out there to work with market participants, to work with non-financial corporates, to work with asset managers, the way we are doing it as well. We are working at the moment, for example, with AP2, a Swedish asset manager, where we're trying to solve with them the deforestation challenge. So they would like to identify deforestation-related risks, impacts in their entire portfolio. And we are trying to solve that data challenge with them. And I think we need this pragmatic approach now. There is really, I mean, I think climate change, at least scope one emissions and reporting about it, we have a long history. I mean, come on, GRI started in, what, 98? I think CDP, Carbon Disclosure Project, started also in 98 or something. So we have a lot of experience with carbon. Now, what we need, I think what's more challenging is, what we need to work on, is biodiversity, circular economy, water.

Then secondly, what we need to understand now, can we tackle also supply chain reporting? So reporting across, along the entire supply chain, the impacts and risks. Because we have to remember, 80, 90% of the sustainability impacts of European supply chains, of the European economy, if you like, are hidden upstream in the supply chain. And we don't have that in place yet, and that's what we need to now work on and get our hands dirty and try to see how far we got. The next thing is, I think, also the Commission would have to look now carefully at policy coherence. They have put a lot on the table and it isn't perfectly coherent. I mean, you know how it works. There are different departments in charge of their dossier, of their file, of their policy. They need to get it through by law. They need to discuss it with the Parliament and the Council. And it's not always enough time to look left and right and to consider what's happening in parallel. You know, we can always blame the Commission. I know it is quite popular to bash EU institutions, but I think we could also take a more constructive approach and say, okay, you know, if you're a frontrunner, these things happen, but now we have to sort it out. We have play the ball back to the Commission, say, look guys and girls, what is the coherency challenge, where do we have to adjust things? And I mean I see it happening already. Now the CSDDD, the Due Diligence Directive, that is on the table now. It is already, it has a reporting element and it is using an aligned reporting requirement, aligned with the CSRD, with the corporate disclosure regulation. So that's with a reporting directive. That is good. We are starting to see this coherence and I think it needs to go further. It needs to be extended across the standard finance disclosure regulation, across the whole set.

So this is, I think, and the last but not least, and very important, we started in the green niche. Now we started defining sustainable activities primarily for the green niche. So we could maybe define green finance products better. Right, that was our motivation. Get more transparency into the market for green financial products. But now we have to make sure that sustainable finance works for the transformation. That we can channel money into those sectors that still have to transform. That if we only look at last year's emissions, that may be still very dirty. And yet, they may very well qualify for sustainable finance if they have a credible transition plan. In summary, I think the things that we need to test now, pilot and then feed back into the policy process, they will be going beyond climate, biodiversity, circular economy, tackling the entire value chain,

because Europe has shifted most of its environmental and human rights violations upstream outside the EU, so we have to tackle it, otherwise we're meaningless.

Then we have to look at policy coherence, and I know one should only have three messages, but I have unfortunately four. So the fourth one is make it work for the transformation. I think these are the pragmatic things that we need to do now. Researchers, think tanks, policy makers working together with companies, with banks, with asset managers, with insurance companies. I think that wasn't a nutshell, maybe a coconut shell, but this was maybe my first take on what we have achieved, what the commission has achieved so far and what are next steps now, maybe until the new commission comes in.

C.R.:

Thank you very much, Ingmar. This is a very, very interesting answer. You basically gave us a to-do list for the next commission and beyond, hopefully. So it was a great way to start our interview. Among the things that you mentioned in your answer, one of the main building blocks that was also more developed are the European taxonomy and ESG standards that now are widely discussed and firms are starting to implementing. In your opinion, what do we need to do to stay ambitious at international level and especially looking at the G20 level?

I.J.:

Yeah, thank you, Caterina. If you allow me to dwell a few minutes more on your first question to build a bit the bridge to the next one. What I talked about was what we have achieved so far, what we need to do maybe in the next one, two years. I mean, there are still obviously things that the new commission will have to do, but also other regulators around the globe. And I'm going to get to that in a second. We need to get other countries on board here as well. But I think we have focused on a lot of transparency in the past, and that's important. And also that's, everybody understands that if you have transparency in place, if you have data in place, it helps you with other policy. Without data and transparency, that's very difficult to do about anything. You don't understand what is happening. So that was a very legitimate starting point. Now, I said that, yes, we need to implement on the findings that we now hear also from the market, what is working, what is not working. I think for the EU toolkit though, I think the logical next step after transparency and making data available is really to step up on fiduciary duties and due diligence obligations on financial institutions. So the one thing is enabling. And we're enabling the financial sector by basically putting mandatory reporting requirements in place. So in the future, financial institutions will have the information, investors will have the information available that they need to take informed decisions on the sustainability impact and risks of their investments. But now we have to also put incentives in place. And I think the next logical step will be to take that and prioritize that on the policy agenda.

The last point I want to say is that we need to emphasize a bit more international cooperation. I think we cannot do everything at the same time. We focus a bit on doing our homework in Europe and now we need to reach out. You ask this question out Caterina, do we may need maybe global taxonomies, ESG standards do we need to secure an ambitious international level of sustainable finance is there a role for the G20? So, let me start on your first question, do we need global taxonomies and ESG standards? I think it is challenging to agree an identical way of setting up taxonomies, and the same for disclosure standards. I think we need to get the right level of alignment. The international alignment is important. It is obvious but I am still going to say it. An international company, if you work in five, six different countries, you may be facing five, six different reporting standards, that's a nightmare. The same if you want to understand your supply chain: you need data from your SMEs, even a small company, you will require them to send you the data, and they have to report certain things at home, and they have to report different things to their customers because they are in different national legislations. That is a nightmare. If we want to create a pushback by industry, that's the best recipe: to do unaligned international law, everybody doing whatever they want. That's not the way forward. I think that if policymakers don't agree, the financial market absolutely agrees, and also non-financial corporates absolutely agree. So we need to make sure that also these voices are heard, so we need this alignment but it needs to be on the right level.

I think we did one of the first international benchmarking studies on disclosure regulation for the International Platform on Sustainable Finance, the IPSF, this platform that has been launched by the European Commission, we did the state and strengths of disclosure regulation. You may remember that Commissioner McGuinness presented it at the Climate COP in Glasgow a few years back. What we did already in that report was saying: look, you cannot talk in the abstract of the alignment of disclosure you have to look at the building blocks, and at the building block level, how is insurance done? What is the scope of disclosure? What is the materiality definition? That is where you can have a very specific, concrete conversation about policy coordination, not at the abstract level. You need to drill down. You have to be transparent. The same for taxonomies. One perfectly aligned taxonomy will not happen, a global taxonomy, I don't think so. But last year at COP15, the big international biodiversity conference in Montreal in December, we presented our taxonomies stock take for biodiversity. What we found in our assessment of the work of different countries on taxonomies is, one of the key things is, what are the principles that taxonomies need to agree on? I think the scope can vary. You can have a taxonomy for 10 sectors, for 15 sectors, for 20 sectors, it depends. To be fair, it also depends on how much human resources have been put to develop it to be in it. I worked for the Sustainable Finance Platform of the European Commission, I know how much it takes. You do not need a perfect alignment on the scope. You can also vary in ambition levels, I believe, on what counts as sustainable, because countries have different opinions on that. But the matrix you use should be the same. If I am reporting about the carbon emissions, they should be calculated in the same way, one country may say is 100 tons per unit and another say 120 tons per unit is sustainable, but this is very transparent. Again, I know this is technical stuff, but this is exactly where maybe researchers and think tanks have their saying: look guys, probably you

have a gridlock because you cannot agree on a taxonomy. How about drilling a bit deeper, and you will identify elements where you can totally agree on how to measure it. Much easier to agree on that, than on the perfect level. These are the kind of conversations that we need to have.

We are working with countries in Latin America, in Africa, in Asia, with governments to develop taxonomies and obviously we are coming in there as, some of the guys have been involved in developing the EU taxonomy, and that's a way also to do alignment. I think again about the EU Commission. In this case what we are doing is supported by the German government, but maybe also the EU Commission, maybe DG INTPA, has a role in supporting other Member States, other countries outside the EU in tackling this policy changes and that would automatically... that's alignment. Again, in a nutshell, that's fairly important. An ambition.

One problem with alignment, as we know from a lot of international processes, you may very well end up at the lowest common denominator. You align until nothing is left. Let's be honest, that is a real risk. And so I think from a research side, we need to show in how far the differentiation between, for example, financial impact materiality is a blurry line. Yeah, we have this course at the moment on who sets the global standard for disclosure, sustainability disclosure. And the ISSB has said we are doing that. Now the ISSB, the International Sustainability Standards Board, also has a rather narrow conventional, let's say, concept of materiality. As a materiality being of what is really important, focusing on financial materiality. But from a research perspective, if we look at the dynamics of what counts as material 20 years ago and what counts as material today, we see that it's a totally dynamic concept. So we think a narrow concept of financial materiality doesn't work, because actually it may be outdated two years down the road when something that is not considered financial material yet will become financial material. So, again, we're coming from a very, maybe nerdy, technical issue of materiality definitions to a key issue of alignment and how we do alignment. And that's, again, a contribution, I think, by research saying: look, we should have a broader understanding. GRI has been, as I said, I mean they have been around since 1998, the Global Reporting Initiative. And they have this more comprehensive impact understanding of materiality. If you want an example, sector guidance for agriculture concludes that biodiversity is not material for the agricultural sector or for the land use sector. Okay. Now we have just adopted in Europe the deforestation-free products regulation last year, which is for seven agricultural commodities and which means you will not be able to market your agricultural product anymore in Europe if you cannot prove it's deforestation-free. So it means suddenly deforestation, biodiversity destruction, becomes incredibly financial material because if you ignore it, you lose access to the world's biggest market, the EU. So there you can see, I mean, I'm not blaming the people that drafted the ISSB standard because it was financial materiality, but it also shows you the limits of financial materiality. And so I think this is an important conversation one has to have. And I think I'm afraid when we talk about international alignment and ambition, we need to go down to this level. We need to look at these elements and then it becomes meaningful.

I think the other thing on ambition is the same as I keep saying for Europe, we need to now show that it works. We need to work, we need to help, we need to support companies, non-financial and financial corporates to tackle the reporting, the data challenges, and to also identify what is infeasible. And I think we need to do this across the G20. We need to do this not just in Europe, but across the world, I'm saying. But it's particularly interesting if we look at in the G20 context where we have countries from an EU perspective that are representing for a lot of sectors an upstream perspective. So for example, raw materials, agricultural products, commodities from Brazil upstream being exported to Europe where the food industry is downstream, basically putting, bringing them onto the market. And I think this is also international alignment and cooperation to appreciate the different perspectives upstream and downstream on the reporting challenges. That's crucial. Get an overview. Let's continue, I think, doing whatever, maybe something like annual reports on what is happening in the world. Yeah, again, CDP is doing work on that, the Climate Bonds Initiative, Climate Advisers in Washington, D.C. There's a bunch of people who are doing good work on getting this overview. That's good, and I think it's essential. But then we need to go to work. We need to move to implementation. I think it would be fantastic if also maybe the European Commission, but also some Member States that have experience with this, and also countries like the UK, France, the Netherlands, some of the front runners in sustainable finance, if they can reach out to their partners in the G20 and beyond and really move forward on implementation.

The last thing I say is one of the essence. I've started working on climate, actually with climate data in 1998, and if I have one lesson that I learned from making climate policy work and climate finance work and understand it, it's that you sometimes have to take a sectoral perspective, you have to maybe sometimes drill deeper and say: okay, let's not cover the entire economy. Let's focus on the five most important sectors and quickly develop, for example, disclosure standards. Let's agree. Is it not so much easier to agree with six, seven countries that are trading these commodities on a standard for one sector than agreeing on an entire taxonomy framework, than agreeing on an entire disclosure framework? Maybe this is exactly what we need, this kind of pragmatism now to zoom in, what are the key sectors, who are the key partner countries that we have to work with and then make it happen. Because if we then are successful, we are more likely to be successful when we're more focused, then we may be able to create lighthouses of success, success stories. You know, where we show that, first of all, disclosure is possible. Second of all, international cooperation is possible. And in times of global crisis, in times of reshoring, friendshoring, trade relationships breaking down, what is more important than showing that international cooperation still works? And here, sustainable finance, disclosure, transparency and developing the standards together could be an example that could very well work. And I think we need these examples. And so I think that's my answer on your, again, important questions there.

C.R.:

These are really big questions and also balancing the right level of international cooperation and coordination, to coordinate on the key aspects and not on everything. It's really a challenge because of course we cannot control everything and the challenge is understanding what has to be controlled, what can be left to more flexibility. So this is definitely a challenge for the future. I know that you also you also told us that you work on biodiversity, biodiversity taxonomies. Biodiversity loss currently has advanced as a central topic in sustainable finance, especially in the last couple of years. However, action is still incipient. It is really difficult to continue working and developing this topic on the financial side. What might be missing and why, what can we do for the future?

I.J.:

Yeah, thank you, Caterina. Yeah, that's when we, when David, my co-founder, David Rusnok and I, when we had our first, very first retreat and the company were just the two of us, we had a discussion. We said: look, we need to go beyond climate. Because if we lose our ecosystems, then we're losing the basis for human survival, and it doesn't get enough attention. We're still struggling six years later, but I think we have come some way. Again, it is important that the European Commission, when they set up the taxonomy regulation, when we now drafted the disclosure standards, that we also included these other environmental dimensions like biodiversity and not just focused on climate. And so, good. And now what we see here, biodiversity, they may be rightly think about this extremely complex net of life, these complex ecosystem relationships that are out there and that are very difficult to grasp. And then people get scared. They think like, wow, how am I supposed to handle that? So I think the first bit we need to do is to explain it and to simplify it. We did that, I think, I worked as the biodiversity lead, which is absolutely exaggerated, but I tried to facilitate in the last single finance platform the work on biodiversity with the amazing sector teams and other experts. And then we wrote this, how could you actually do a taxonomy? How can you define "sustainable" for biodiversity? What is the equivalent of carbon neutral in 2050 for biodiversity? When we started thinking about it, then we said, okay, yes, you have to differentiate by different ecosystems, because obviously an ocean is very different from a forest. But normally your economic activity is in an ocean or a forest. So you don't, as a company, again, you don't have to worry about the complexity, because you will have to do your maybe forest-specific reporting. Then not the whole breadth and range of biodiversity issues are relevant for you, but there is a small subset of indicators that you actually really need to look at. So it needs to break it down. I think that is very important. We need to explain it. And on the other hand, I think it was actually Emmanuel Faber, the Chair of the ISSB, who last year, when there was the last annual conference of EFROC, he said, we need companies to get started, to allow companies to work. And we also need companies to be wrong and not be penalized for it, because it's a big challenge. But by working with it, you will soon understand, like we're doing now, we're working with asset managers, we're working with companies and trying to solve it. but then it's like, it's not as complicated as we actually thought. And I think that's important. Something that looks really, really complex. Again,

maybe it's the red thread of our conversation today, Caterina. You have to sometimes break it down into the individual elements and then it becomes more tangible. It's like climbing a mountain. You do it step by step. And I think this is what we really need here. And what's the big difference? Yes, one of the differences is there's different types of ecosystems. So not just one metric like CO2 equivalent, but more metrics.

The other thing is, again, and I think this is so important in every sustainable finance conversation, sustainable finance is not going to solve it alone, and it shouldn't. And the financial sector is not going to solve all of our problems, and we shouldn't burden them with that. So what is the key thing? There's no price on biodiversity destruction really. Is there? So in a lot of constituencies, we have emission trading schemes now. In a lot of countries around the world, again, pioneered by the European Union with its Emission Trading System. And so for carbon, we have this valuation effect. So in the research we are doing and that a lot of much more brilliant people are doing out there, you can see that companies that are subject to the emission trading scheme, and that means subject to an actual carbon price, they are trading at an equity discount of around 100 euros per ton. That's massive. That's much higher than the actual carbon price. So, it means the market prices in carbon. And that is, I mean, in all fairness, right, if you're the CEO of a publicly listed company and you're trading at an equity discount of 100 Euro per ton, you will quickly try to figure out how you can reduce your emissions, right? It's a very strong incentive. And you can see that the companies that are outside the ETS, they don't have this. They have an equity discount as well. It's not as high. They're not penalized as much. And so they can see that probably without some more regulatory incentives on considering CO2, the price signal might not be strong enough that we're seeing for taking action. That's a big difference at the moment. And that is why it is quite plausible why companies are taking carbon more seriously than biodiversity, although both of them are fundamental ingredients of human survival. And I think we need to get there. And the other thing is we need to also explore how people can be rewarded for protecting the ecosystems. This thing has to somehow pay off. You need to be able to generate a revenue stream from doing sustainable land use management compared to not so sustainable.

Here again, and maybe here we're coming full circle and also maybe reaching the end of our conversation today, we're coming back to transparency. Because in a market like Akarov famously discussed in his 1970 paper on the market for lemons, getting the Nobel Prize for his work on information asymmetries later, the frontrunners cannot benefit from being frontrunners. Because if you don't have the performance of every individual company, you cannot derive the benchmark curve. And then you cannot understand how sustainable or not a company is. So that means I would expect that rigorous implementation of reporting obligations on biodiversity, they will create that benchmark curve. And then, finally, front runners, people that are really doing something about reducing their sustainability impacts, and in this case, biodiversity impacts, they will be able to show that they are better than others. And then they may be trading at zero equity discount or at premium. And these are the kind of price signals I think ultimately we need. There's a lot of goodwill. I see a lot of goodwill in a lot of financial institutions out there. But at the end of the day, they have to be able to show something in

monetary terms. It needs to somehow work out. And I think a clear regulatory framework would be super instrumental.

One thing we haven't touched upon is impact. And maybe if you allow me, Caterina, maybe the last thing I would like to answer now and I'll say and contribute to this conversation is this. Ultimately, we're discussing that a lot in our German initiatives that I mentioned, the Sustainable Finance Research Platform. Colleagues like Timo Busch, Christian Klein, Marco Wilkens, and others, Ulf Moslener, Kerstin Lopatta, Alexander Bassen, a lot of brilliant people were discussing a lot how we can get a better grip on actual impact. Also reporting on actual impact, understanding whether something like disclosure regulation can actually reduce ultimately the environmental harm that is being done by economic activities. And I think that is important. It is not trivial, but we should not lose sight of it because we don't gain anything if in the end we have a market, if most equity funds are green and most companies have perfectly taxonomy aligned reporting, but the real economy doesn't actually reduce its footprint. Because let's remember that's the ultimate goal. And I think we have to be a bit critical observing whether we are actually capturing this impact dimension. I think this is part of the exercise of keeping our eyes open, observing, analyzing how far we have a real impact, standard of finance has a real impact. And there has been again excellent research about the mandatory disclosure regime in the UK, which was maybe one of the first in the world, where you could see that companies subject to disclosure, to reporting obligation, reduce their emissions more significantly than other companies that didn't have to report. And it makes sense in the end, right? If you have transparency, if you have the information about the entire market, and if you know you will have to disclose the information, you don't want to be seen as the worst performer in the market. So we have signs that actual sustainable finance disclosure can deliver real impacts. And I think maybe going forward, we could focus on that a bit more. So getting the grip on the supply chains, improving international coordination, going beyond climate making it work for us, making the stimulus finance work for the transformation, and then looking at impact. Maybe those are at the end, maybe the five messages that I would like to give everybody to work on and focus on in the future. Thanks.

C.R.:

Perfect. Thank you very much. Really, this was, as I expected, a very, very interesting conversation. And the last key messages that you are giving us, to me and our audience: transparency, transparency, transparency, the right incentives, and a correct system of rewards, and not only control or penalizing terms. Let's hope that the learning curve that we are already climbing now will get easier and easier with time if we can keep working on it. Thank you very much, Ingmar, for our conversation. I really, greatly appreciated the depth of your replies and all the ideas and points that you raised. It certainly was a thought-stimulating session.

I.J.:

Thank you.

C.R.:

Thank you very much to all of the people that followed us. Stay tuned for the next episode of the Sustainable Finance Research Forum Interview Series that is upcoming January next year. See you again on this channel!