Olli Rehn: Building an enabling environment for circular businesses

Speech by Mr Olli Rehn, Governor of the Bank of Finland, at the World Circular Economy Forum, Helsinki, 3 June 2019.

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Ladies and Gentlemen, Dear Friends,

Many thanks to Sitra for the invitation to the World Circular Economy Forum. While this is the third such event, the things we talk about here are actually not that new. But what is new is that the talks have started to materialise in actions taken by companies. And not only by individual companies, but they are becoming increasingly mainstream. That's the good news.

Historically economic growth has gone hand in hand with emissions growth and resource usage. The problem is that in order for our planet to survive, we need to separate economic growth from greenhouse gas emissions growth. Another piece of good news is that this is not impossible, as the case of reduced emissions from production in the Nordic countries proves. But it is not easy either. Especially in the developing countries economic growth is badly needed to reduce poverty.

Last autumn the IPCC released a new report detailing why we should target a 1.5 degrees increase in temperature, instead of the Paris target of 2 degrees. It is no simple feat, as our current path would lead to an increase of more than 3 degrees. And we have only about a decade to take the right bold actions to meet the 1.5 degree target.

There is no single tool that would enable mitigation and adaptation to climate change. The European Commission is currently creating legislation to increase funding for the green economy. This supplements the EU Emissions Trading Scheme and the EU CO2-emission targets. This is also good news, but not enough.

What we need is action at the global level. In an ideal world, a unified global carbon tax would be the first-best solution, as it would make companies internalize the externalities of emissions. While economists have advocated such a carbon tax, in the real world where we live in, this is being challenged by issues in measuring emissions and by the *realpolitik*.

Taxation can be used to create the right incentives even without a unified global carbon tax. Sitra has recently published a report detailing how an environmental tax reform could reduce emissions, while creating many benefits for the economy. The new government programme of Finland, released today, is based on these principles. Globally several ministries of finance have joined their forces in The Coalition of Finance Ministers for Climate Action to consider issues such as environmental tax reforms.

Likewise, a number of central banks and supervisors have joined their hands in the Network for Greening the Financial System. In the EU, and also globally, the financial sector still lacks adequate instruments for mainstreaming green finance. The EU Commission, through its plans for a capital markets union and sustainable finance action is working on this. Climate-related criteria should be better reflected in the key tools used for decision-making by market actors, such as benchmarks and credit ratings.

Apart from the simple carbon footprint, we also need to look beyond that. In addition to the production and life-cycle of things, it is becoming more important to consider what happens to products in their afterlife.

Many things considered green are not that, if we do not reuse and recycle the resources. Electric cars is one of the prime examples. Similarly, many things considered brown might be less so, if the product lifetimes are long enough and resources can be recycled in afterlife.

Looking at what the financial sector can do for the circular economy, in my view the financial industry does acknowledge the problem, and there are ample amounts of capital looking for sustainable companies.

More work needs to be done on how companies can cost-effectively and reliably indicate the sustainability of their operation. But for all companies planning their future, now it's the time to think deep about how to transform their business models sustainable, and turn that into concrete actions. Not least because there is a paradigm shift going on in the sentiment of the investor base, and it is starting to affect the selection of companies that attract investments and funding in the future. I know this first-hand, because this is what we do in the investment policy of the Bank of Finland.

Ladies and Gentlemen,

Let me conclude. As I said, environment- and climate-conscious business models are becoming increasingly mainstream. That is fine, but the transition should be much speedier. Hence, I want to encourage us all to recognize the urgency of concrete climate action, and build a timely and consistent transition path to the sustainable circular economy.