Remarks by Secretary of the Treasury Janet L. Yellen at the Venice International Conference on Climate

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Twenty Years after Kyoto

As prepared for delivery

A CHANGING LANDSCAPE

Thank you, Ignazio, for hosting us today, and how appropriate to be in Venice. Even if this weren't a conference about climate change, how could we not raise the issue here?

For all of us, 2020 was the year of the pandemic. But for Venice, 2019 was also the year of the flood; the canal waters, as you know, rose higher than they had in half a century. And even before that, many of the steps and statues of the old palazzos, visible when they were built centuries ago, slipped beneath the waterline.

One news story, I thought, put it quite well: Venice is a beautiful ruler; a city that measures our world's rising sea levels – and, thus, the increasing impact of climate change.

Ignazio, you and I have been trying for a long time to measure the potential costs of climate change – and advocate ways to avert them. I recall first working with you during the Kyoto Conference in the late nineties when you were at the OECD. We formed a High Level Sustainable Development Group to involve finance ministers in climate policy. I remember preparing my first speech on climate change not long after the conference. This was March of 1998. The U.S. Congress was holding hearings on the agreement, and the Clinton Administration needed a White House official to testify. I raised my hand.

I told Congress to think of Kyoto as a form of insurance for our planet. Wouldn't even a significant investment in transitioning our economies away from carbon be worth it if it saved priceless coastal cities like Venice? If it helped ensure that we kept the world livable? And, if we addressed climate change intelligently, the benefits would far outweigh the costs.

In the end, we all know the outcome of that prior effort.

Fast forward to today, I am happy to report that the landscape has changed in the United States. President Biden has committed to reduce U.S. emissions from 2005 levels by at least 50 percent by 2030, and we're seeing a new consensus around a plan to achieve a significant portion of that reduction.

It includes thousands of miles of new transmission lines for renewable energy, upgrades to our power infrastructure, and greener transportation through accelerating domestic manufacturing of zero-emissions vehicles. And with all of our domestic investments in climate, President Biden has committed that a significant share of the benefits will go to disadvantaged communities, who historically have borne too much of the brunt of our country's environmental pollution.

I also think that the international landscape has become more favorable to making change. During Kyoto, we understood well the global challenge that climate change presented and the significant costs to the world of inaction, but we did not have the benefit of a G20 Finance Track then. We had fewer channels to coordinate across a broad group of countries on financial and economic challenges. By bringing together Finance Ministers, Central Bank Governors, and the broader international community to discuss the economic aspects of climate change, this Conference is an example of how far we have progressed in our approach over the past twenty years.

SUPPORTING A GREEN RECOVERY ABROAD

I would like to spend the balance of my remarks speaking about how the United States intends to work with our international partners and on our shared responsibility to implement ambitious emissions reduction measures. Because no nation can reverse climate change alone.

This work begins with setting bold policy goals. We must enhance the ambition of the Nationally Determined Contributions that we submit to the UNFCCC and set targets for achieving net-zero emissions, consistent with the goals of the Paris Agreement. As Finance Ministers, we must help to develop credible domestic strategies, laws, and regulations to meet these targets. The International Financial Institutions, including the International Monetary Fund and the Multilateral Development Banks, can be important partners as we seek to design robust economic and financial policies to achieve our climate goals.

Developing countries are particularly vulnerable to climate change, with poverty, food security, and health outcomes impacted by extreme weather shocks. In this context, the United States has redoubled our efforts around the ambitious collective goal to mobilize $100 billion per year from a wide variety of public and private sources to support developing countries in undertaking adaptation and mitigation efforts.

This spring, we released America's first-ever International Climate Finance Plan. As part of this plan, the United States intends to double, by 2024, our annual public climate finance for developing countries and to triple our public finance for climate adaptation. This would mean about $5.7 billion per year in climate finance by 2024, including $1.5 billion for adaptation. The multilateral climate funds play a key role in this plan. The Climate Investment Funds scale up targeted investments in clean technology and other areas, while the Green Climate Fund remains a centerpiece of providing impactful climate finance to the world's poorest and most vulnerable countries.

Multilateral Development Banks are one of the largest sources of climate finance for developing countries: The MDBs to which the United States contributes reported over $36 billion in climate finance collectively in 2020. The MDBs are also positioned well to engage the private sector in developing countries. They can target support toward the challenges in the domestic market that make it difficult for the private sector to invest at scale by advising on policies, mitigating investment risk, and providing finance.

We recognize the tremendous work the MDBs are doing in partnership with developing countries. We see the MDBs continuing to evolve their role further beyond the critical development finance they provide, including to help countries design green recovery strategies in response to the COVID-19 crisis, develop green bond markets to raise capital, and build robust enabling environments to incentivize private investment needed to meet the climate challenge.

We expect that they will continue their efforts to increase climate finance targets, fully align their lending with the goals of the Paris Agreement, and discourage new investments in fossil fuel-based power generation except where other options are not possible.

But we believe the MDBs can go further. I plan to shortly convene the heads of the MDBs to articulate our expectations that the MDBs align their portfolios with the Paris Agreement and net-zero goals as urgently as possible. We also expect them to take steps to more effectively mobilize private capital so that developing countries can increasingly benefit from private sector pledges to support climate-aligned and sustainable investments. As leading sources of official finance, the MDBs need to maximize the catalytic impact of their support for countries seeking to confront a changing climate, and to harness the economic opportunities embedded in the transition to a low-carbon economy. I know that the MDBs have the policy expertise, relationships, and financial tools to make a substantial contribution toward our collective climate goals, and I look forward to working together to ensure that these goals are met.

ROLE OF PRIVATE FINANCE

The investment needed to green the global economy is enormous and far exceeds the scale of official finance. Private capital will need to fill most of that gap. This brings me to our initiatives to enable the private sector to better account for climate change when making financing decisions, which we will discuss in more depth this afternoon.

There are some positive trends in this regard. Investor demand for climate-aligned investments, including green bonds and sustainable assets, is rapidly increasing in certain markets. I am also pleased to see momentum building in financial institutions around net-zero commitments.

A threshold challenge though, as you know, is imperfect information—understanding the risks and opportunities climate change presents. For example, the current financial reporting system is not producing reliable disclosures. We also need consistency of reporting frameworks over time, as well as comparability across firms and jurisdictions, providing the useful information that investors need to make informed decisions.

Climate change also introduces new and increasing types of risk. The risks from more frequent and severe natural disasters—so-called physical risks—have, and will continue to become, more prominent. Then there are the risks that may accompany the technological, market, and policy changes needed to address climate change—the so-called transition risks. The emergence of

these risks challenges one of the financial sector's most essential functions—ensuring that risk is borne by investors and institutions well placed to manage it.

President Biden has recognized that this is a major problem that needs to be tackled now. He recently signed an Executive Order on climate-related financial risk, outlining a whole-of-government process to assess climate risk to the U.S. financial system and federal government.

As part of this process, the Financial Stability Oversight Council (FSOC), which I chair, will assess the potential risk that climate change may pose to the financial stability of the United States. The Executive Order also made clear this Administration's policy to advance the disclosure of climate-related financial risks, which we will also explore through FSOC. This will complement the work of the SEC, which is currently reviewing existing guidance on climate-related financial disclosures.

Treasury is also working closely with our domestic regulators as we engage in international discussions to promote effective and consistent approaches to disclosure. These efforts build on existing work to improve climate-related financial risk disclosure, like the Financial Stability Board's Task Force on Climate-related Financial Disclosures and other sustainability reporting organizations.

IMPORTANCE OF THE G20

In closing, I am pleased that Treasury is co-chairing the newly reestablished G20 Sustainable Finance Working Group, which will deepen the G20's engagement over the coming years on many of the themes I raised today.

The Working Group has an ambitious agenda for this year. In addition to developing a roadmap that will guide G20 priorities for scaling up sustainable finance, it will also focus on three topics. First, it will consider how to improve existing international initiatives and approaches to sustainability disclosure and reporting. Second, the Working Group will explore the various tools and approaches used by jurisdictions and the private sector to align finance with climate and sustainability goals and develop recommendations to enhance how they work together. Lastly, the Working Group will help support MDB efforts to align their financing with the goals of the Paris Agreement.

So, let me end where I began, with Kyoto in '97. We knew back then climate change was happening and that it was an urgent crisis that demanded our attention and action. But it's been nearly a quarter-of-a century since, and we have not done nearly enough.

We can't afford another 25 years of inaction or low ambition.

As we transition to the post-pandemic world, climate change has to be a challenge our global community addresses collaboratively.

I know I'm not alone in thinking this way. This is a group committed to combatting climate change; we refuse to hand this problem off to the next generation.

I look forward to continuing to work with all of you to make progress on this critical issue.

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