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Bank of England boss says global finance is funding 4C temperature rise

Mark Carney says capital markets are financing projects likely to fuel a catastrophic rise in global heating

An Extinction Rebellion protester outside the Bank of England on Monday 14 October makes a point not too dissimilar to the Bank's governor. Photograph: John Keeble/Getty Images

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The governor of the Bank of England has warned that the global financial system is backing carbon-producing projects that will raise the temperature of the planet by over 4C - more than double the pledge to limit increases to well below 2C contained in the Paris Agreement.

In a stark warning over global heating, Mark Carney said the multitrillion-dollar international capital markets - where companies raise funds by selling shares and bonds to investors - are financing activities that would lift global temperatures to more than 4C above pre-industrial levels.

World leaders agreed in the Paris climate accords to keep the temperature rise this century well below 2C above pre-industrial levels and to pursue efforts to limit the rise to 1.5C.

But in a stark illustration of the scale of the decarbonisation challenge facing the world economy, Carney suggested companies had already secured financing from investors in the global capital markets - worth $85tn (£67.2tn) for stocks and $100tn for bonds - that will keep the world on a trajectory consistent with catastrophic global heating.

The risks associated with temperatures at or above 4C include a 9-metre rise in sea levels - affecting up to 760 million people - searing heatwaves and droughts, serious food supply problems and half of all animal and plant species facing local extinction.

Speaking to MPs on the Commons Treasury committee, Carney did not give a timescale for the temperature rise, but said: “The objectives are there, but policy is not yet consistent with stabilising temperatures below 2C.

“There are some companies out ahead, either because of stakeholders, or because they’re anticipating that that will change. But there are others that are waiting for the policies to adjust.”

Carney sounded the alarm in the wake of the Guardian last week revealing the 20 biggest companies behind a third of all carbon emissions. The Bank’s governor said the financial system was now starting to wake up to the risks of global heating.

He said some investment companies have analysed the carbon-linked assets in their portfolios, including Japan’s $1.6tn Government Pension Investment Fund (GPIF).

Carney told the committee that GPIF’s analysis showed it held assets consistent with 3.7C heating, and that the fund was now trying to manage this down. He said that AXA, the French insurance group, priced US government bonds at 5.4C, to reflect the carbon-intensive nature of the American economy. The UK is much lower, he said.

Based on these assessments, “it indicates that if you price the capital markets - and I’m not giving you a precise figure - that all of the assets are probably north of 4C for the capital markets as a whole,” he said.

“We can observe where the market is in terms of pricing the transition. It’s at least 3C or 3.75C, it’s probably north of 4C. That tells you something in terms of the sum of global climate policy.”

The Bank’s governor has spoken at length about the need for the financial system to accelerate its efforts to tackle the climate emergency, warning that firms that ignore the crisis will go bankrupt.

He said that banks should be forced to disclose their climate-linked risks within the next two years, and said that more information would prompt investors to penalise and reward firms accordingly.

Threadneedle Street is currently drafting a stress test for the UK's banks based on their climate exposures, he added.

However, the governor said the transition to a low-carbon world economy would still require investors to back firms with significant carbon footprints, given the scale of the adjustment required.

"It's not as simple as saying, 'Well I'm going to invest in only renewable energy.' The system as a whole cannot invest only in renewable energy.

"The contribution of manufacturing or an industrial company in terms of lowering their carbon footprint over the next decade, a big reduction in that, can be as significant if not more significant than further development in the short term on renewables," he said.

Carney also dropped a heavy hint that the government would shake-up the Bank's remit for financial supervision to take account of climate risks at the budget on 6 November.

"Remits normally come with the budget, so we'll see what is in that … Every indication is there is a comprehensive strategy being developed consistent with the objective of net-zero [carbon emissions]," he added.

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