

CADWALADER



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In this week's edition, we discuss the Swiss Government's rejection of a landmark ruling that the country had violated the human rights of a group of its citizens by failing to take adequate action on climate change; a report published on the acute impacts of climate change on monetary policy; and the UK and Brazil's statement on climate change cooperation.

Swiss Government Joins Parliament in Rejection of Landmark Climate Ruling by European Court

On August 28, 2024, the Swiss government joined the country's Parliament in its [rejection of a landmark climate litigation ruling](#) handed down by the European Court of Human Rights (ECtHR). [As we reported previously](#), in April, the ECtHR held that Switzerland had violated the human rights of KlimaSeniorinnen Schweiz (Swiss Senior Women for Climate Protection) as a result of "critical gaps" in its climate policies. Then, in June, Switzerland's lower house of parliament voted to reject the ruling.

Although the European Convention of Human Rights confers an obligation on Member States to action judgments handed down by the ECtHR, it remains within that state's discretion to determine how they do so. But, in jurisdictions where parliamentary sovereignty applies, the state can choose to adopt or reject the judgment entirely.

Switzerland will now need to report to the committee of ministers of the Council of Europe (the supervisory body for the implementation of ECtHR rulings) on how it intends to proceed having rejected the ruling. The Swiss Senate, which also voted to reject the ruling in June, stated that it was not ignoring the ruling but it did not need to take action as it viewed its climate change strategy as effective.

Report Assesses Acute Physical Impacts from Climate Change and Monetary Policy

In August 2024, the Network for Greening the Financial System (NGFS) [published a report](#) examining how climate change, specifically severe weather events, affects the global economy and monetary policy. The report emphasizes that climate change-induced events, such as floods, storms, and heatwaves, are becoming more frequent and intense, causing substantial economic damage. The direct annual damages from such events have more than doubled in the past 20 years, reaching \$275 billion in 2022. Key findings include:

Economic Impact Channels

The report outlines three main channels through which climate-related physical hazards impact the economy:

- **Supply Channels:** Severe weather events can destroy physical capital (like infrastructure and housing), reduce labor availability (as workers are displaced or jobs are destroyed), and lower total factor productivity (TFP) through supply chain disruptions and infrastructure damage.
- **Demand Channels:** Destruction of assets affects household and business wealth, reducing consumption and investment demand. It also influences expectations about future risks, which can lead to higher savings and lower spending. Moreover, consumer and business confidence may decline due to heightened uncertainty.
- **Financial Channels:** Climate events can impact asset prices, credit conditions, and financial markets. Damaged physical assets reduce collateral values, weakening the financial sector's ability to lend. Tightened credit conditions slow down recovery efforts and potentially cause spillovers to other unaffected areas of the economy.

Impacts on Key Macroeconomic Variables

The report discusses the effects of climate change on Gross Domestic Product (GDP) and inflation:

- **GDP:** Severe weather events tend to cause both short-term and long-term reductions in GDP growth. The growth rate can decline by more than 0.5 percentage points in the year of a severe event. The impact varies depending on the severity and nature of the event.
- **Inflation:** Inflationary pressures can result from disruptions in supply chains, particularly in agriculture, where food prices may rise due to reduced crop yields. However, the overall effect on inflation depends on whether supply or demand effects dominate.

Implications for Monetary Policy

The report notes that the unpredictability of severe weather events presents challenges for monetary policymakers, as these events are akin to economic shocks that disrupt the business cycle. Policymakers may need to adjust financial conditions based on the supply and demand effects of these events. Furthermore, in the long run, changes in the distribution of severe weather events could alter investment and savings behaviors, influencing key policy determinants like the long-run neutral interest rate.

Role of Insurance and Adaptation

Effective insurance mechanisms can mitigate economic fallout by providing timely and predictable payouts to affected entities, thereby supporting quicker recovery and limiting broader economic damage. However, the report highlights that a significant proportion of losses (55%) remain uninsured globally. As severe weather events increase, the need for better insurance coverage, greater adaptation, and resilience measures becomes critical. Adaptation measures, such as building infrastructure to withstand severe weather and promoting better disaster preparedness, can help mitigate future economic damages.

Uncertainty and Future Research Needs

The report acknowledges the dynamic and evolving nature of the links between climate change and economic outcomes. There are many unresolved questions about the global distribution of future severe weather events, the effectiveness of adaptation measures, and the interplay between acute and chronic climate impacts. Further research is needed to better understand these aspects and prepare central banks for the economic uncertainty brought about by climate change.

The report concludes that climate change presents a complex and evolving risk to economic stability and monetary policy. NGFS encourages central banks and policymakers to consider the increasing frequency and severity of climate-related events in their decision-making processes, noting in addition that a combination of mitigation, adaptation, and effective financial instruments like insurance is essential to managing these risks and maintaining economic stability. The report suggests that more research and deeper understanding are needed to address the uncertainties and challenges posed by climate change in the context of monetary policy.

NGFS frequently publishes reports and research on the economic impact of climate change including most recently, two complementary reports focused on [integrating nature-related financial risks into financial frameworks and understanding nature-related litigation risks](#), and [transition planning](#) as we have reported previously.

UK and Brazil Pledge Cooperation on Climate Matters

On August 22, 2024, the United Kingdom and Brazil [released a joint statement](#) emphasizing their commitment to combating climate change and supporting sustainable development. Recognizing the urgency of the climate crisis, both nations agreed to enhance cooperation through various multilateral frameworks, including the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. They highlighted their shared goal of limiting global temperature rise to 1.5°C and reaffirmed their commitment to achieving net zero emissions.

The statement also underscored the importance of protecting and restoring biodiversity, with a particular focus on halting deforestation. Both countries acknowledged the significance of the Amazon rainforest and pledged to work together to promote sustainable land use practices. The UK committed to supporting Brazil's efforts to reduce deforestation, improve forest governance, and enhance law enforcement against environmental crimes.

Additionally, the UK and Brazil agreed to collaborate on promoting green finance, renewable energy, and innovation in clean technologies. They plan to work together on initiatives to attract investments and support projects that accelerate the transition to a low-carbon economy, while also addressing social inequalities and ensuring a just transition for all communities. This cooperation is framed within a broader effort to strengthen international partnerships for climate action and sustainable development.

As we have observed frequently, Brazil takes an active role in mitigating the effects of climate change both internationally and domestically. For example, in July 2024, a Brazilian court ordered a prominent rancher to pay USD 50 million in damages for [environmental destruction in the Amazon rainforest](#); Brazil also had the third highest number of climate litigation cases filed in 2023 after the U.S. and UK, [according to a report by the Grantham Institute](#); and in June 2024, police in Brazil launched "Operation Greenwashing" with [the aim of dismantling a criminal organization](#) suspected of selling approximately R\$180 million in carbon credits where the underlying projects involved the illegal invasion of areas across Brazil.