

Rt Hon Grant Shapps MP, Secretary of State for Energy Security and Net Zero

CC:

Rt Hon Jeremy Hunt MP, Chancellor of the Exchequer

Rt Hon John Glen MP, Chief Secretary to the Treasury

Rt Hon Andrew Griffith MP, Economic Secretary to the Treasury

Lord Callanan, Minister for Energy Efficiency and Green Finance

Andrew Bailey, Governor of the Bank of England

Thursday, 6th April 2023

DEAR SECRETARY OF STATE,

We are writing as a collective of academics, civil society and policy professionals, to respond to the collection of green finance policies announced last week, and take stock of key developments since we set out in July 2022 five key priorities for making the UK a 'Net Zero Financial Centre'.

We welcome the positive signals contained in the government's updated Green Finance Strategy (GFS): in particular, the setting of KPIs for a net zero aligned financial centre, net zero investment roadmaps and financial flow tracking, and an acknowledgement of the importance of nature throughout the strategy.

However, as we set out last year, the window for reallocating capital in line with a 1.5C transition is narrow, and current action is falling short. The UK's Green Taxonomy and implementation of SDR requirements have been repeatedly delayed, and Bank of England action to integrate climate into its collateral framework and capital requirements has stalled. The new GFS focuses primarily on creating and supporting sustainable markets, but is missing any meaningful action on winding down financing of fossil fuel expansion, which as 700 experts set out in March is incompatible with a 1.5C transition pathway, and other environmentally damaging activities. The central challenge is to move from private sector engagement and measuring climate risk towards actively shifting financial flows.

In the context of high inflation, volatile oil and gas prices, financial instability, and a green energy 'arms race' catalysed by the US Inflation Reduction Act, it is imperative that the UK fills urgent gaps in the net zero financing architecture. Every relevant public authority must have the mandate, resources and political backing to play its part in shifting capital out of fossil fuels and into renewable energy, energy efficiency, nature recovery and adaptation.

IN THE BRIEFING ACCOMPANYING THIS LETTER, WE ASSESS RECENT ANNOUNCEMENTS AGAINST THE 5 PRIORITIES WE COLLECTIVELY SET OUT LAST YEAR:

- 1) A whole-of-government strategy for aligning financial flows with a 1.5oC transition pathway, adaptation and biodiversity goals.
- 2) Support action on 'Phase 3' of the government's 'Green Finance Roadmap' that actively shifts financial flows in line with a 1.5oC transition pathway.

- 3) Establish a key role for public investment and policy in driving a rapid, fair transition and reducing energy demand.
- 4) Establish a science-based, credible and robust legal and regulatory framework to incentivise and enforce the private sector's net zero and nature positive transition.
- 5) Set clear objectives for UK international leadership and cooperation, informed by global justice principles.

BASED ON THIS ANALYSIS, WE RECOMMEND TEN URGENT NEXT STEPS TO FILL CRUCIAL GAPS IN THE UK'S CLIMATE, NATURE AND ADAPTATION FINANCING ARCHITECTURE:

- 1) Ensure accountability mechanisms are in place to track progress against planned 'net zero investment roadmaps', empowering an independent body to assess financial flow gaps and setting out a clear process for relevant authorities to act.
- 2) Fully integrate climate and nature into prudential and monetary policy frameworks, including by decarbonising the Bank of England's collateral framework and accounting for the high risks associated with fossil fuel projects in the capital framework.
- 3) Coordinate monetary and fiscal policy to ensure critical green investment is actively supported, including measures to reduce the cost of capital.
- 4) Increase strategic public investment and capitalisation of public finance institutions such as the UK Infrastructure Bank and the British Business Bank.
- 5) Clarify that the UK taxonomy will use strict, science-based criteria to define "green" economic activities, and that gas and biomass will not be labelled 'green' in the UK taxonomy.
- 6) Extend the disclosure of transition plans to all large companies on a mandatory (not 'comply or explain') basis, and to align with a 1.5C transition pathway, with robust frameworks to oversee implementation.
- 7) Make TNFD-aligned disclosure and nature-recovery plans mandatory for all large companies and financial institutions, and set out a robust framework for implementation and oversight.
- 8) Amend the law on fiduciary duty to require pension funds to consider the impact of their investments on people and the planet.
- 9) Give regulators statutory objectives for net zero alignment and nature protection.
- 10) Outline how the UK's priorities in reforming international financial institutions would significantly shift global financial flows to meet the transition and adaptation financing needs of low- and middle- income countries, and commit to scaling up grant-based financial assistance for low-income countries.

We would be grateful for the opportunity to meet with you to discuss how we can best support the next phase of the government's work on these crucial issues. We are also happy to provide further briefing material on any of the proposals set out here.

SIGNED,

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