# The financial sector and the UK's net zero transition

*Positive Money submission to the Environmental Audit Committee's Call for Evidence*
*July 2022*

> Positive Money welcomes the opportunity to respond to the Environmental Audit Committee's call for evidence on the financial sector and the UK's net zero transition.
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> We are a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.
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The Environmental Audit Committee is right to raise concerns that although many financial firms now have high level net zero targets, few have set out credible plans for how they intend to support rapid reduction in fossil fuel production and corresponding increase in renewable energy production that this entails. Analysis by Reclaim Finance in November showed that not one of the six net-zero alliances across banking, asset management and ownership, insurance, investment advice and data provision required a halt to investments in fossil fuel expansion by signatories.[1]

Although GFANZ recently took positive steps to upgrade its membership criteria, its requirements remain misaligned with the Paris Agreement and the IEA's net zero scenario, as members are still allowed to invest in new coal mining and coal power projects until June 2023 and can maintain existing investments in coal, oil and gas indefinitely.[2] This has been widely criticised, including by Mary Schapiro, former chair of the US Securities and Exchange Commission, and currently vice-chair of GFANZ, who said "I personally believe that there is no excuse for new investment in new coal." It also diverges from the new minimum requirements set by the UN Race to Zero campaign, that no new coal projects should be enabled through the activities of Race to Zero members.

As IEA forecasts make clear, any development of new fossil fuel sites will cause the further lock-in of both pollution and stranded assets, increasing transition risks for all oil and gas investments (not just new ones).[3] Research suggests that half of the world's fossil fuel assets could become worthless by 2036, leaving stranded assets worth between £8.1 and £10.3 trillion.[4] This involves major risks to the UK's financial stability and wider economy.

Furthermore, while new GFANZ recommendations discourage lobbying against climate policies, GFANZ members are linked to lobbying activities that undermine the pledges

[1] Reclaim Finance, 'Carney's net-zero finance alliances failing on fossil fuels', Nov 2021
[2] Guardian, 'Bank group accused of exploiting loopholes and 'greenwashing' in climate pledge', 15 June 2022
[3] Greenpeace, 'Zeroing in: A guide for the finance sector on the IEA's Net Zero Emissions scenario and its implications for oil and gas finance, Feb 2022
[4] Nature Energy, 'Reframing incentives for climate policy action', Nov 2021

they're making. Many members remain involved in lobby groups that have pushed back against climate-related policies, aligning with fossil fuel interests.[5] In dismissing and ridiculing calls for banks to better manage climate risks, Head of Responsible Investment at HSBC AM, Stuart Kirk, may have revealed widespread misguided beliefs and attitudes towards climate change in the financial sector.[6]

GFANZ members are highly unlikely to take action at the speed or scale necessary to green the financial system in line with a 1.5C pathway without government action. The steps taken by the government towards establishing strong standards and mandatory market disclosures are necessary, but will not be sufficient in driving the transition at the pace and scale required. With transition plans set to become mandatory for UK financial institutions, the government should ensure robust legal and regulatory frameworks that incentivise and enforce implementation, and are supported by access to high quality data and analytics to aid financial decision making.

An ambitious green finance strategy including a green investment toolkit will be necessary to ensure finance supports rather than hampers the transition. The BEIS 2022 Green Finance Strategy is a critical opportunity to address a major missing piece of the UK's Net Zero architecture: a clear plan to realise the Chancellor's commitment to making London a 'Net Zero Financial Centre' and align public and private financial flows with the government's decarbonisation, adaptation and nature goals.

Therefore, we urge the EAC to support civil society's calls for a green finance strategy that is underpinned by the following five principles:[7]

1. Sets out an ambitious, whole-of-government strategy for aligning financial flows with a 1.5ºC transition pathway, adaptation and biodiversity goals, to be regularly assessed with independent mapping of progress and investment gaps across public and private finance.

2. Supports 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. Establishes a key role for public investment and policy in driving a rapid, fair transition and reducing energy demand.

4. Establishes a science-based, credible and robust legal and regulatory framework to incentivise and enforce the private sector transition to Net Zero.

5. Sets clear objectives for UK international leadership and cooperation, informed by global justice principles.

[5] Capital Monitor, 'How 'net zero' financial firms are linked to lobbying against climate policy', 29 June 2022
[6] New Economics Foundation, ''Who cares if Miami is six feet underwater in 100 years?' A senior banker's comments show we can't rely on banks to respond to the climate crisis', 15 June 2022
[7] These principles are set out in greater detail in a joint statement to Kwasi Kwarteng, Rishi Sunak, and Andrew Bailey, signed by dozens of civil society leaders and academics, calling for the government's new green finance strategy to set out a bold plan to align the financial sector with a 1.5C pathway and nature protection goals. This statement will be published on Tuesday 5th July.

In line with these principles, we recommend that the government and Bank of England develop a green investment toolkit that includes, but is not limited to, the following policies:[8]

- **A Green Term Funding Scheme** that offers preferential rates to banks for lending to green projects. This would incentivise banks to scale up lending to long term, capital intensive green projects despite recent increases to the base interest rate.[9]

- **A green collateral framework** that excludes or devalues environmentally harmful assets, while doing the opposite for green assets.

- **Increased support for the UK Infrastructure Bank** to scale up public investment in green projects, thereby 'crowding in' further private investment.

- **Quantitative and qualitative requirements** on banks' portfolios**,** for example establishing minimum quotas for green lending as well as limits and bans on the most environmentally harmful types of lending.

- **Promotion of a more diverse banking ecosystem** that involves local stakeholder banks better suited to meeting communities' social and environmental needs.

- **A green liquidity facility for local authorities**, providing targeted monetary support to local authorities seeking to enact local sustainable transitions.

The Climate Change Committee's latest Progress report to Parliament states that "policies which facilitate and amplify voluntary corporate Net Zero ambition are valuable, but should not be pursued in place of an effective regulatory environment and well-aligned financial incentives", and warned that private sector commitments are already waning after COP26.[10] To maintain credibility in the final months of its COP presidency, the government must be much more active in aligning GFANZ members and the wider financial system with a 1.5C transition pathway.

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[8] For more details on these policies, please see the New Economics Foundation's and Positive Money's report 'Greening Finance to Build Back Better', as well as Positive Money's soon to be published submission to BEIS' call for evidence on the update to the green finance strategy.
[9] Targeted green lending schemes have been established in other major economies, such as China and Japan, and are currently being considered by the European Central Bank's Governing Council. For more detail on how this proposal could be applied in the UK context.
[10] Climate Change Committee, '2022 Progress report to Parliament', 29 June 2022