

Environmental Audit Committee

Oral evidence: The financial sector and the UK's net zero transition, HC 308

Wednesday 14 December 2022

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Members present: Philip Dunne (Chair); Barry Gardiner; Clive Lewis; Caroline Lucas; Jerome Mayhew; Anna McMorrin; John McNally; Dr Matthew Offord; Claudia Webbe.

Questions 64 - 106

Witnesses

I: Sam Alvis, Head of Economy, Green Alliance; Mark Campanale, Founder and Director, Carbon Tracker Initiative; Ryan Jude, Programme Director for Green Taxonomy, Green Finance Institute; and Dr Anastasiya Ostrovnaya, Senior Research/Teaching Fellow, Centre for Climate Finance and Investment, Imperial College Business School.

Written evidence from witnesses:

[Carbon Tracker Initiative](#)

[Carbon Tracker Initiative](#)

[Green Alliance](#)

Examination of witnesses

Witnesses: Sam Alvis, Mark Campanale, Ryan Jude and Dr Anastasiya Ostrovnaya.

Q64 **Chair:** Good afternoon and welcome to the Environmental Audit Committee for our second oral evidence session in our inquiry into the financial sector and the UK's net zero transition. We are joined today for a single panel by four witnesses, and I would like you to introduce yourselves and explain the role you have that makes your contribution relevant to our discussion today.

Mark Campanale: I am the founder and Executive Chair of the Carbon Tracker Initiative. We are a financial non-profit think-tank and we model future coal, oil and gas production.

Sam Alvis: I am Head of Economy at Green Alliance. We are a think-tank focusing on ambitious leadership for the environment. Our economy programme looks across all economic policy, including the financial sector.

Dr Ostrovnaya: I go by Ana, just to make everybody's life simpler. I work at Imperial College London with the Centre for Climate Finance and Investment. I am a senior teaching fellow there. I teach climate finance and research into how financial sectors and investors approach climate change issues.

Ryan Jude: I am Programme Director for Green Taxonomy at the Green Finance Institute. We are an independent organisation set up and co-funded by the Government and the City of London Corporation to provide advice on greening the financial system. My particular work is on the green taxonomy, where I lead the secretariat for the Green Technical Advisory Group, which is the group of independent experts that advise the Government on the UK taxonomy.

I would also like to declare that outside of work I am a councillor in Westminster City Council for the Labour Party, but I will be talking very much from my Green Finance Institute role today.

Q65 **Chair:** Thank you. The Government published a Green Finance Strategy back in 2019 and I expect that they will be doing a refresh of that during the course of the next year. We have as a Committee taken a particular interest in the role that the UK has as a financial sector leader internationally. The City of London's position in the economy gives us a position of some strength in trying to drive change through the industry. Could I ask you to start, Ryan, by indicating whether you think that is correct, how you see the financial community getting on board with this agenda, and to what extent some parts are ahead of others? Could you give us an overall sense?



Ryan Jude: I think it is worth saying that the annual Global Green Finance Index still places the City of London as the top green finance centre in the world. That has been three years running now. In the most recent report it did on this, it stressed that regulation is a key aspect of this. We are leading the way with TCFD mandatory reporting, on the Transition Plan Taskforce and on the work that we have been doing on the green taxonomy. That is all important stuff that is in train. We obviously need to start seeing them being delivered and coming into effect.

One of the other things that I often come to, though, is: are we seeing the financial capital flowing that we need to? The Committee on Climate Change has previously said that we need to see £50 billion per annum in climate finance, up from around £10 billion that we had in 2020. There is obviously a funding gap there. There is still definitely room to grow, but we are making some progress in the areas on regulation.

Q66 **Chair:** Anastasiya, from an academic perspective do you have any insights on how we are doing generally?

Dr Ostrovnaya: I think of the financial system and the real economy as a chicken and egg problem. We have the real economy, which is influenced by financing flows from the banks and financial institutions and by the—let's put it this way—emissions regulations. We have the banking sector, which provides the funding but then gets the return and this is how they make their own money and are able to do the business. They are not directly regulated by the emissions regulations but they have their own banking regulations. When we look with focus at the real economy, what will drive the transition? Will it be the regulation or will it be the financial sector? I think it is both, but we cannot just rely on the financial sector to do all the pulling. There is also no green finance without a green economy, so the change needs to happen in the real economy.

Q67 **Chair:** Ryan, you mentioned taxonomy and we are going to come on to this in a bit more detail in a moment. One of the challenges is a definitional one. Many financial institutions have made commitments and claims about how much of their book will be, broadly speaking, green over what period. Is there enough clarity about what that means in terms of the standards and the metrics and the measurement opportunities for different types of financial institution to actually mean what they say or say anything other than a platitude?

Ryan Jude: I would say to date, no, there has been this definition gap, which is where the need for taxonomies has emerged from. We have seen a lot of what people often call greenwashing. We have seen various regulators now issue fines to different financial institutions for overstating their ESG claims of certain products and certain investments. That is where taxonomies come in and are so important. They are an objective, science-based dictionary for what economic sustainable activities look like, and they go across every sector and have science-based targets and



thresholds, which then allows us all as scrutinisers or investors or consumers to look at two different firms and compare apples to apples. Whereas right now you might see a firm that claims to have green investments or sustainable investments or ESG investments and to the average consumer that is incredibly confusing. That is why taxonomies are, in our opinion, an incredibly important tool to add into this landscape.

Q68 Chair: Mark, the Committee, using some of your work, wrote to many financial institutions and a good proportion of them wrote back to confirm where they are on this journey. Could you give us your perception from those responses? You have done some analysis, which has been helpful to us, a top-level perspective.

Mark Campanale: Based on our analysis of the responses, relatively few UK-based financial institutions came out in support of the IEA 1.5 net zero scenario that says no new investment is needed anywhere in any new coal, oil or gas. That did not have as much support, in fact any support really, as we had hoped to have seen from UK institutions because what that really says is that the UK market should be stopping the expansion of the fossil fuel system. The banks and the fund management companies are not ready to say that at this moment.

If you look over the last 10 years and the UK being a global financial centre certainly in terms of the exchange, there have been 2,300 coal, oil and gas IPOs, 10% of all the shares—

Chair: Sorry, since when?

Mark Campanale: In the last 10 years, 2,300 coal, oil and gas IPOs that have raised \$600 billion-plus of new capital for companies and, on top of that, there is a trillion or two of debt. Why that is important is—

Chair: Is that a global figure?

Mark Campanale: That is a global figure. When you compare that to how much has been raised for renewable energy, the figure is £56 billion. You can see that significantly greater capital is being raised for fossil fuels than for renewables. I think this Committee probably knows that the largest IPO in the London market this year was an oil and gas company, Ithaca, that completed its raise in the middle of the COP.

Q69 Chair: Is there any evidence on financial performance of such investments, oil and gas versus renewables?

Mark Campanale: When we analysed from the period 2011 to 2021, the fossil fuel companies on aggregate lost around half of their value during that time period. Unfortunately, due to the Ukraine crisis there has been a significant switch in the last year and there has been a bounce-back in the value of the oil and gas companies. I think that is just a temporary phase, but the underlying picture is that certainly through the equity markets, and London being a very important financial centre, we have



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not really cracked the problem of whether we are funding more fossil fuels than renewables. We have not really addressed that properly, in my view.

Q70 Chair: We are going to come on to the stranded assets in a moment. Going back to my previous question, is there evidence that investing in renewables has a better financial return than investing in fossil fuels?

Mark Campanale: It is a different kind of return. If I can explain that, if you are in Saudi and you are producing oil at \$3 a barrel and the market price is \$100 a barrel, you are going to be doing that day in and day out for as long as you possibly can. In the case of renewables, which we know is getting cheaper and cheaper and cheaper, the margins are not the same as oil and gas. You could be producing a yield of 5% or 6% per annum. That is important if you are a long-term investor like an infrastructure fund or a pension fund that wants a long-term yield. You will be drawn to the steady return. What you are seeing in oil and gas particularly, and coal, is a huge amount of volatility with big swings. It was only last year we had a period of negative prices for oil and gas. It is not a great place for pension funds to want to play that kind of volatility.

The financial returns are different, they are not the same, and it depends from which part of your portfolio they come. Pension funds will own it in the infrastructure part of their portfolio; for oil and gas it is probably going to be in the listed equities part of their portfolio, or private equity.

Q71 Chair: Sorry to press you on this, but is there evidence that renewable companies or companies that have a focus on renewable assets have some kind of premium value for investment because there has been so much demand to invest in green? I think that is particularly what is coming—

Mark Campanale: If you go to the period 2016 to 2021, the answer is yes. This year the green companies, which many said were overbought, have given up some of their returns, but over the longer period they have done an exceptionally good job. There was a period last year when the US's largest renewable energy company was worth more than Exxon, which obviously made a lot of headlines, but that has been given up in the last year.

Chair: Anastasiya, do you want to come in on that?

Dr Ostrovnaya: Imperial did a research project with IEA. There are three parts to this project where they are comparing listed renewable firms versus fossil fuel and showing that there is outperformance for renewables, but that does not include the recent year, where the fossil fuel prices are high and the performance of oil and gas companies is high. It also covers quite a big period of renewables' own subsidies. The past returns are not the predictor of future assurance, but I think there is some evidence. I am happy to share this paper with the Committee.

Q72 Chair: Please do. We would like to see that. Sam, I am going to come to



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you now. In another inquiry we are looking at accelerating the transition from fossil fuels to renewables in the North Sea and we have heard of the stranded assets or the risk of investing in assets that may not be fully exploitable if they have a shorter lifespan as a result of policy change than otherwise would be the case. Do you see investors and shareholders worrying about this at the moment? From what Mark has just said, it does not sound as though they have been over the last five years.

Sam Alvis: No, I don't think so and I think the reason for that is what Mark Carney refers to as the "tragedy of the horizon" in that most investors are working on timescales of one to three years when they are assessing risk, and they are assessing that risk using historical data. Whereas if you look at something like the Bank of England, its climate biennial stress test analysis takes a much longer time horizon and uses integrated climate modelling into financial modelling. If you were to look at an oil and gas investment now, it looks profitable in the short term. It looks like a good investment, but reflecting that climate risk there is a high chance that is going to become a stranded asset. You can look at the work from the University of Exeter on the level of stranded assets that we are going to see globally.

I think that puts a premium on both Government and regulators to reconcile those two horizons to avoid the risk of stranded assets. The first is for Government to support the market in recognising the real price of extraction for the North Sea. The issue with subsidies and investment allowances is that it makes an investment look more attractive than it is and can lead to stranded assets down the line. The Bank of England can do more to update its risk premia to advise on medium-term risks rather than short-term profit horizons and also to start looking at capital controls as a way of ensuring that financial institutions at least are able to bear the costs of any stranded assets. Then we can look at duties on operators using the North Sea Transition Authority to ensure that decommissioning costs are met by owners of capital.

The final point is that I think that is going to become increasingly apparent and important as we see a move towards more private equity-based firms owning assets in the North Sea, away from large oil majors like Shell.

Q73 **Chair:** What do you mean by capital controls?

Sam Alvis: Capital controls is a measure where the Bank of England can say for every £1 you invest, say, in fossil fuels you must hold on to an additional £1 as emergency liquidity to cover the cost of that stranded asset in the future.

Chair: So a higher ratio applying to those kinds of investments?

Sam Alvis: Yes, exactly.

Chair: Thank you.



Q74 **Jerome Mayhew:** I am going to ask a couple of questions about carbon pricing and, Dr Ostrovnaya, I will start with you. On carbon pricing mechanisms, we have the UK Emissions Trading Scheme. How do these mechanisms support the UK's transition to a net zero economy?

Dr Ostrovnaya: I think carbon pricing is extremely important as a tool. Until now we have not been paying the correct price for a majority of our goods, including energy, because we have never counted what the environmental cost is. Carbon pricing is putting what the cost of climate is into the goods that we are using, whether that be energy or steel or cement. The UK ETS, which is a spinoff from the EU ETS, is one of the biggest in the world and the leader in how things are done.

Q75 **Jerome Mayhew:** The current price for the UK ETS is about £22 a tonne?

Dr Ostrovnaya: No, it is 79.68 as of yesterday.

Jerome Mayhew: The UK?

Dr Ostrovnaya: Yes.

Jerome Mayhew: £79?

Dr Ostrovnaya: Yes.

Jerome Mayhew: That is enormously high, isn't it?

Dr Ostrovnaya: Yes, and the EU ETS is at 90.

Jerome Mayhew: Euros?

Dr Ostrovnaya: Euros, yes.

Jerome Mayhew: The global average is about \$6, isn't it?

Dr Ostrovnaya: Less than that. I think it is about \$4 or \$5.

Q76 **Jerome Mayhew:** Going back to the UK, we have the UK ETS. It is imposing a cost on emissions-heavy industries of £79 a tonne.

Dr Ostrovnaya: Let's call it £80.

Jerome Mayhew: Okay, let's call it £80 a tonne, yes. What impact does that have on our competitiveness internationally?

Dr Ostrovnaya: That is a good question.

Jerome Mayhew: That is why I asked it.

Dr Ostrovnaya: Let me take a step back and explain. I do not know if everybody is familiar with how the ETS system is designed. The users of the system, or participants, industries and companies, have to turn in an emissions certificate for every tonne of CO₂ that they emit. They either get it as a free allocation from the state—and this is something that I



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want to explain a little bit—or they have to buy it in the market. This is where the market price comes from. About 50% of the emissions are covered by free allocations and these are usually given to the industries that are considered to be a flight risk, as I call it, or a carbon leakage risk, including cement and steel. I don't have the numbers for the UK ETS but SparkChange, a company, does a dataset of what the historical emissions versus free allocations are. Until 2020 some of the heavy emitters were actually getting subsidies rather than being penalised.

Jerome Mayhew: By that you mean that they were given more credits than they actually emitted?

Dr Ostrovnaya: Free allocations, yes.

Jerome Mayhew: So they were then selling those on the market for up to £80 a tonne?

Dr Ostrovnaya: Exactly, for extra profit. I am not talking about just the amount of free allocations, I am talking about the amount of free allocations minus the actual emissions. They were getting a de facto subsidy.

Utilities companies were not. I have the numbers here. From 2013 to 2020 the average percentage of the emissions that the power companies paid on the emissions for was 75% between the free allocations, but cement companies were getting on average 5% subsidy. Metals were pretty much paying nothing.

Until now it has not been a risk to the economy, but from now on, especially with the announcement of CBAM—and I would assume that the UK would follow shortly—this is something that needs to be much more considered. CBAM, the carbon border adjustment mechanism, will tax at the border goods that are produced elsewhere where they are not paying—

Jerome Mayhew: You are referring to the European Union passing legislation yesterday to legislate for a CBAM coming in in October next year in pilot form?

Dr Ostrovnaya: Yes. I think from October next year they will start registering it, collecting the data. I think it will be taxed from 2026; I might be wrong. That will make the industries under the EU ETS or UK ETS not lose out on business to the other countries.

Q77 **Jerome Mayhew:** Sam, if I can move to you, the European Union is moving forward. It published its draft Bill on CBAM on 4 July last year and then it has legislated now. I think the details are not quite finalised but it is clear that it is heading in that direction. What impact do you think that will have on UK industry if we do not have some version of a CBAM in this country but stick with the UK ETS?



Sam Alvis: If you talk to business at the moment, the biggest difficulty they see with the UK ETS is the size of the market and the illiquidity that that is providing, the ability to sell or buy various allocations. That is leading to a very—

Q78 **Jerome Mayhew:** Why is that illiquid? You would have thought it would be—

Sam Alvis: Because there are many fewer buyers. The steel industry in the UK, for example, is very small but you would want to be able to buy and sell between a larger market. Top of their list with the CBAM is the ability for a UK ETS to dock with an EU ETS to increase the size of the market.

Jerome Mayhew: They are basically the same anyway, aren't they?

Sam Alvis: Yes, exactly. They would be able to trade across the border. Then, supplementary to that, will be the need for further protection for UK industry where it is facing high costs for decarbonisation. The UK following suit and implementing a similar CBAM, particularly one that works alongside Europe to allow trade that way rather than in competition with it, I think will be very important.

Q79 **Jerome Mayhew:** Back to you, Ana, what do you think the contribution could be of international alignment and collaboration on carbon pricing to making global progress for reaching net zero emissions? That is basically building on what Sam has just told us.

Dr Ostrovnaya: The carbon pricing is recognised as one of the very important tools of reducing emissions because if the high-emitting companies would have to pay the rightful price, then the business would be less profitable.

Q80 **Jerome Mayhew:** To give a figure to the right price, it has been suggested that it needs to be around about \$75 a tonne globally. Is that what you are working towards?

Dr Ostrovnaya: There are different estimates. I think they started around \$75; I have seen some up to 250, so it is based on social cost of carbon. I think that a \$75 global average would be quite—

Jerome Mayhew: So we have already exceeded it in our current pricing?

Dr Ostrovnaya: In the UK, yes, but not across the world.

Q81 **Jerome Mayhew:** We had evidence on a previous inquiry from Mark Carney and he said that having a global carbon price is, in his words, highly desirable, but he did not think a global carbon price was in prospect. First of all, do you share that view? If you do, is a CBAM, multilateral rather than global agreements on CBAM, the next best solution? If it is, how do you stop it becoming a tool for protectionism, particularly in America? I am opening that up to everyone.



Dr Ostrovnaya: I will start. I think it would be extremely difficult to achieve a global carbon price.

Jerome Mayhew: It is like world peace, isn't it?

Dr Ostrovnaya: Then a lot of emerging or developing countries would say, "It is not fair, you have a developed economy and zero carbon price, now you want us to put a carbon price of \$100 per tonne". Politically, I do not think we will ever get there.

Jerome Mayhew: Okay, so let's park global pricing.

Dr Ostrovnaya: CBAM helps to develop it in other countries but it will not affect all industries. For example, steel is a very tradeable commodity and steel probably will be under some carbon pricing, but we are very unlikely to import electricity from China here so obviously electricity will go into other commodities and stuff like this.

Jerome Mayhew: On the EU CBAM electricity is one of the sectors that it is covering, which is interesting.

Dr Ostrovnaya: Yes, but from the cross-border trade perspective that would not be—

Jerome Mayhew: Funnily enough, between us and the European Union we have many interconnectors so that is a relevant thing for us. Sam, do you want to come in?

Sam Alvis: Yes. On the multilateral aspects you can look to examples in the G7 recently on things like a global minimum corporation tax and the deal on Russian oil and the revenue cap and say that multilateral action on taxes and revenues is possible.

In terms of avoiding protectionism in the US, using the G7 as that format is an important way of doing that. You have seen the impact that the IRA has had on EU foreign policy in particular.

When it comes to the UK, the fundamental way of us avoiding a CBAM and protectionism is to ensure that we have industries that are green enough to trade and avoid it. If we were selling our steel overseas in particular at the moment, then we would be in difficulty.

Q82 **Jerome Mayhew:** In theory, you are right, of course, because we are all very disinterested, selfless legislators, both here and in the European Union and in America, but when it gets down to dirty politics legislators are not averse to using opportunities to cut out international competition. Is there a risk with the development of CBAM that this is going to become a tool for protectionism? That is certainly the argument raised against it.

Sam Alvis: Potentially, and that is certainly what developing countries will talk about. There is a premium on western countries to be looking for opt-outs or additional support for developing countries to be able to



negotiate through CBAMs. If you look at the EU-US deal on steel recently, in actual fact there is a real openness from legislators in western countries to talk about aiding trade for green technologies. While the IRA will support a number of American domestic industries, they cannot do every single piece of greening the economy. There is going to be a level of specialisation and the more that legislators realise that the more important trade will become.

Q83 Jerome Mayhew: Finally, Mark, it has been suggested that the G7 is the right mechanism for developing this. I know that CBAMs have been discussed at G7 level, including this week. Do you agree with that or do you have a different take on this?

Mark Campanale: I am going to defer to the expertise of Sam and Ana on this particular one. I do support cross-border adjustment mechanisms. How they will play out, particularly in the context of international trade and whether G7 is the right platform for it, I don't have any strong views.

Jerome Mayhew: Ana, final word?

Dr Ostrovskaya: May I say a couple of things that will not actually answer your question? CBAM is a good thing because the countries that we trade with will have an incentive to develop their own carbon pricing because they would rather collect it in their own budgets than hand it over to the EU or the UK. That is a great incentive. What we need to be careful of and we need to think through with CBAM is under the CBAM and under WTO rules we will not be able to hand over the free allocations. What it means for the financial health of our hard to abate sectors like steel and cement needs more analysis.

Chair: We are expecting a vote in seven or eight minutes so we will suspend the sitting when that comes, but I am going to encourage Barry Gardiner to get half his questions in. He cannot do it all in seven minutes.

Q84 Barry Gardiner: Fit my questions into seven minutes, all right. Mark, the Committee on Climate Change told us we need a five-fold increase in financial flows if we are to meet our targets by 2030. I think that Mark Carney said we need to change the allocation currently between fossil fuels and renewables or low carbon to 4:1. Currently, we have 90 cents being spent on renewables for every dollar in fossil fuels. How are we going to get the financial flows moving fast enough in the right direction in the right ratio?

Mark Campanale: If I come back to that ratio, if we go back to the IEA 1.5, which said that no new investment is needed in any new production, I am not sure that this ratio that was presented to this Committee by Mark Carney, the 1:4, is quite right. I spoke to a few senior people at the IEA. In their view the ratio is, in fact, 1:9. When you look at the one, what this Committee did not address properly, in my view, was the difference between CAPEX and OPEX. We do need capital to run health and safety and maintenance and keep existing wells producing, but we do



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not need any CAPEX in any new production. I think those remarks could have been a little bit clearer at the last Committee meeting.

If I can pause briefly, we know that the carbon budget to 1.5° globally is around 300 gigatonnes. If you look at the reserves of companies listed on the world's exchanges, of which London has one of the most carbon-intensive financial centres, there is about 1,000 gigatonnes. What that means with Governments owning another 2,900, something like 80% or 90% of the world's reserves will have to stay in the ground. That is very clear, which does go back to the point that no new finance is needed for new production because there is more than enough out there to take us way beyond 3°.

The real question that I think you are pointing to is how we scale up and increase access to or support renewable energy.

Chair: I am going to allow you to answer that question when we come back. I am going to have to suspend the session now, I am afraid, for this vote.

Sitting suspended for a Division in the House.

On resuming—

Q85 **Barry Gardiner:** Mark, you were explaining to us how we could speed up the financial flows and make sure that we got the ratios right. Do you want to recap and then continue?

Mark Campanale: Just some thoughts on how we can scale renewables. One of the ideas is to steal an idea from the US Inflation Reduction Act, which is a mix of tax credits for new electric vehicles and low-carbon renovations to homes, for example, such as rooftop solar and, importantly in my view, heat pumps. There could be support for emissions reductions in hard-to-decarbonise sectors such as cement, chemical and steel, and the expansion of production and investment tax credits for wind, solar and energy storage with a 10-year horizon. The importance of a 10-year horizon is to support planning. One of the things you will hear a lot from investors is the need for long-term certainty. If we are going to do things like tax credits for renewables, it has to tie into a longer-term policy framework.

Q86 **Barry Gardiner:** If we look at the Green Finance Strategy, when it was published part of that strategy was about establishing long-term policy frameworks. What you are criticising, I suppose, is the up and down, the changing of the goalposts in policy as a means to improving confidence for investors coming into the market.

Mark Campanale: I think that is right. If I can just add two more, one is the importance of aligning Treasury policies more on climate change and decarbonisation with the long-term climate and energy targets set by BEIS. If the finance ministry part of the UK Government does not have its own long-term commitment and goals for decarbonisation, it is going to



be very difficult to implement renewable energy targets within a UK setting.

My last point is that I am on the advisory council at GFANZ. I am a proud supporter of the work of GFANZ but we need more than voluntary action. We need that voluntary action to be supported by strong and robust Government regulation. My comments so far to date have been around the UK being a leading financial centre for the fossil fuel industry. Why are we still having more fossil fuel IPOs? The companies that we have already listed cannot burn what they have. Why is it that the admissions panel and the FCA are still greenlighting these fossil fuel IPOs and just making the problem worse? By the role of benchmarking, the pension funds are buying more of these IPOs. As the financial markets become more carbon intensive, pension funds inevitably are becoming more carbon intensive while at the same time setting their own decarbonisation goals. It is like they are on a downward escalator while having to run back up again. It does not help. We need to get policy around the way that the London Stock Exchange functions; we need to get that right.

Q87 Barry Gardiner: Can you translate that into a helpful recommendation that this Committee might make in its report?

Mark Campanale: Yes, to review the listing rules in particular for fossil fuel companies. We strongly believe in sectoral-based guidelines by the exchange and regulators to fossil fuel producers with much tighter disclosures around carbon budgets and the intensity of the carbon fossil fuels, which are where the capital is being raised. So, a focus on that, and I would be very happy to come back to you and share some thoughts we have on that.

Barry Gardiner: Super. If you want to write to the Committee with any further thoughts they will be most welcome.

Mark Campanale: I will do.

Barry Gardiner: I see your colleagues on the panel, Sam, Ryan and Ana, are keen to jump in here, so let's go in order.

Sam Alvis: On that policy certainty point, I think we need to separate the need for policy certainty in individual sectors, so that as an investor I can see where I should be putting my money, and policy certainty for the financial sector in terms of the level of regulation that is coming. As the Ukraine crisis struck—

Q88 Barry Gardiner: Sorry, Sam, I do not want to interrupt your flow but doesn't policy certainty about the industry side of it aid policy certainty about the financial flows because it gives the market confidence that the return they have expected is the one they are going to get?

Sam Alvis: Yes, absolutely, but I think the role for Government in delivering each of those is slightly different. For example, to deliver certainty for where you are going to be putting your money if you want to



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invest in clean heat, you need an adequate heat and building strategy from Government, whereas if you are a financial institution looking at, say, the delay to the Green Finance Strategy, wondering whether the Government are going to follow through on taxonomy disclosure regulations and so on and what you are expecting of your investees, it is slightly different.

My point on the Ukraine crisis is that that introduced a huge amount of volatility into investment and global markets. Government's role in times like this is to provide a steady hand and a level of certainty. You saw interventions from the then Chancellor Rishi Sunak in his letter to the Bank of England saying, "No, we should be prioritising energy security" when only a few months ago in Glasgow he had been saying, "We want to be a net zero financial centre". It is that consistency of message for Government that is really important for financial institutions.

Dr Ostrovnaya: I have three points. One is that banks are still funding fossil fuels on a huge scale. BankTrack keeps track of that. We were at 723 billion in 2016 and we are at 742 billion in 2021. From the time we did the Paris agreement the banks provided \$4.6 trillion to fossil fuel companies. Interestingly, net zero banks are still financing the companies that are doing new oil, gas and coal exploration. That is your chicken and egg: whether the banking sector even with net zero commitments can move fast enough to deliver on that.

The second point I wanted to make is about renewables and how they incentivise. The UK is one of the leaders in terms of policy, in CfD. CfD went through some policy shocks. First it was used as a subsidy and then at some point it was decided that the mature technologies do not need it, the investment in that dropped and now I think onshore wind has been added back on. I wrote a paper with some of my colleagues about CfDs, not just the subsidy but for the investors it is a revenue stabilisation mechanism. It is a hedge, in financial terminology. There is no other hedge from anywhere. There is no market hedge available. We have 30-year interest rate swaps. We do not have electricity price swaps. CfD now plays this role. Whenever I teach risk management and I talk about hedging, trading thinks of hedging as we hedge out whatever risk we are not taking, while the corporate managers like the hedging when it makes money and do not like the hedges when it loses money. Things have changed now and the Government must be making quite a bit of money on the CfDs for renewables than they have done in the past. I think this is a very important instrument to provide as a hedge to the renewables going forward.

The third point I wanted to touch upon is energy security. We do a lot of new oil and gas exploration in the name of energy security. It will not solve it in the short term. In the long term, it leads either to us missing the climate goals or to the stranded assets. There is no easy way of this. In terms of energy security, I also wrote a piece and I am happy to share it. We need to start thinking now about the net zero energy security



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because that is not without risks. We will be depending on metals and minerals. We will be depending on some hydrogen trade because hydrogen costs and so on. I am happy to share this paper. We need to lay the foundations for that now or in 30 years' time we will be in a very different situation with some other countries.

Barry Gardiner: Other countries already are laying those foundations, aren't they, as we know? It is called the Belt and Road.

Ryan Jude: I have two points. First, on this ratio as to whether it is 1:4 or 1:9—it is probably nearer to 1:9—I think it misses the point, which is dealing with the absolute figures rather than the relative figures. You talked about the Committee on Climate Change and the need to scale up by five times to reach this £50 billion. We have a situation right now where we do not have a way to track those financial flows and to see what progress we are making up to that £50 billion, which is where things such as the taxonomy, having a comparable, and what is a green investment are really important. Right now someone can scrape the data, and there are a few think-tanks that do this, but it is not really comparable and it only forms a rough picture. As policymakers, if we are aiming for that £50 billion per annum, if we are not making it and we have an accurate way to track it, you can course correct. You can look to fix the policies in different sectors to scale it up further. I think that is a really important point, first.

Q89 **Barry Gardiner:** Can I ask you about that £10 billion and the £50 billion target? You quoted the £10 billion earlier in your response to my colleague, but that was in 2020, wasn't it? In 2030 there was actually \$31 billion—it was dollars rather than pounds—of investment, so does £50 billion by 2030 not seem to you a rather low target for the Government to be setting in this area?

Ryan Jude: Clearly, these numbers may have changed and someone needs to go and do that research. This was before the inflation that we have seen recently and the costs of materials have gone up massively. At the minute it is the best guide we have. It would be great for the CCC or someone to reassess that, given what has happened, but it still comes back to the point that whether it is 50, 60 or 70, we right now do not have a formal mechanism to track the financial flows. I will have to double check. I think the Government in the Net Zero Strategy said that they would explore a way to track green financial flows. I think that is a really important thing. In GTAG's public advice paper in October, which I am happy to share with this Committee, we did talk about how the taxonomy can link into that and help support that.

Q90 **Barry Gardiner:** Again, just to be clear, that is the sort of recommendation that you would like to see this Committee make in its report?

Ryan Jude: It could definitely be the sort of recommendation, yes, that the Government build on what I think was a promise in the Net Zero



Strategy—I will have to double check which strategy it was—to do that and to develop a way to track those flows.

Barry Gardiner: Whether it was a promise or not, it is required?

Ryan Jude: Yes, exactly.

Q91 **Barry Gardiner:** This is my final question. Ryan, last year the Net Zero Strategy outlined that all UK emissions, 82%, are within the scope and influence of local authorities. How can net zero investment opportunities be unlocked for those local authorities? That is obviously your question, isn't it, as a local councillor?

Ryan Jude: Talking about this with my GFI hat on—there are lots of personal experiences from the councillor side of it—the 82% is a really important figure, but if you look at it economically, Innovate UK/UKRI put out a report earlier this year saying that if you had a place-based investment approach versus a place-agnostic approach, where you allow cities and combined authorities to lead the investments because they know their areas, they know where they are going to get the biggest bang for their buck, versus this top-down from central government, it would cost about a third in the amount of investment needed and create almost double the amount of social co-benefits. These are important figures. If we are trying to do this in an efficient way, that is a really important thing to be looking at.

The Green Finance Institute also put out a report with Innovate UK earlier this year about some of the barriers at the minute to local authorities accessing this capital. There are a few things I will touch on. I won't touch on the general resourcing constraint in local authorities. That is, of course, an important part of this, and the fact that net zero is not a duty coupled with that means that net zero often is not front of mind. That was not one of our recommendations.

On the finance side, there are a few important things. I am going to touch on three. One is on the way that grant funding for net zero is currently set up from national government to local government. The National Audit Office did a report last year saying there were 21 different green funding pots for local authorities. Most of them are competitive and they are time limited. You have the situation where local authorities are competing against each other. The bigger guys are going to end up getting some of the money, but even then it is inefficient because they need to get someone in to write the bid to maybe get the money, and if they get the money then they hire someone to deliver that money. You have lost months and that is not an efficient way when we have this looming net zero target coming down the line.

One of our recommendations was finding a way to streamline that, have more non-competitive funding where you means test it, maybe looking at the areas with the worst average EPC in the country and they get a certain amount of grants, and they know they are getting that grant.



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Because when we are talking about the private finance here, if the local authority cannot even see where the grant funding is coming from, it cannot plan which sectors to speak to investors to get that bigger funding in. That certainty, the same as with what we were saying earlier about investors and sectors, is so important.

The second bit then is on education and resourcing and technical assistance.

Q92 Barry Gardiner: Can I just check, that reducing the number of pots and streamlining that and making clearer allocations, was that not also a recommendation of the PAC?

Ryan Jude: Potentially. I am afraid I don't know off the top of my head. It is more a single gateway rather than reducing the number of pots, though, having a single point of access where the local authority can speak to.

On the education and resource and technical assistance, the UK Infrastructure Bank has been looking at developing this sort of thing right now. We have a situation where local authorities have a lot of projects and they need to get the money in, but there is that little gap in between the development finance that gets them from a project idea to an investable project, where they are speaking the language of the investors, they are putting the financial metrics in front of them. Again, this disadvantages your smaller local authorities. There needs to be a role there for potentially UKIB or the Government to provide that technical assistance and provide specifically that development finance, which will unlock billions more in the actual private capital that is going to flow in.

The third bit, which is not so much a recommendation here but another area that local authorities need to scale up, is aggregation. If you are looking at getting bigger investments in, it is not just a case of getting investments in for things like renewables, which have a good returns profile, and then not getting investments for energy efficiency, which do not necessarily have a payback. We have been working with local authorities on coupling these up, getting everything together, building a big portfolio where essentially some of those like renewables will cross-subsidise the other investments, but what you put in front of the investor is that overall package. You say you cannot cherry-pick which one you want, you are investing in the full thing. We as the GFI have been working with the GLA on its green bond. We are partnered with Greater Manchester Combined Authority at the minute looking at a few other options. I know that this inquiry is mainly about private finance, but local authorities are incredibly important. I am not just saying that as a councillor, I am saying that from the economic point of view and the fact that we need them to—

Chair: You have made that point very well. We are going to have to move on. There are 30 minutes max and three sets of questions to come.



Q93 Caroline Lucas: I have a question for Sam in the first instance. Picking up on this idea of whether or not the Government are sending clear enough signals to financial institutions to shift away from fossil fuels and into renewables, I wondered what your reflections are on the windfall tax policy, the investment allowance and, in particular, the fact that electricity generators will have a windfall tax imposed for the first time after the autumn statement but no specific investment allowance has been proposed for them, unlike the oil and gas profits levy. Should the investment allowance be extended to renewable energy companies or should we just scrap the investment allowance altogether?

Sam Alvis: I think we should be scrapping the investment allowance altogether. The investment allowance underwent some changes in the autumn statement. The actual volume of the allowance was reduced for most investments so it is now 90p in the pound but, importantly, it was extended for what is called upstream decarbonisation. That sounds good but predominantly it is about electrifying oil and gas platforms. What this means is that the taxpayer is now on the hook for what was previously a commitment by private companies to deliver under the North Sea transition deal. Again, it is Government having to pay for something that the private sector should really be doing under its own steam.

You are right to point out that the energy generators, whether that is large-scale offshore windfarms, do not receive a similar investment allowance. The difficulty with that is that we cannot extend the investment allowance to electricity generators because of the way that North Sea taxes are calculated. They are ringfenced to look only at oil and gas. You would have to deliver a separate but additional investment allowance. Previously, the Government had pointed to the super deduction as a possible way of doing that, but then I think before this Committee the then Exchequer Secretary ruled out attaching green strings to the super deduction as it stood then and it has since been abolished. There is definitely a need for capital incentives to increase investment into the sort of decarbonisation that we need.

The final point I would say about why that is so important is as we enter a recession there is an increasing flight from capital as I mentioned earlier to large, safe companies like oil majors. If we are not using sticks and carrots to ensure that they are delivering green investment, we will see a dual effect of them receiving more capital and the green companies and investors that we need receiving less capital.

Q94 Caroline Lucas: Thank you. Can I come to Mark with a question? Many financial institutions that have submitted evidence to the inquiry have argued that engagement with fossil fuels companies is a better strategy than divestment, and they have said that divesting risks transferring ownership to non-climate conscious investors. I wonder what your response is to that. Should Government regulation push for fossil fuel exclusion policies in financial institutions' investment portfolios?



Mark Campanale: Thank you for that question. I do ponder what the engagement that they talk about is trying to achieve. They could reduce operational emissions, which would be a good thing, but at the end of the day the core product of most, if not all, of fossil fuel companies is the production and sale of more fossil fuels. In the case of transportation fuels, it is through the internal combustion engine. I cannot see how support for a technology that at the end of the day is being competed out from cheaper alternatives—electric vehicles are now going to be more competitive than the traditional internal combustion engine. The analogy I would think of is when the railroads arrived in the UK did the shareholders in the canal companies engage with the canal companies for 10 years saying, “Be better, canal companies”? Obviously, they did not. There was a technology switch and they moved into railroads. I think the same approach has to be understood about engaging with the fossil fuel system. It is a technology switch.

The other point to make is that the latest studies by the IEA and others is that 90% of the capital expenditure of the fossil fuel majors is in, yes, production of more fossil fuels; 10%, 11%, perhaps, is into alternatives, into renewables. I don’t think that a continuation of business as usual with more investment in a product that the world is moving away from is evidence that an engagement approach is succeeding. Those that have divested have done because they have moved the capital into a new system, the clean energy system and the renewable energy system, and they are looking to get stable, long-term returns from a different energy sector. That is essentially my view on engagement.

Dr Ostrovnaya: I think it is important in divestment versus engagement to split it by asset class. With equity, if you are engaging with a company, you have a seat at the table. You can engage with the management and try to see that they are doing the right thing. We have seen it with Engine No. 1 doing it with Exxon, pushing climate-oriented people aboard. Whether it will make a difference long term or not is a different story, but at least they have a say in that.

With the debt it is slightly different. The majority of the equity, if a company divests equity, it does not really hurt the financial bottom line of the company itself directly, while with the debt it would have direct implications because the debt is provided to the company to fund its business operations or new projects. There is definitely more room for divestment with the debt policy.

With the equity there is a very interesting book by Michael O’Leary called “Accountable”, which looks at how the capital has moved away from caring about the environment. Me, here, I can buy some share of a company in Zimbabwe and whatever mess they make with the environment it would not affect me. With that, they can look also at the divestment/engagement dilemma, and engagement can bring the results if it is done right, if the company’s management is kept accountable to their promises and the promises are also being tracked.



Sam Alvis: We may come on to this but this is where Government and regulators really need to support engagement with, for example, transition plans. If you have a science-based, credible transition plan of an organisation that is currently invested in fossil fuels, holding to account its promises to actually decarbonise is a really important outcome of regulation, versus regulation that may rely on and push more towards disclosure, which incentivises just getting these things off your balance sheet so that your portfolio is 1.5° aligned but that may not lead to any real decarbonisation in the real economy.

Ryan Jude: Linked to that, one of the big issues with the divestment side of it is if you have a public company that we can accurately regulate and it goes into a private corporation that we do not have as much control over, that is a bigger issue for the planet because that private actor might not be wanting to scale down the activities of the organisation that it is invested in. This is where the equity side of it comes in.

On the transition plans, though, and this links to debt, we have seen growth in recent years of sustainability-linked bonds and sustainability-linked loans, which are types of debt where there is a KPI that you link the interest rate of the debt to. You could get to a world where corporations are issuing sustainability-linked bonds related to those transition plans, which is saying, "Right now we have this amount of fossil fuels in a portfolio. It is going to go to this amount", and if they do not meet that they get penalised. They get penalised on their cash-flow statement because the interest rate changes or there is some other fine. The minute that you start to have that accountability is where it becomes important. Right now I think there is a bit of an accountability gap.

Q95 **Caroline Lucas:** I am aware of time so I just want to come to the last question, again originally to Mark. Is there anything more you would want to say about how the Government can ensure that policies and regulations do not act as a barrier for financial institutions and their attempt to transition to net zero? I wonder whether you or anyone else on the panel has any knowledge of the issues around the Energy Charter Treaty and the fact that a number of European countries are withdrawing from that because otherwise this ISTS mechanism could actually penalise companies that are trying to do the right thing.

Mark Campanale: We have seen countries withdraw from the Energy Charter Treaty. We have also seen companies sue Governments for their decisions to decarbonise as a threat to their future profitability or the profits that they would expect to have. Obviously, we would not want to see that kind of thing continue. I think that there were some UK companies involved in suing under the Energy Charter Treaty. The sooner we shape it or change the Energy Charter Treaty and encourage a completely different structure to emerge the better.

Q96 **Caroline Lucas:** Are there any other obstacles that you see in terms of the transition that is necessary?



Mark Campanale: I think the bond markets are absolutely vital to this, but also the equity markets. If we are going to get financial systems aligned, and 70% to 80% of assets of pension funds are managed passively, they just replicate indexes or replicate the market as a whole, if you are making the financial market more carbon intensive, all you are doing is making the pension funds more carbon intensive. What we should be paying attention to is the listings process and the role of exchanges and bond issuance. By far and away one of the most interesting areas for bond investors to invest for yield is in oil and gas, in fracking and high-yield fracking plays. The documents that are produced, the prospectuses, that allow this capital raising to go ahead do not give any guidance for regulators about the viability of those reserves or the viability of those business models. Even in the Ithaca IPO that we saw in the UK, there were some serious questions about the disclosures made by that company, which were challenged to the FCA but it still happened.

I will bring this back to the Committee as a topic. We have to get that right. If we want financial markets to be net zero and pension funds to be net zero, we have to get the listing mechanisms right to ensure that that happens.

Q97 **Chair:** Can I just pick that up? The eurobond market came to the UK and to Europe because of a tax change in the United States. That is how it emerged. Is there any evidence of any jurisdiction introducing either listing controls, as you have suggested, or capital controls, as you suggested, Sam, in the world yet or would we be an outlier if we were to introduce this and, therefore, risk the business in a totally mobile market going away?

Mark Campanale: At the Carbon Tracker Initiative we have discussed this and raised it as an issue with individuals and regulators within the US and they are conscious that this is an issue. Yes, capital moves internationally and you could argue that if you create constraints in the UK those companies would go and raise money elsewhere. They well might, but at least it is not the UK pension funds picking up this risk. Free float, the UK has the largest market cap associated with fossil fuel reserves, along with Moscow, São Paulo, Oslo and New York. I don't think that the UK being the world's financial centre for fossil fuels is great credit to our goals to be a net zero financial centre.

Sam Alvis: Similarly, central banks are looking to co-ordinate when it comes to capital controls but, as Mark said, the issue from the Bank of England's point of view is protecting financial stability and avoiding stranded assets in the UK. If that means that companies flee elsewhere, then we at least will have avoided the financial risk in this country.

Chair: You accept that it would make more sense to co-ordinate with other financial centres rather than go it alone?

Mark Campanale: It would do and we are having that conversation with people within the European Commission about adopting a similar view.



The last fact to put in front of the Committee, if I may, is that the embedded emissions within reserves owned by companies listed on the London Stock Exchange is 30 times greater than UK fossil fuels and 10 times the UK's remaining carbon budget. Let's be clear, the UK financial markets and the London Stock Exchange is a leading financial centre for fossil fuels and we have to move away from that as quickly as we can to be a net zero financial centre.

Q98 Caroline Lucas: Do we then have to wait until everybody else moves? It suggests that—

Mark Campanale: No, we have conversations with other financial centres. In the area of standardising international rules and regulations, groups like IOSCO, the World Federation of Exchanges and UNCTAD's Sustainable Stock Exchanges initiative around creating frameworks for sustainability will become very important in this discussion.

Q99 Anna McMorris: I am going to turn to data and disclosure and ask you some questions on that. There is some very serious concern over greenwashing of the financial sector, especially around data and disclosure. Ana, what is your opinion of whether investors and consumers have that access to trustworthy data to guide any of their zero investment decisions and make their own proper net zero choices?

Dr Ostrovnaya: In my opinion, no. There is so much data but then when you need to find very specific emission and cost of technologies data for financial analysis it is extremely challenging. The other day I was looking for carbon emissions targets of a European steel company. I could not find it because they measure it in percentages from 2019 level and then it is also only carbon intensity and not the carbon emissions. To find the right data at the moment from a consumer point of view, doing ad hoc research into the companies, feels like pulling teeth, to be honest.

Anna McMorris: So it needs to be standardised?

Dr Ostrovnaya: It does need to be standardised.

Anna McMorris: More transparent?

Dr Ostrovnaya: Definitely. I think there are more data specialists here; I am just—

Anna McMorris: Yes, I wanted your opinion first and then I was going to move on to Ryan.

Ryan Jude: As Ana says, the issue is not that there is not data, there is too much data but it is not the right kind of data. What the taxonomy is hoping to do is get that climate financial data out there. It needs to be alongside a disclosures regime. Having that dictionary that is objective, science based and reads across all these other policies, reads across your disclosures, your transition plans, your FCA labels, will then enable people to make more informed decisions and to know that they can trust



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that data and that there is apples to apples they can compare there. The FCA's recent analysis of what consumers, retail investors, want their money to do said that 80% of people want their money to be doing good, going towards green things, but the last time I looked at this about 15% of people actually had their money in bank accounts or pension funds that were achieving that. That is because of this lack of clarity of knowing what is correct.

Anna McMorris: Possibly, I imagine, consumers and investors think that they might be investing in a net zero project area but, in fact, it is pure greenwashing.

Ryan Jude: Let's talk about signals here. If you are a consumer or an investor and you see some of the fines that we have seen recently, you are suddenly going to doubt all the other claims that are being made, which is why having a taxonomy that is supported by a government, you know it is science based and the CCC and the different working groups that we have with academics to develop the thresholds for energy, for buildings, for all these other areas, you know you can trust that. Then what you as the investor and consumer see is a percentage of the greenness of that compared to the taxonomy. You know that this thing can be trusted and you just see this one data point, which helps you make a more informed decision.

Q100 **Anna McMorris:** What is your opinion, then, of the foundations and the guidance being developed by the UK Green Taxonomy and the Transition Plan Taskforce?

Dr Ostrovnaya: I just want to clarify that taxonomy in my understanding tells me whether it is green or it is not green but it does not tell me what the emissions are. It does not tell me what the decarbonisation pathway looks like or how much it will cost and how much it will hit my bottom line. I think that information is still very much needed, in addition to taxonomy, not instead of taxonomy.

Ryan Jude: Yes, 100%. One of the key things that we are always trying to get across is that taxonomy is a tool, it is not the tool. It needs to work in a suite of all these other areas as well.

In terms of the work that is being done today, obviously I very much like taxonomy, as I think has probably been quite obvious from this. I think that the work being done on transition plans is also really good work. That is a good example of two different policies and how they dock into each other. Taxonomy is but one data point in a transition plan, which would then form the decarbonisation pathway. Again, it is more information for investors to make more informed decisions, but without the data to underpin it there is no accountability and it is difficult to make those informed decisions.

Q101 **Anna McMorris:** That is what I was going to ask: what about the accountability? There is no accountability at the moment and a lack of



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transparency within that. Can you comment on that and then Sam can come in after that?

Ryan Jude: This is what this is hoping to begin to address. Over the last 18 months we have been advising Government on how to develop that taxonomy and we hope to see more details set out in the coming months. The Government mentioned today that the Green Finance Strategy will set out a bit more detail about the timelines around this, but it cannot be understated how important a policy we think this is to help support the transition.

Sam Alvis: On transition plans in particular, when Rishi Sunak announced the move towards mandatory transition plans, which let's not underestimate is a huge step forward, he was clear that they were a tool for the market to support investment, but I think we need to be clear that transition plans are more than that. They are about decarbonisation in the real economy and we have to be talking about what we are regulating for. That should be the ultimate outcome.

We need to get to the stage where transition plans are comparable, so they include the same baseline, for example, and the same timeframes so they can be compared. We should also use those transition plans to be able to whitelist or blacklist companies as net zero credible. If you have not published one in a certain period of time, if you haven't made sufficient progress against your own reported baseline, these sorts of things give you that accountability and credibility. It is as important for Government and regulators as it is for consumers and investors.

Q102 **Anna McMorris:** How can we be sure that it is going to help meet the 1.5° limit, for example?

Sam Alvis: I think there is a role for the regulator, or potentially a new regulator, to look at transition pathways, which are sectoral based, and work with the CCC to make sure that each of those sectors in their overall transition is cumulative to the UK's carbon budget. Then a transition plan should dock into that transition pathway and say, "If cement use is to reach net zero by 2050, as a cement company investor and owner I know my role. Here is my transition plan that is credible and aligned with the transition pathway".

Q103 **Anna McMorris:** Do you think the Government are doing enough to support these plans?

Sam Alvis: No, because I don't think that is their current view of what a transition plan is supposed to offer.

Chair: We are going to have to move on, Anna. We have the last set of questions from John McNally.

Q104 **John McNally:** My questions are on the Glasgow Financial Alliance for Net Zero and the global alliances in general. I would like to ask you, Mark, my first question. It was abundantly unclear in our evidence



session with Mark Carney how signatories will be held to account for not fulfilling their commitments to the Glasgow Financial Alliance. Then, shortly after the evidence session with Mark Carney, we all became aware that GFANZ had decided to drop its signatories' sign-up requirements to the UN-backed global campaign Race to Zero. I am trying to understand how the UK Government can address accountability gaps within the voluntary initiatives to prevent greenwashing and mobilise private finance, as Philip brought up earlier. I am very keen to hear your thoughts on how we do these things through maybe some new social exchanges that could be made available as a finance centre. I am talking about social exchanges that people want to invest in because they are sure that what they are investing in is not greenwashing.

Mark Campanale: What do you mean by a social exchange? Do you mean like a social stock exchange?

John McNally: A social exchange centre or financial exchange centre. I think that somebody called it capitalism with a conscience.

Mark Campanale: Oh, I see.

John McNally: Is there any place that you think would be suitable outside the City of London?

Mark Campanale: I am a strong fan of the idea of going back to regional exchanges. We used to have ones in Glasgow, Birmingham, Bristol. If you mean financial markets for particular regions, I have always been a fan, as an economist, of that particular idea. I think that Birmingham was the last independent exchange; that closed some 30 years ago.

To go to your earlier point around GFANZ and voluntary mechanisms and the Race to Zero, all the people who have joined, whether it is the Net Zero Asset Owner Alliance or the Net Zero Banking Alliance or their equivalents, have all set their own goals and their own pathways. Trying to get them all to agree at the same time with the same thing is just not possible. That is not the nature of voluntary alliances. Given the fact that it is the world's largest coalition of its type that has been brought together in under two years—\$150 trillion of members I think Mark Carney mentioned when he last was here—that is not an insignificant number and it has value bringing that many institutions together all set on the same journey and the same path.

Yes, from my earlier remarks, it is clear that many of those institutions that are members want to be net zero but they do not want to stop funding fossil fuels, and that creates a problem. It is a bit like wanting to talk about the economy without talking about money. You cannot do that. If you want to talk about climate change, you have to talk about fossil fuels. Many of the individual banks that have a big book of business exposed to oil and gas are going to struggle to get away from banking



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relationships that go back 50, 60, 70 years. That sets the context of the challenge of this particular journey.

What is really beneficial within the work that GFANZ is doing is two particular working groups that I am involved in. One is the oil and gas working group, looking at how the finance sector changes its financial relationships with oil and gas. The other is the phase-down of coal. I think the work that it has done there, setting out goals for phasing down and exiting coal, is very useful for people working within the financial sector.

John McNally: Thank you. Sam, would you like to come in on that point? I am mindful of the time.

Sam Alvis: Yes, very quickly. The Government's theory of change when it has come to financial sector regulation is to allow the private sector to make voluntary commitments to raise the ceiling and then Government have promised to come in and raise a floor through regulation. The problem is that regulation and promises on disclosure and transition plans has now been delayed and it has left the private sector looking quite vulnerable. In tandem with that, you have Republican Attorneys General suing various American banks over ESG commitments and fiduciary duty, so I think there is a real role for the UK Government to be very clear with its regulation—and it is increasingly clear that case law in this country points to climate risk being part of fiduciary duty—to support those organisations that have joined voluntary institutions with real regulatory and legislative backing.

Q105 **John McNally:** I have one more question and it is to you, Ryan. It was very interesting what you were saying earlier on about linking up local authorities and giving them more power. I agree with that entirely. The UK Government announced that we would become the first G20 country to make it mandatory for Britain's largest industries to disclose their climate-related risks and opportunities, in line with the TCFD. Do you expect the Government to move in a similar direction with nature-related financial disclosures?

Ryan Jude: First, it is good to see the mandatory TCFD announcement. That is a really positive thing that we can talk about in the UK. On TNFD, just for disclosure the GFI hosts the secretariat for TNFD. It is outside of my remit. As far as I understand, currently it is intended to be voluntary but in the future there is no reason why it could not become mandatory. This talks to what Sam was just saying, where the market is developing this. Lord Goldsmith recently said that he hoped that the UK could become the first country to make TNFD mandatory in the future, but it is at a very nascent stage at the minute. If it follows the same route as TCFD—we are only a couple of years into TNFD—for TCFD I think the first bit of work was seven years ago, so it has taken a long time to get to where we are. I think that it would be logical for it to align with what TCFD did.



A really important point here, though, is that you need teeth behind these voluntary initiatives to be able to imply that they are going to become mandatory in the future. TCFD had the FSB, the Financial Stability Board, every step of the way overlooking it, so you had the big banks looking at it and thinking, "This is going to be important in the future". TNFD again has a lot of Government buy-in supporting it, so if that is a signal then that is quite a strong signal. The answer is as it stands the official line is that it will be voluntary, but there is no reason as to why it could not be in the future.

Q106 John McNally: Ana, would you like to comment on that particular point, bearing in mind the behavioural change that is taking place at the moment? Government always seems to be behind what people actually want. It is the carrot and stick thing. I think most people are interested in how you make that balance.

Dr Ostrovnaya: I want to make one comment and it is more about alliance and signalling net zero plans. We know what needs to be done. Why is it not being done? This is what we need to get to the root of. There is so much net zero signalling and joining all these alliances. We need to see action. We need to stop looking at the words only and look at the actions.

John McNally: You have just said, "Why is it not being done?" You obviously have the answer in your head.

Dr Ostrovnaya: We need to reduce our emissions significantly and we have a very short time. The carbon budget is very tight.

Chair: We are going to have to bring it to a halt. Thank you very much to our panellists, Mark Campanale, Sam Alvis, Anastasiya Ostrovnaya and Ryan Jude. Thank you very much indeed.