GFANZ
Glasgow Financial Alliance for Net Zero

23 March 2023

Rt Hon Philip Dunne MP
Chair of the Environmental Audit Committee
House of Commons

Dear Mr Dunne,

Thank you for your letter dated 25 January 2023 relating to the hearing I attended in October 2022. The opportunity to give evidence to the Environmental Audit Committee's inquiry into the role of the UK financial sector in supporting the UK's net-zero transition was most welcome. As I outlined in my evidence, private finance will play a critical role in enabling the transition of our economies and societies towards net zero and, thanks to UK leadership during its COP presidency, this role is recognised now both domestically and globally. Indeed, the Glasgow Financial Alliance for Net Zero (GFANZ), which now brings together more than 550 financial institutions across more than 50 jurisdictions, and which is working to support real-world emissions reductions globally, is a lasting legacy of the UK presidency.

Additional references
In your letter, you requested materials referenced during the session and these are attached and linked herein, including: the BNEF report on energy investment ratios, the G30 paper on Mainstreaming the Transition to a Net Zero Economy, and the Statement on Deforestation Financing from the Co-Chairs and Vice Chair of GFANZ. If Committee members have any further questions about these materials, please let us know.

Data on net-zero commitments and progress
You also asked for further insight into how we achieve comprehensive, consistent, and comparable data on the net-zero commitments of the financial sector. I begin by noting there is a wider need to measure progress against the commitments each country has made. Indeed, as launched as part of the Glasgow Pact, by COP28 the United Nations Framework Convention on Climate Change (UNFCCC) will have completed the first global stocktake of progress made in implementing the Paris Agreement, including progress made towards implementation of Nationally Determined Contributions (NDCs).

Under the UN's non-state actor campaign, thousands of companies and hundreds of financial institutions have individually made net-zero commitments, as you are aware, and tracking the progress they make in delivering on those commitments is important also. This is why GFANZ is actively supporting the work of the Climate Data Steering Committee (CDSC), which provides recommendations on the development of a Net-Zero Data Public Utility (NZDPU). The CDSC is a group of leading policymakers, regulators, and leaders of international organizations and standard setters, who have developed a series of public recommendations for the development of the NZDPU (the NZDPU White Paper). The UK is represented, alongside other major economies, on this Committee.

The NZDPU itself aims to provide open access to climate transition-related data from both real-economy companies and financial institutions. Bringing this data together in one place, with open access for all stakeholders, will provide a new level of transparency on private-sector net-zero action; when combined with credible transition plans, stakeholders and policymakers will be able to monitor progress on firms' net-zero commitments. This is an ambitious project and the first phase of the NZDPU is due to be launched this Autumn.

Net-zero commitments and governance

Turning next to the importance of ensuring the ongoing robustness of net-zero commitments, I start by noting that there has been no change in the mission or ambition of GFANZ. Our mission – as a global coalition of financial institutions committed to decarbonising the global economy to support the achievement of net zero by 2050 – remains the same. The entry criteria to which each financial institution signed up, and which are managed by each of seven sector-specific alliances[1], remain unchanged. These criteria are very ambitious and by agreeing to pursue them, individual financial institutions are committing to the goal of net-zero emissions by 2050, in line with efforts to limit warming to 1.5 degrees, and to the setting of interim targets (for 2025 or 2030) reflecting maximum effort toward a fair share of the global decarbonization needed by 2030.

Since the launch of GFANZ, the sector-specific alliances have had sole responsibility for setting membership criteria and establishing appropriate accountability mechanisms – and will continue to do so. The minimum commitment criteria for each sector-specific alliance were originally set by the alliances to meet or exceed starting-line criteria established by the Race to Zero campaign. Those criteria are current and still applicable to the financial institutions who are members of the sector-specific alliances.

GFANZ members include systemically important, highly regulated, and intensely supervised financial entities, including many of the largest financial institutions in the UK. These firms must fulfill extensive supervisory, regulatory, and legal obligations, and respect their responsibilities to their regulators, employees, customers, and shareholders. Given this, it was important to be clear in our Progress Report that the sector-specific alliances are each independent initiatives and have the sole responsibility for managing any changes to their membership criteria – governance structures that have been in place since inception. Moreover, each alliance continues to have sole responsibility for supporting its members' accountability as they progress towards fulfilling their independent, voluntary commitments.

We commend the Race to Zero Campaign's historic success in mobilizing more than 10,000 non-state actors to commit to net-zero goals. GFANZ may no longer require sector-specific alliances be partners of Race to Zero, but it is strongly encouraged, and all sector-specific alliances that comprise GFANZ do remain to be partner initiatives of Race to Zero today. As we moved to a more technically oriented phase of work, we recognized a need to evolve our

[1] These alliances are the Net Zero Asset Managers Initiative, the Net-Zero Asset Owner Alliance, the Net-Zero Banking Alliance, the Net-Zero Financial Service Providers Alliance, the Net-Zero Insurance Alliance, the Net-Zero Investment Consultants Initiative, and the Paris Aligned Asset Owners.

governance to reflect a shift from mainstreaming net-zero pledges to supporting members in the complex task of operationalizing and implementing these commitments in a highly regulated sector. Implementation is a necessary step as part of the net-zero transition and requires guidance and expertise from finance, science, academia, business, the official sector, and civil society. GFANZ's expanded Principals Group and enhanced collaboration with the UN is reflective of GFANZ moving to this next phase of work.

In addition to commitments remaining unchanged and the sector-specific alliances remaining partner initiatives of Race to Zero, GFANZ and the alliances will continue to take note of their advice and guidance, as well as advice and guidance from a wide range of leading international bodies, such as the UNFCCC, IPCC, IEA, the G20's Financial Stability Board, and the UN's High Level Expert Group on Net Zero. GFANZ has also strengthened collaboration with the UN, our regional engagement and implementation, and our collaboration with the underlying sector-specific alliances. These changes will help ensure GFANZ's recommendations reflect regional contexts, and the supervisory, regulatory, and legal obligations unique to the financial sector, as we continue to support net-zero implementation.

Supporting transition
Your letter raised a number of questions specific to Brookfield, for which I serve as Chair of Brookfield Asset Management and Head of Transition Investing; these questions are addressed in an annex. There are several important points of framing however, that are pertinent to consider here.

Firstly, net-zero transition is about transitioning the entire economy, including our energy systems, following transition pathways over time. There is not, unfortunately, a "green switch" that we can press, to bring about the changes needed overnight. Indeed, it is critically important, against the backdrop of an energy crisis, that the pathways we take to net zero ensure continuity of energy supply, alongside a significant ramping up of investment in the clean energy supply of the future. This is why the voluntary framework for transition finance that GFANZ members developed in 2022, and against which transition planning by financial institutions would ideally be done, identifies four key financing strategies, namely:

1. Financing or enabling entities and activities that develop and scale climate solutions
2. Financing or enabling entities that are already aligned to a 1.5 degrees C pathway
3. Financing or enabling entities committed to transitioning in line with 1.5 degrees C-aligned pathways
4. Financing or enabling the accelerated managed phaseout (e.g., via early retirement) of high-emitting physical assets (such as coal fired power plants)

With regards to the energy transition, which is at the heart of the broader economic transition, it is important to recognize that more than 80% of energy today is provided by fossil fuels.[2] Transitioning towards a clean energy-powered economy requires a significant scale-up of investment in clean energy, in addition to some limited investment necessary to maintain energy

[2] Hannah Ritchie and Max Roser, "Energy Mix," Our World in Data.

supply as we transition. Recent expert analysis of the major transition pathways has concluded that we need to move from a world where investment in clean energy and fossil fuels are about equal, to one where for every dollar maintaining necessary fossil fuel energy capacity, at least four are invested in the clean energy infrastructure.[3] As such, the financial system will continue to finance existing energy sources for some time, but should also be expected to significantly increase investment in energy sources of the future. In other words, the ratios matter. Additionally, it will be important, particularly for countries looking to transition away from heavily fossil fuel dominated energy systems, that financing solutions are available to support their early retirement, i.e., managed phaseout. Clearly the speed at which the financial sector can make progress in supporting this complex transition will be heavily dependent on government policy around energy transition.

Thank you once again for your letter and for the opportunity to provide evidence to the Environmental Audit Committee's inquiry.

Yours,

Mark Carney
Co-Chair, Glasgow Financial Alliance for Net Zero
UN Special Envoy on Climate Action and Finance

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[3] BloombergNEF, "Investment Requirements of a Low-Carbon World: Energy Supply Investment Ratios," October 2022.

Annex: Points pertaining to Brookfield

During the hearing I was asked about Brookfield's holdings in Altera. I would like to note for the record that contrary to my response during the hearing, Brookfield is a majority owner in that business, but not the sole shareholder. What I was seeking to address in my response during the hearing, and would now like to clarify in writing, is that Brookfield has not invested in the Rosebank oil field as had been misreported in some press stories.

Rosebank is situated in an existing development basin in the North Sea referred to as the 'West of Shetland' region. This area has been producing oil and gas for several decades and major fields have continued to be brought onstream in this important region in recent years. The point I emphasised in my testimony is that fossil fuel production investment cannot disappear overnight and that investment will be most efficient when it takes place in existing production regions. I also wanted to emphasise that Altera is not the decision-making party as to whether Rosebank goes into production. That decision rests with the lead operator, Equinor, and the UK government. In my view, Altera's role, albeit relevant in the context of this important energy security decision facing the United Kingdom, is a substantially smaller part of Brookfield's business compared with the scale of our renewable energy and transition investments. As I noted, over the past two years, the scale of the increase in the backlog of Brookfield's renewable energy projects is over 75 GW, or three times the generation capacity required for greater London.

Brookfield refutes the allegations made in the 16 December 2022 Global Witness report, including that deforestation was illegally carried out on our farms. All activity on these properties was strictly guided by all applicable environmental laws in Brazil, in particular Brazil's Forest Code. The decision to sell these businesses was taken several years ago (long before I joined the firm) because the fund they were held in was reaching the end of its life, and we therefore had an obligation to return capital to investors. At the time these asset sales were carried out there was no prevailing debate about managed phase-out for working agricultural land. Putting working land back into a wild state comes at a significant cost, particularly for those making a living from that asset, and there is a need to put in place financial compensation mechanisms to make that possible. As our discussion at the committee can testify, the debate around phasing out carbon-intensive assets is very new (indeed the terminology 'managed phase-out' originated with GFANZ, following its formation at COP26 at the end of 2021) and most participants recognise that innovative forms of financing are required to support the early retirement of such assets. Brookfield is working alongside GFANZ and policymakers around the world to help develop this thinking and put it into action.