

Written evidence submitted by Global Witness

Executive Summary

- 1. Net zero targets can only be met if the UK financial sector stops bankrolling global deforestation.** The agriculture, forestry and land use (AFOLU) sector produces almost a quarter (23 percent) of global greenhouse gas (GHG) emissions, according to the Intergovernmental Panel on Climate Change (IPCC).¹ An estimated 11% of these emissions – almost half – come from deforestation and forest degradation.² Climate change modelling indicates the need to end all agriculture-driven deforestation and conversion by 2030 at the latest to limit global temperature rises to 1.5°C.³
- 2. The UK government has already acknowledged the centrality of deforestation in the net zero agenda.** Deforestation is a ‘top priority area’ in the UK’s Net Zero Strategy⁴ and the Glasgow Leaders’ Declaration on Forests and Land Use was a major outcome from COP26, with at least 144 countries now committed to halt and reverse deforestation and land degradation by 2030.⁵ The Declaration obliges signatories to ‘Facilitate the alignment of financial flows with international goals to reverse forest loss and degradation’, making this topic a priority for any inquiry into the financial sector’s efforts to reach net zero.⁶
- 3. Multiple voluntary schemes have already failed to prevent the UK financial sector from bankrolling deforestation and human rights abuses.** Voluntary initiatives aiming to end deforestation by 2020 have already failed.⁷ In June 2022, Global Witness published analysis showing HSBC, Barclays and Santander have continued funding meat giant JBS, in spite of widespread credible allegations of the company’s routine involvement in deforestation and human rights abuses.⁸ UK banks and asset managers provided an estimated \$16.6 billion between 2015-2020 to just 20 agribusinesses implicated in deforestation, making an estimated \$192 million (£147 million) in profit.⁹ Global Witness’s 2019 *Money to Burn* report found the UK to be the single-largest provider of international credit and investment to six agribusiness companies involved in, or closely linked to, deforestation between 2013-2019.¹⁰ This included major UK banks like HSBC, Barclays and Standard Chartered, all of whom are members of the Glasgow Financial Alliance for Net Zero (GFANZ).¹¹ The UK’s

¹ Intergovernmental Panel on Climate Change (IPCC), “Special report on climate change and land use,” Summary for Policy Makers, A.3, p. 10, 2019, <https://www.ipcc.ch/srccl>

² IUCN, Forests and Climate Change, 2021, [Forests and climate change | IUCN](https://www.iucn.org/forests-and-climate-change)

³ Accountability Framework initiative (AFI), ‘The AFI recommends a target date no later than 2025 to eliminate deforestation and conversion in supply chains’, 3 June 2022, <https://accountability-framework.org/the-afi-recommends-a-target-date-of-2025-or-sooner-to-eliminate-deforestation-and-conversion-in-supply-chains/>

⁴ BEIS, ‘Net Zero Strategy: Build Back Greener’, October 2021, p. 54, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf

⁵ Glasgow Leaders’ Declaration on Forest and Land Use, November 2021, <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/>

⁶ Glasgow Leaders’ Declaration on Forest and Land Use, November 2021, <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/>

⁷ Global Witness, Deforestation Dividends, October 2021, <https://www.globalwitness.org/en/campaigns/forests/deforestation-dividends/>

⁸ Global Witness, ‘Cash cow’, June 2022, <https://www.globalwitness.org/en/campaigns/forests/cash-cow/#summary>

⁹ Global Witness, Deforestation Dividends, October 2021, <https://www.globalwitness.org/en/campaigns/forests/deforestation-dividends/>

¹⁰ Global Witness, Money to Burn, September 2019, <https://www.globalwitness.org/en/campaigns/forests/money-to-burn-how-iconic-banks-and-investors-fund-the-destruction-of-the-worlds-largest-rainforests/>

financial supervisors and existing regulatory regime has not prevented these investments either.

4. **The UK government is outsourcing the achievement of its legal net zero commitments to a voluntary initiative over which it has no control.** Both the Race to Zero and GFANZ lack any independent monitoring and accountability mechanisms. There are no consequences if financial institutions fail to meet their voluntary climate commitments, as they have routinely done in the past. This jeopardises the achievement of all the UK's legally binding climate and nature targets. Instead, participation in the Race to Zero allows financial institutions to give the impression they are taking climate action, whilst they are in fact failing to deliver the urgently needed realignment of financial flows necessary to limit global temperature rises to 1.5°C.
5. **The Race to Zero and GFANZ ignore the financial sector's responsibilities under international human rights law.** The Race to Zero criteria makes no commitment to international human rights law and the rights of Indigenous Peoples to Free, Prior and Informed Consent (FPIC). As a result, Race to Zero – as a high-profile UN-backed initiative – is effectively ignoring well-established soft and hard law including the UN Guiding Principles on Business and Human Rights (UNGPs) which clarify that companies and financial institutions have the responsibility to respect human rights. A 'just transition' cannot be achieved without respect for human rights obligations.
6. **The UK is in danger of failing to meet its legally binding nature-related targets.** As outlined by the Environmental Audit Committee (EAC) in June 2021, the UK's nature-related legal commitments – including the 25 Year Environment Plan, Glasgow Leaders' Declaration on Forests and Land Use and G7 2030 Nature Compact – are poorly mainstreamed through the UK's existing regulatory regime.¹² In mid-June, the Race to Zero updated its guidance to include a mandatory 'no deforestation and biodiversity loss' pledge, recognising that deforestation must be halted to reach net zero. It does not, however, stipulate a date by which financial institutions must eliminate deforestation from their value chain, therefore it does not support the UK government's legal 2030 targets.¹³ Further, it will take years for instruments such as the Taskforce on Nature-related Financial Disclosures (TNFD) to become operational. The financial sector must be regulated with urgency to meet the UK's 2030 deforestation and biodiversity loss targets.
7. **Biodiversity loss and deforestation is a threat to the stability of the UK financial system.** The 2019 Green Finance Strategy recognises that environmental degradation, including biodiversity loss, is a threat to the growth and stability of the

¹¹ See the Net-Zero Banking Alliance membership: <https://www.unepfi.org/net-zero-banking/members/>

¹² Environmental Audit Committee (EAC), 'Toothless Government policy and targets insufficient to stem the tide of UK biodiversity loss', 30 June 2021, <https://committees.parliament.uk/committee/62/environmental-audit-committee/news/156218/toothless-government-policy-and-targets-insufficient-to-stem-the-tide-of-uk-biodiversity-loss/#:~:text=Environmental%20Audit%20Committee%20The%20EAC%20found%20that%20existing,is%20nature%20protection%20consistently%20factored%20into%20policy%20making.>

¹³ Race to Zero, Criteria 3.0, 15 June 2022, <https://racetozero.unfccc.int/system/criteria/>

UK financial system,¹⁴ yet this is not reflected in existing financial regulation or supervision.

8. **To reach net zero, the UK's climate change and nature-related commitments must be fully integrated into the regulation and supervision of the financial sector.** This can be achieved by 1) the creation of a climate change- and nature-focused statutory objective for UK financial regulators and supervisors, and 2) the introduction of mandatory human rights and environmental due diligence for the financial sector. These reforms are essential to the UK's long term financial stability and competitiveness.
9. **An immediate opportunity for legislative change is available in the forthcoming Financial Services and Markets Bill.**

Introduction

10. This written evidence is submitted by Global Witness. Global Witness undertakes investigations and campaigning at the nexus of climate change and corruption. Our objective is a more sustainable, just and equal planet. We have offices in London, Washington D.C. and Brussels.
11. This evidence is based on decades of forest investigations and campaigning undertaken by Global Witness.
12. This submission focusses on the EAC's request for reflections on: *"The potential effectiveness of the financial sector, including through alliances such as GFANZ, in encouraging the decarbonisation of the economy in time to limit global temperature rises to 1.5°C"*.
13. This submission details:
 - a. Why the EAC should focus on deforestation in the scope of this Call for Evidence
 - b. Critical weaknesses in the Race to Zero and GFANZ model
 - c. Recommendations for HM Government
14. This submission uses Race to Zero and GFANZ terminology and lexicon. E.g. All GFANZ 'members' have signed up to the Race to Zero 'criteria'. GFANZ is a 'Partner' initiative of the Race to Zero.

¹⁴ HM Treasury, BEIS, 'Green Finance Strategy', 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf, p. 19

Why the EAC should focus on deforestation in the scope of this Call for Evidence

15. **The UK cannot become a net zero financial centre unless it stops bankrolling deforestation.** The AFOLU sector produces almost a quarter (23 percent) of GHG emissions, according to the IPCC. An estimated 11% of these emissions – almost half – come from deforestation and forest degradation. Climate change modelling indicates the need to end all agriculture-driven deforestation and conversion by 2030 at the latest to limit global climate change to 1.5°C.¹⁵
16. **The UK is a major financier of deforestation and human rights abuses.** In June 2022, Global Witness published analysis showing HSBC, Barclays and Santander have continued funding meat giant JBS, in spite of widespread credible allegations of the company's routine involvement in deforestation and human rights abuses.¹⁶ UK banks and asset managers provided an estimated \$16.6 billion to just 20 deforestation-linked businesses between 2015-2020, making an estimated \$192 million (£147 million) in profit.¹⁷ Global Witness's 2019 *Money to Burn* report found the UK to be the single-largest provider of international credit and investment to six agribusiness companies involved in, or closely linked to, deforestation between 2013-2019.¹⁸ This included major banks like HSBC, Barclays and Standard Chartered.
17. **Existing regulations and voluntary schemes have failed to prevent the destruction of climate-critical forests.** Financial institutions and agribusinesses have, in essence, already trialled a voluntary 'net zero' approach. In 2010, through the Consumer Goods Forum, hundreds of agricultural companies set 'Zero Net Deforestation by 2020' targets for palm oil, timber products, soy and beef.¹⁹ The Banking Environment Initiative 'Soft Commodities Compact' saw UK banks pledge to the same commitment.²⁰ These voluntary targets were not reached and no institution has been held accountable.
18. **Deforestation remains dangerously high.** The tropics lost 11.1 million hectares of tree cover in 2021, with 3.75 million hectares of that loss that occurring within tropical primary rainforests — areas of critical importance for carbon storage and biodiversity.²¹ Tropical primary forest loss in 2021 resulted in 2.5 Gt of carbon dioxide emissions, equivalent to the annual fossil fuel emissions of India according to

¹⁵ AFI, 'The AFI recommends a target date no later than 2025 to eliminate deforestation and conversion in supply chains', 3 June 2022, <https://accountability-framework.org/the-afi-recommends-a-target-date-of-2025-or-sooner-to-eliminate-deforestation-and-conversion-in-supply-chains/>

¹⁶ Global Witness, 'Cash cow', June 2022, <https://www.globalwitness.org/en/campaigns/forests/cash-cow/#summary>

¹⁷ Global Witness, Deforestation Dividends, October 2021, <https://www.globalwitness.org/en/campaigns/forests/deforestation-dividends/>

¹⁸ Global Witness, Money to Burn, September 2019, <https://www.globalwitness.org/en/campaigns/forests/money-to-burn-how-iconic-banks-and-investors-fund-the-destruction-of-the-worlds-largest-rainforests/>

¹⁹ Cambridge Institute for Sustainability Leadership, 'Implementation of the "Soft Commodities" Compact',

²⁰ Cambridge Institute for Sustainability Leadership, 'Banking beyond deforestation', 2021,

<https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/banking-beyond-deforestation>

²¹ World Resources Institute, Global Forest Review, 'Forest Pulse: The Latest on the World's Forests', <https://research.wri.org/gfr/latest-analysis-deforestation-trends>

the World Resources Institute.²² Financial institutions with ‘no deforestation’ policies or similar commitments maintain significant exposure to forest risk commodities.²³ Policies are not enough.

19. **Time is running out.** The Science Based Target initiative – which is widely accepted by key multinational companies – will require that companies have no-deforestation commitments with a target date of 2025 or earlier for their target to be validated.²⁴ The Accountability Framework initiative (AFi) – a public-private sector coalition for ethical supply chains for agricultural and forestry products – has adopted a consensus recommendation that companies should eliminate deforestation and ecosystem conversion from their supply chains no later than 2025.²⁵
20. **The UK government has already acknowledged the centrality of deforestation in the net zero agenda, but this is not reflected in financial regulation.** Deforestation is a ‘top priority area’ in the UK’s Net Zero Strategy²⁶ and the Glasgow Leaders’ Declaration on Forests and Land Use was a major outcome from COP26, with at least 144 countries now committed to halt and reverse deforestation and land degradation by 2030.²⁷ The Declaration obliges signatories to ‘Facilitate the alignment of financial flows with international goals to reverse forest loss and degradation’,²⁸ therefore deforestation is central to the UK’s net zero financial agenda.
21. **Despite this, AFOLU emissions, and deforestation specifically, are not sufficiently prioritised in the financial net zero agenda.** The UK’s nature and biodiversity-related commitments are poorly mainstreamed through existing financial and other regulations, as concluded by a June 2021 EAC inquiry on Biodiversity Loss and Ecosystems.²⁹ Biodiversity loss and deforestation drive climate change and vice versa.³⁰ Across government and the financial sector, AFOLU-related emissions are not considered a strategic priority to the same extent as other carbon-intensive sectors

²² World Resources Institute, Global Forest Review, ‘Forest Pulse: The Latest on the World’s Forests’, <https://research.wri.org/gfr/latest-analysis-deforestation-trends>

²³ Global Witness, ‘Beef, Banks and the Brazilian Amazon’, December 2020, <https://www.globalwitness.org/en/campaigns/forests/beef-banks-and-brazilian-amazon/>; Global Canopy, ‘A Climate Wake Up’, Forest 500, 2022 Annual Report, p.4, https://forest500.org/sites/default/files/forest500_2022report_final.pdf

²⁴ Science Based Targets initiative (SBTi) Forest, Land, and Agriculture Guidance (FLAG) will be launched in June 2022. AFi, ‘The AFi recommends a target date no later than 2025 to eliminate deforestation and conversion in supply chains’, 3 June 2022, <https://accountability-framework.org/the-afi-recommends-a-target-date-of-2025-or-sooner-to-eliminate-deforestation-and-conversion-in-supply-chains/>

²⁵ <https://accountability-framework.org/the-afi-recommends-a-target-date-of-2025-or-sooner-to-eliminate-deforestation-and-conversion-in-supply-chains/>

²⁶ BEIS, ‘Net Zero Strategy: Build Back Greener’, October 2021, p. 54, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf

²⁷ Glasgow Leaders’ Declaration on Forest and Land Use, November 2021, <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/>

²⁸ Glasgow Leaders’ Declaration on Forest and Land Use, November 2021, <https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/>

²⁹ EAC, ‘Toothless Government policy and targets insufficient to stem the tide of UK biodiversity loss’, 30 June 2021. See also WWF and Aviva, ‘Aligning the Financial System to Net Zero: a WWF-Aviva Position Paper, 2022, <https://www.wwf.org.uk/sites/default/files/2022-05/Aligning-the-UK-Financial-System-to-Net-Zero.pdf>

³⁰ WWF and Aviva, ‘Aligning the Financial System to Net Zero: a WWF-Aviva Position Paper’, 2022, p.3, <https://www.wwf.org.uk/sites/default/files/2022-05/Aligning-the-UK-Financial-System-to-Net-Zero.pdf>

such as energy and industrial manufacturing. The role of the UK financial sector in financing deforestation must be addressed with the same urgency as concerns regarding fossil fuel extraction.

22. **Financial institutions are aware of the threat but are not acting with urgency.** There is some recognition amongst the financial sector of the need to address deforestation, but progress and prioritisation is patchy. Whilst GFANZ represents over 450 member firms with \$130 trillion assets under management, the *Commitment Letter on Eliminating Commodity Driven Deforestation* promoted by Alok Sharma at COP26 only garnered support from 30 financial institutions with \$8.7 trillion in assets under management.³¹ Many of the UK financial institutions most exposed to deforestation did not sign on, including Barclays and HSBC.³² As of 2021, Global Canopy's Forest 500 dataset shows 93 of the 150 financial institutions most exposed to deforestation do not have a specific policy covering their investments and lending to companies in key forest-risk commodity supply chains.³³
23. In mid-June, the Race to Zero updated its criteria to require a 'no deforestation and biodiversity loss' pledge.³⁴ Although this is a welcome acknowledgement of the need to eliminate deforestation to reach net zero, it does not stipulate a date by which financial institutions must eliminate deforestation from their value chain, therefore it does not support the UK government's legal 2030 targets. This requirement is also of limited utility considering the Race to Zero and GFANZ have no mechanism to monitor or hold financial institutions accountable to their commitments. This limitation is discussed in full in the next section.

Critical weaknesses in the Race to Zero and GFANZ model

24. The Race to Zero and GFANZ are not fit for the urgent purpose of decarbonising the economy in time to limit global temperature rises to 1.5°C for the following reasons:
- No monitoring is conducted to check if GFANZ members are honouring their voluntary commitments.** It is unclear to what extent any monitoring is conducted to assess whether GFANZ's members are taking action to deliver their Race to Zero pledge. The Expert Peer Review Group (EPRG) are only charged with 'providing independent recommendations to the Champions on whether the initiatives meet the Minimum Criteria *for participation*'.³⁵ Likewise, the Financial Sector Expert Peer Review Group have no monitoring

³¹ 'FINANCIAL SECTOR COMMITMENT LETTER ON ELIMINATING COMMODITY-DRIVEN DEFORESTATION', November 2021, <https://racetozero.unfccc.int/wp-content/uploads/2021/11/DF-Commitment-Letter-.pdf>

³² Global Witness, *Deforestation Dividends*, October 2021, <https://www.globalwitness.org/en/campaigns/forests/deforestation-dividends/>; Global Canopy, 'A Climate Wake Up', *Forest 500, 2022 Annual Report*, p.4, https://forest500.org/sites/default/files/forest500_2022report_final.pdf

³³ Global Canopy, 'A Climate Wake Up', *Forest 500, 2022 Annual Report*, p.4, https://forest500.org/sites/default/files/forest500_2022report_final.pdf

³⁴ Race to Zero, *Criteria 3.0*, 15 June 2022, <https://racetozero.unfccc.int/system/criteria/>

³⁵ Authors' own emphasis. See Race to Zero, 'Governance', <https://climatechampions.unfccc.int/expert-peer-review-group/>

role.

The Race to Zero claims: *“Partner initiatives that join Race to Zero are responsible for managing their members to meet the entry criteria. We encourage them to report transparently on processes for reviewing, engaging and removing members that fail to live up to their published commitments, with appropriate governance and escalation processes. Partner initiatives have already removed members from the Race to Zero campaign on this basis.”*³⁶

In direct contradiction to this statement, GFANZ considers itself to be a repository of technical expertise and does not believe it has any monitoring or accountability role.³⁷ For example, GFANZ states ‘GFANZ members have signed up to the ambitious commitments of their respective sector-specific alliances and are not automatically expected to adopt the principles and frameworks communicated within this [GFANZ Net Zero Transition Plan Guidance] report, although we expect all members to increase their ambition over time.’³⁸

- b. **There are no accountability mechanisms in the Race to Zero or GFANZ model.** Without ongoing monitoring, there can be no accountability. Race to Zero claims that the Climate Champions have commissioned the establishment of an ‘independent compliance mechanism’ to ‘help hold them [Partners] accountable to the commitments’,³⁹ but no further details have been provided. The UK government cannot delegate its responsibilities to an independent compliance mechanism that it has no role in designing. Even once such a mechanism is introduced, it will only be able to expel members from the Race to Zero. This is not a serious deterrent to financial institutions who earn millions in profits from backing climate-destroying deals.⁴⁰
- c. **Race to Zero claims to be science based, but it is not.** In mid-June 2022, the Race to Zero updated its criteria for membership, which now requires all participants (therefore GFANZ members) to ‘Pledge to halt deforestation and protect biodiversity’⁴¹. Members must also report all Scope 1, 2 and 3 emissions, including land-based emissions.⁴² While this represents nascent progress and is an important acknowledgment of the urgent need to address deforestation to reach net zero, the fact the Race to Zero does not stipulate a

³⁶ Mark Carney and Nigel Topping, ‘Race to Zero and GFANZ: Ensuring the rigour and impact of financial sector net zero commitments and action’, 1 November 2021, <https://climatechampions.unfccc.int/race-to-zero-and-gfanz-ensuring-the-rigour-and-impact-of-financial-sector-net-zero-commitments-and-action/>

³⁷ Global Witness video call with a member of the GFANZ Secretariat, 1 June 2022. GFANZ, ‘About’, <https://www.gfanzero.com/about/>

³⁸ See ‘Acknowledgements’, https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Recommendations-and-Guidance-on-Net-zero-Transition-Plans-for-the-Financial-Sector_June2022.pdf

³⁹ Race to Zero, 2022 Criteria Consultation, <https://racetozero.unfccc.int/2022-criteria-consultation/>

⁴⁰ Global Witness, Deforestation Dividends, October 2021, <https://www.globalwitness.org/en/campaigns/forests/deforestation-dividends/>

⁴¹ Race to Zero, Criteria 3.0, 15 June 2022, <https://racetozero.unfccc.int/system/criteria/>

⁴² Race to Zero, Criteria 3.0, 15 June 2022, <https://racetozero.unfccc.int/system/criteria/>

target date by which deforestation should be halted is an example of the flawed nature of the initiative. The Science Based Target initiative (SBTi), by contrast, will require that companies have no-deforestation commitments with a target date of 2025 or earlier for their target to be validated.⁴³

- d. **Uneven coverage of the UK financial sector.** Not all of the UK financial sector are GFANZ members and therefore the UK government cannot rely on this initiative to achieve its legal commitments to net zero.
- e. **Significant risk of policy capture by the financial sector.** GFANZ is run by the financial sector, for the financial sector. GFANZ claims 'To ensure credibility and consistency, access to GFANZ is grounded in the UN's Race to Zero campaign'.⁴⁴ Yet although the Race to Zero is UN-backed, the above demonstrates the initiative plays no significant role in ensuring monitoring or accountability.
- f. **The Race to Zero and GFANZ ignore the financial sector's responsibilities under international human rights law.** The Race to Zero criteria makes no commitment to international human rights law and the rights of Indigenous Peoples to Free, Prior and Informed Consent (FPIC).⁴⁵ As a result, Race to Zero – as a high-profile UN-backed initiative – is effectively ignoring well-established soft and hard law including the UN Guiding Principles on Business and Human Rights (UNGPR) which clarify that companies and financial institutions have responsibilities to respect human rights. A 'just transition' cannot be achieved without respect for human rights obligations.

25. **The Race to Zero and GFANZ cannot be relied upon.** In the absence of any regulation and effective supervision, the UK financial sector has no incentive to constrain itself from the same climate-wrecking investments that have caused the climate and biodiversity crisis. Instead, these initiatives allow financial institutions to give the impression of progress whilst failing to deliver the urgently needed realignment of financial flows with the objective of the Paris Agreement. This is evidenced by the billions of pounds UK based financial institutions continue to provide to deforestation and human rights abuse linked businesses, as well as fossil fuel companies.

⁴³ AFI, 'The AFI recommends a target date no later than 2025 to eliminate deforestation and conversion in supply chains', 3 June 2022.

⁴⁴ Glasgow Financial Alliance for Net Zero (GFANZ), 'About us', <https://www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/>

⁴⁵ Free, Prior and Informed Consent (FPIC) is a specific right that pertains to indigenous peoples and is recognised in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). It allows them to give or withhold consent to a project that may affect them or their territories. See Food and Agriculture Organization (FAO) of the United Nations, 'Indigenous Peoples', <https://www.fao.org/indigenous-peoples/our-pillars/fpic/en/>

Recommendations for HM Government

The only way to realign financial flows in time to limit global temperature rises to 1.5°C and achieve the UK's legally binding biodiversity loss and climate targets is to:

- 26. Introduce a statutory objective for UK financial regulators.** The government cannot rely on the financial sector to voluntarily decarbonise itself. At a minimum, the UK should introduce a statutory objective that requires financial regulators to support all the UK's climate and nature-related legal obligations and targets. This would include the 25-year Environment Plan, G7 2030 Nature Compact and the Glasgow Leaders' Declaration on Forests and Land Use, as well as the 2050 net-zero emissions target, interim carbon budgets and the Paris Agreement goal to limit global warming to 1.5°C above pre-industrial levels. Supervisors must have the mandate and resources to measure the extent to which capital is being realigned with a 1.5°C pathway, as is required in Phase 3 of the Green Finance Roadmap.⁴⁶ One key measure of progress towards net zero is whether UK financial institutions are reducing their investment in deforestation-linked businesses and activities in practice.
- 27. Introduce mandatory due diligence obligations for the financial sector.** The government should also introduce mandatory environmental and human rights due diligence for the financial sector, specifically to identify, prevent, mitigate and report on deforestation and related human rights risks. This recommendation was made by the government's own Global Resource Initiative taskforce in 2020.⁴⁷ In 2021, GFANZ itself identified inconsistent global due diligence standards and the lack of impartial review of environmental information provided by clients to be a barrier to deforestation-free value chains.⁴⁸ Due diligence obligations are soon to be introduced for *companies only* under secondary regulations accompanying the Environment Act Schedule 17 on forest risk commodities.
- 28. An immediate opportunity for the legislative change needed to introduce the recommendations made in bullets 23-24 is offered by the forthcoming Financial Services and Markets Bill.** Any introduction of new regulations in law should, in theory, be embraced by all Race to Zero and GFANZ members because they have already pledged to meet such objectives. The Race to Zero explicitly claims 'In order to accelerate the transition to a 1.5c world, voluntary efforts must now be paralleled by stronger standards and economy-wide regulations'.⁴⁹

⁴⁶ HM Treasury, 'Greening Finance: A Roadmap', October 2021.

⁴⁷ Global Resource Initiative, Final Recommendations Report, Executive Summary, March 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876465/gri-taskforce-executive-summary.pdf, p. 9

⁴⁸ GFANZ, 'Our progress and plan towards a net-zero global economy', November 2021, <https://assets.bbhub.io/company/sites/63/2021/11/GFANZ-Progress-Report.pdf>

⁴⁹ Race to Zero, 'Race to Zero' campaign updates criteria to raise the bar on net zero delivery', 15 June 2022, <https://climatechampions.unfccc.int/criteria-consultation-3-0/>

- 29. Increase accountability for financial institutions.** Financial actors must be independently audited to ensure they are delivering their climate and nature-related commitments and the actions outlined in their transition plans. Financial institutions should be held liable for fraudulent environment, social and governance (ESG)-related misstatements that would incur material risk to investors, as well as their role in negative environmental and human rights impacts on Indigenous Peoples, frontline communities and ecosystems.
- 30. Include timebound no deforestation requirements in all net zero policies and regulations, including targets.** Attaining net zero emissions requires zero deforestation. All net zero targets, policies and regulations should have a dated target by which deforestation-free value chains are to be achieved. This should be no later than 2025, in line with the SBTi and AFI.⁵⁰ The introduction of new legislation should provide a monitoring and accountability responsibility to a UK government agency or department, to ensure progress against commitments.
- 31. Prioritise the AFOLU sector in the work of the Transition Plan Taskforce.** The government should make the AFOLU sector a priority for the second phase of the Transition Plan Taskforce's, i.e. by producing AFOLU sector-specific transition plan guidance. Guidance should also detail how AFOLU sectoral plans will be assessed and monitored. The government should ensure transition plans are measurable and relevant to financial analysts and credit rating agencies, so that deforestation and other AFOLU sectoral risk is included in investment advice and corporate credit ratings as standard.
- 32. Include deforestation in any letter written by the EAC to GFANZ signatories.** In its Call for Evidence, the EAC proposes writing to GFANZ signatories to seek a public statement on their fossil fuel policies, their policies on investment in renewable energy technologies, and on whether they support the International Energy Agency's May 2021 guidance on ending all new fossil fuel financing by 2021.⁵¹ In addition, we recommend the questions should include whether GFANZ signatories have an official No Deforestation, No Peat and No Exploitation policy with a dated target no later than 2025, if they routinely conduct environmental and human rights due diligence on new and existing clients and investments with deforestation risk, and if they have conducted an assessment of their exposure to deforestation and linked human rights-risk. The EAC should request the findings of such an assessment if it has been conducted in practice.

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⁵⁰ AFI, 'The AFI recommends a target date no later than 2025 to eliminate deforestation and conversion in supply chains', 3 June 2022, <https://accountability-framework.org/the-afi-recommends-a-target-date-of-2025-or-sooner-to-eliminate-deforestation-and-conversion-in-supply-chains/>

⁵¹ EAC, Call for Evidence, 'The financial sector and the UK's net zero transition', <https://committees.parliament.uk/call-for-evidence/2650/>