Evidence from Christian Aid

Introduction

The emergence of COVID-19 does not reduce the human and economic risks of the climate crisis, and many of the same vulnerable populations are going to be hardest hit by both. The decisions governments make now will lock in the strategic direction of companies and economies for years to come.

Governments should pair recovery from COVID-19 with climate action, otherwise they risk further destabilisation. Clear and consistent policies that drive the full decarbonization of every system of the economy are critical to accelerate progress towards the zero-carbon economies of the future.

We need a stimulus that will leave no one behind, but keep the world within Paris Agreement's agreed goals, help fulfil the Sustainable Development Goals and meet all of those goals for people and planet.

1. The role of public and private finance, investors and businesses in tackling climate change

Public finance

In Christian Aid's view, all public finance, in the context of COVID-19 and more generally, should be used to further low-carbon or otherwise sustainable development. At a minimum, it should not contribute to exacerbating climate change or cause other social or environmental harm. On climate specifically, an economic recovery package post- COVID-19 should be used to accelerate climate action, front-loading the UK's emissions reductions to the next decade, to minimize the UK's cumulative emissions towards reaching the net zero goal.

We greatly regret that UK public finance still supports the building of fossil-fuel related infrastructure, including through such channels as ODA especially to private sector financing via the CDC, Prosperity Fund, as well as non- ODA channels such as UK Export Credit. We think the government should take a decision to end this situation, within the next few months, as a signal that as President of UNFCCC COP26, it is serious about limiting global average heating to 1.5ºC. Similarly, in the context of economic recovery packages post-COVID-19, fossil fuel companies should receive no public support, but their workers should be helped directly, and in the longer term supported to find new employment, as part of a managed just transition away from the industry and its supply chains. The government should plan a managed just transition out of the UK fossil fuel industry, working with other progressive countries create an international Powering Past Oil and Gas Alliance to create momentum around a global fossil fuel phase out.

The extent of UK borrowing in recent months creates a necessity and opportunity to use public financing to here capture sustainability and climate co-benefits where possible: the IPCC's 2018 Special Report on limiting global heating to 1.5ºC summarized its detailed analysis thus:

"Mitigation options consistent with 1.5°C pathways are associated with multiple synergies and trade-offs across the Sustainable Development Goals (SDGs). While the total number of possible synergies exceeds the number of trade-offs, their net effect will depend on the pace and magnitude of changes, the composition of the mitigation portfolio and the management of the transition (high confidence)"

The UK should aim to build back better through thoughtful use of public finance to realize societal and environmental co-benefits, based on a broad-view analysis of impact concerning Sustainable Development Goals and human rights impacts, helping to make the UK more resilient to future shocks.

The UK's public finance role is not simply a domestic matter: the UK has a moral and legal responsibility to support developing countries, both through climate finance, including ensuring that the UNFCCC's promised $100billion by 2020 is delivered, but also in terms of financial support to help developing countries make their recoveries from the pandemic. This should be part of a greater international effort to do so, including through building resilience, supporting low carbon (only) infrastructure and promoting just transitions from existing polluting industries through economic diversification, higher environmental and social standards, and support for workers to transition to new job opportunities created. Conditionalities on not supporting polluting or harmful development and supporting gender and other human rights are appropriate if the world is to recover from this crisis well.

Christian Aid sees a role for the UK in its position on the board of many Multilateral Development Banks, including the World Bank and IMF, to be vocal in insisting that finance by these institutions is 1.5ºC compatible, as they have pledged to do, and that there is no funding of all fossil fuels, as the EIB has already pledged to do.

Private finance

In terms of the UK global footprint, we know that emissions from UK production are negligible compared to those facilitated by the UK finance sector. While we do not have an all-encompassing estimate of how much emissions are financed from the UK, one estimate amounts to at least 15% of future emissions (https://www.christianaid.org.uk/resources/about-us/coming-clean-revealing-uks-true-carbon-footprint). This was based on disclosed scope 1 and scope 2 emissions and known reserves of fossil fuel companies listed on the London Stock Exchange FTSE100 index only. The total financed emissions would therefore be much higher if the estimate was expanded to include bonds, loan finance, non-listed entities.

We see commitments to net zero almost daily, but much of the ambition is still represented through things said rather than things done. The UK must be able to demonstrate concrete action in support of its own net-zero commitment for COP26 to be a success. While there are many commendable voluntary initiatives from the finance industry, these initiatives are fragmented and risk taking too long to achieve the tangible results within the timescale needed. At the same time, we have heard many businesses asking for firmer guidance and policy certainty from the regulators. Therefore, the government and regulators need to take the lead in requiring and monitoring these commitments.

The unprecedented actions by institutions demonstrate that things can be done differently, with the Bank of England now directly funding government spending and financial regulators taking decisive action to halt dividend pay-outs. All of this points to the capacity for an expanded mandate for the BoE to set the tone for the whole financial system. This must extend beyond the current focus on climate risk.

Action must be driven by the finance sector. There are many commendable voluntary initiatives from the finance industry's Task Force on Climate-related Disasters (TCFD), but these initiatives are fragmented and we know from previous experience that they'll take too long achieve the tangible results within the timescale needed. What we need now is a commitment from all financial institutions to align with the Paris Agreement within a science-based timeline (including asset owners, banks, rating agency and the stock exchange). The UK financial regulators should then oversee mandatory reporting on institutions' transition plans and their implementation

The Government must provide clear guidance and policy certainty to deliver on its own commitment. Many gaps still remain before the UK is on track to achieve net zero emissions such as improving the energy efficiency of the building stock, developing an integrated low carbon transport strategy and creating a national low carbon skills strategy to support the workforce. The Government should also invest in nature-based solutions.

Investors

The UK should implement the Addis Ababa Action Agenda (AAAA) which made a strong commitment on improving and harmonising standards that can achieve sustainable investing that is based on both environmental and climate protection, as well as human rights compliance. Furthermore, the UK should promote creation of social and environmental impact assessments in the financial sector, as further promoted by the UN DESA study 'Financing for Sustainable Development 2020', which recognises that "voluntary actions, which have characterized the sustainable finance industry to date, are insufficient to achieve the scale of change that is required."

1. Adopt Sustainability Risk Disclosures: Policymakers should adopt global mandatory financial disclosures on climate-related financial risk. Businesses should also be accountable for broader sustainable development impacts and required to include common and comparable sustainability metrics in their reporting to shareholders and stakeholders.
2. Establish Sustainability Standards: Regulators should establish minimum standards for sustainability information to provide to investors for investment products, verifying how and where products can be marketed on the basis of their contribution to sustainable development.
3. Require Sustainability Preference Solicitation: Investment advisors should be required to ask clients about their sustainability preferences, along with information already requested.

In order to implement this point 3 on the UN FSD report, investors should be required on a mandatory basis to prompt clients about sustainable and rights-based financing, rather than falsely assume that all investors are primarily profit maximising (and especially profit maximising over and above gross climate and human rights violations). UK should use its behavioural unit and public information channels to promote responsible – climate- friendly and sustainable - investor behaviour. It should also work with international partner countries to help create new norms and understanding of the embedded risks in investments in unsustainable industries, including those that will need to be drawn down in order to meet the challenge of the climate crisis.

Businesses

The UK government can create strong regulations and standards for key sectors, appropriate to different businesses, that should also have extra-territorial effect i.e. should cover businesses operations outside the UK. The UK should be supporting investment in green tech and green jobs overseas as well as in the UK. There should not be a race to the bottom to places with lowest green credentials

A model for energy-using products could be the EU's Ecodesign of Energy Using Products Directive, which sets rolling efficiency and sustainability standards for electrical goods.

Office-based businesses could be encouraged to promote home working to reduce travels emissions and air pollution – and their own running costs and emissions would benefit from energy efficiency standards for technology. Incentives to promote video-conferencing rather than flying could also be promoted.

All businesses should update their travel guidance, so that journeys that can be made by land or sea for up to 8 hours or similar threshold should be by preference always made by land or sea rather than flying, and booking systems, travel agents should automatically offer the land / sea voyage rather than the flight option in such a case. Distance working should be promoted during journeys, while also observing time off lieu for travel. These would bring the true cost of travel towards their environmental and social cost, and thus nudge employees and employers towards making as many meetings as possible via video-conferencing platforms.

Manufacturing businesses could be held to rolling best available technology standards and best practice standards against international practice.

2. What the UK Government can do to drive action from those sectors

Domestically

Christian Aid supports the idea of the UK enacting comprehensive climate action implementation legislation. The UK has traditionally been better at setting its targets than meeting them: the country is currently not on track for meeting the 4th and 5th carbon budgets for the -80% 2050 target. The 2050 near zero requires even greater near- term action, and the precautionary principle even more so.

Such legislation could be a model for the world, setting international legislative precedents in a way that that the Climate Change Act 2008 did. Such an Act could include provisions relevant to government spending, the private sector and businesses. It could set environmental and social standards and build resilient infrastructure systems, sectors and communities, including in particular in the areas of energy efficiency, renewable energy, public transport, energy efficient housing, environmentally sustainable and healthy food systems based on principles of agroecology, and ecosystem conservation and restoration. It could promote emission cuts through nature based solutions, and rapid phase out of fossil fuel production and use. It could include provisions for enhanced efforts to build resilience, disaster risk reduction and adaptation plans on all levels and in all sectors, initiating a deep transformation of both the public and private financial systems and building a financial system that is supportive of achieving a low carbon, resilient, just and equitable, climate safe future.

Internationally

Christian Aid supports the idea of having a global summit on an economic recovery at such time as virus infection rates make this appropriate and possible. The UK could actively support this idea, and use its diplomatic heft in favour of a concerted and just international response. The UK's role as COP presidents does give it especial leadership legitimacy, especially around issues related to climate change. In addition, the UK should support ideas such as debt swaps for clean development, funds for sustainable development, changes to global governance and changes to the financial system. The UK should also support steps to compel or enforce participation, such as temporary legal standstills on creditor litigation against countries missing 2020 debt payments.

3. How the UK Government can continue that drive whilst is tackles COVID-19 and the impact on our economy, the global economy and society.

Christian Aid sees the recovery taking place in two phases. The initial response has been focused on upholding jobs and we think that support should be focused on individual workers, rather than bailing out polluting industries such as those involved in fossil production. Stimulus money could provide opportunities for training, education and employment in existing and emerging low-carbon sectors like energy efficiency, technology, healthcare, and renewable energy. Support to companies should come with conditions to avoid permanent layoffs, secure jobs, and provide safe and fair working conditions;

The second phase will be the big economic stimuli as countries come out of virus-induced lock down. This will be make or break for the climate and for greater sustainability in the UK and globally. It is impossible to understate what is at stake for the planet and its people. We need to understand this, and need to build back better in a way that works with the planet and its systems, and in global solidarity with our fellow human beings. This will require conversations and consultations nationally and internationally, that listen to the voices of those who have been most disadvantaged and made most vulnerable by the current systems, for ideas on what a globally just transition could look like.

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