COP 26

FINANCIERS OF POLLUTERS IN CHARGE

A crucial climate summit is becoming the biggest finance greenwash event in history

Corporate Europe Observatory

tni
transnationalinstitute

SUMMARY

At the upcoming climate summit in Glasgow, delegates will for the first time consider how to reform financial markets to ensure that financial flows are *"consistent with a pathway towards low greenhouse gas emissions and climate resilient development."* The current proposal on the table, though, is not for governments to embark on an ambitious reform process to prevent financial firms from making investments that endanger the future of the planet. The 31 page proposal on Private Finance, authored for COP26 by special advisor to the UK Prime Minister and to the UN Secretary General Mark Carney, is based on ideas developed by the big players on financial markets themselves. It is no surprise then that self-regulation is at the heart of the proposals. But it gets worse. Not only have the proposals been developed by the likes of JP Morgan Chase, BlackRock, BNP Paribas and other financial firms with a heavy engagement in fossil fuels, but many of these same firms will also be leading the follow-up to COP26. In fact, as things stand, governments are not called on to do anything of substance on private finance and climate after the summit – financial firms will take it from here.

The ticket for financial firms to become part of the coalition that will lead the COP26 follow-up is a commitment to *"net zero by 2050"*, ie. carbon neutrality three decades from now. The vagueness of this commitment leaves the door wide open to convenient loopholes, and for corporations to do little or nothing to reduce their carbon emissions for years to come. In sum, even if a financial firm continues to invest massively in fossil fuels, it can still be actively included in the UN agenda on private finance and climate change. Sadly, the upcoming COP26 looks set to become the biggest finance greenwash event in history.

INTRODUCTION

When the Paris Agreement was concluded in December 2015, one sentence was of great interest to the people running big banks and investment funds. According to article 2.1 c of the agreement, the signatories should now set out to make *"financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development."* This commitment was not just about public funding for sustainable projects. Though unclear, it was potentially about a revamp of financial markets that would force a flood of money away from projects that could undermine the target to limit global warming to 1.5 degrees rise in temperature. This objective would seem to rule out any investment in new fossil fuel projects[1] - the basic fundamentals of the financial sector's approach to business were theoretically on the line.

Now, almost six years later, the issue has for the first time reached the top of the agenda of the recurring climate summits (the Conference of the Parties to the agreement), with COP26 taking place in Glasgow in November 2021. The decisions taken at the meeting in Scotland will determine how the Paris Agreement is implemented regarding financial flows on financial markets, and what role the big financial corporations that run global financial markets will come to play in the future. But even before the gathering has begun, it is clear that little, if anything, has made it through to the COP26 agenda that could displease the financial sector.

Since the agreement in Paris in late 2015, different constellations of financial corporations have worked to define methods for banks, investment funds, insurance companies and others to address the threat of a deeper climate crisis. Much of this work now, controversially, forms part of the official UN process. Not only this, but the corporations have been invited in not just to contribute to the event, but in fact to take over the implementation of the UN agenda on private finance and climate change. When the light is turned off and the doors are shut at the conclusion of COP26, the likes of BlackRock, Bank of America, Citigroup and Santander will take it from there.

This turn of events should not come as a surprise, perhaps. For decades now, the UN system has seen an increasing trend of forming alliances with all kinds of big business groups, depending on the agenda. On climate change we find the Race to Zero campaign at the heart of an effort to involve businesses directly in international decision-making, and more specifically on the oil and gas industry, there is the Oil and Gas Methane Partnership. This approach, sometimes dubbed multistakeholderism (or corporate multistakeholderism), has now reached the private finance agenda of the global climate change talks, and it is taken to extremes.

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In some quarters there will be nods of appreciation when COP26 sees a parade of financial corporations committing to *"net zero by 2050"*. Hundreds of financial institutions have signed up to UN-convened coalitions of companies promising to do their bit to fight climate change. But there are three serious problems with this approach: first, the commitments are so vague that they open the door to a potentially massive greenwash. Banks, asset managers and investment funds with massive holdings in fossil fuels and no concrete ambitions to change course can exploit the UN's programme to strengthen their image. Second, there is a risk that the presence of private finance in the overall architecture will be used by high-income countries to scale down their own financial commitments. Third, the corporations are not only signing up to statements and making commitments, they are in fact taking over the whole show!

At the heart of the private finance agenda at COP26, we find ideas developed specifically for the conference by Mark Carney, the Special Envoy of both UN Secretary General Antonio Guterres and UK Prime Minister Boris Johnson. The 31 pages document outlining Carney's policy proposals, called "Building a private finance system for net zero" will be analysed in this briefing. Alarmingly, it will leave the initiative to the very big banks and asset managers whose investments helped to bring about climate change in the first place. In other words, financial corporations are not being required to quickly change track in any meaningful way.

In fact, the commitments they have made in order to gain access to the circle of power around climate change and finance are so vague that even the world's top fossil fuel bank, JP Morgan Chase, joined the UN convened net zero coalition only weeks before COP26. The bank supports *"the ambition for greater climate action, the sharing of best practices and a collaborative approach between the public and private sectors to reach this goal,"* a representative for JP Morgan Chase said.[2] Had this been the outcome of a genuine change of approach by the bank, or indeed any of the other major financiers of significantly harmful activities that are members of the growing coalition behind the private finance agenda at COP26, it would be interesting. But looking closely at what is on the table, and how little financial institutions are committing to, the excitement vanishes: COP26 looks like it may turn out to be the biggest finance greenwash event in history.

While there will be little or no talk about the urgent need to divest from fossil fuels, there is already a lot of excitement about the prospect of what Mark Carney - one of the key protagonists promoting this agenda – calls *"one of the greatest commercial opportunities of our time."* This message is not lost on JP Morgan Chase and the likes: *"Companies that can get ahead of impending climate-change initiatives and work with governments to achieve their goals may benefit from first-mover advantage."*[3] Such statements offer a reminder about the fundamental goals of financial corporations, and the breadth of their vision. These companies aim to maximise returns, and to avert any obstacle to their hunt for profits These corporate led initiatives show no sign of taking meaningful steps to deal with the environmentally dangerous role and impact of private finance. To avert a climate disaster we would need swift action from the finance sector to divest and to stop further harmful investments.

It would seem strikingly obvious that to put the likes of JP Morgan Chase, BlackRock, BNP Paribas and many more financial actors that have a significant stake in carbon-generating activities worldwide at the steering wheel of the global effort on private finance and climate change is to let the fox guard the henhouse. Yet, that is what is happening.

1 CORPORATE MULTISTAKEHOLDERISM ON THE ROAD TO COP 26

To understand how a UN summit such as the COP26 could end up providing the space for corporations to become protagonists it is worth reflecting on how some of the UN's agencies have developed in recent decades. The UN institution at the centre of the private finance agenda at COP26 is the United Nations Environment Programme Finance Initiative (UNEP FI). Even in 1992, the then new institution was first envisaged by *"a group of visionary leaders who saw that transforming private finance would be key to achieving sustainable development"*. They teamed up with the United Nations Environmental Programme (UNEP) to launch the *UNEP Statement of Commitment by Financial Institutions (FI) on Sustainable Development*[4] just ahead of the 1992 Rio Summit, with this partnership later being formally launched in New York as the UNEP Financial Initiative (UNEP FI)[5]. These *"visionary leaders"* included Deutsche Bank, HSBC Holdings, NatWest, Royal Bank of Canada, and Westpac. The UNEP FI, then, was a 'public-private partnership' from the beginning.

The UNEP FI in time gave rise to a unique financial industry ecosystem of initiatives – which consolidated the proposition that climate change would be one of the best business opportunities of the twenty-first century. The UNEP FI set the scenario for the financial industry to embed itself with global legitimacy while it pushed for people-before-profit policies to address global warming and threatened ecosystems. It embraced the emerging Sustainable Development discourse legitimised by the UN as a whole, and was able to position itself as the authoritative voice on Finance and Climate Change.

Significantly, UNEP FI has generated a plethora of particularized initiatives and multistakeholder bodies in quick succession. Multistakeholderism is a trend to create different bodies that bring together, states, corporations and selected civil society organizations to address and make decisions on global issues and major crises. This practice does not distinguish that the *"stakeholders"* have conflicting interests and

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contradicts the rights-based multilateralism where governments are mandated to take decisions on behalf of people and for the public interest. So as we see, many multistakeholder formations are corporate led, providing the private sector with decision making legitimation, even if governments and selected civil society are invited to participate. The UNEP FI has excelled in this praxis, building a plethora of initiatives that cover every angle of finance - from Investment, Insurance, Stock Exchanges and Banking. The UNEP FI - Principles for Responsible Investments, were launched in 2006 *"by investors for investors"*, and now have over 4,000 signatories. In 2012 this was followed by the UNEP FI - Principles for Sustainable Insurance (2012) – a global sustainability framework, and later by the UNEP FI- Sustainable Stock Exchanges (2017) and the Principles for Responsible Banking (2019).

In parallel, since COP21 in Paris, the so-called Marrakech Partnership gave rise to deeper involvement of *"non-Party stakeholders"* [6], which in turn led to the Race to Zero campaign, launched in June 2020.[7] The latter was to become a cornerstone in the integration of the financial sector into the work on private finance and climate change.

BROADER UN TREND:
corporations hijack global governance

The setting up of institutions with direct involvement from corporations is not unique to UNEP FI. Major trends are converging in Glasgow that bear witness to a broader, deeply worrying transformation of the UN. First, there has been a steady advance of the phenomenon of corporate multistakeholderism - putting transnational corporations at the centre of solutions to the current intersecting global crises brought about by neoliberal globalisation of the economy and politics. At the same time, the UN system has been weakened – with many governments failing to deliver on financial obligations. We have also seen the steady erosion of the binding human rights regime, which has tolerated corporate impunity and substituted voluntary corporate social responsibility in the place of accountability.

This has allowed corporations to advance their positioning through public-private partnerships, and to act with impunity while corporate privilege was copper-fastened through the prescriptions of trade and investment treaties (via the ISDS regime of corporate arbitration courts) and the World Trade Organization, International Monetary Fund and World Bank. At the same time, the UN Global Compact was established - a non-binding pact initiated by then UN Secretary General Kofi Anan in 2000[8] which gave privileged UN access to Corporations. Despite significant contestation and resistance to these developments over the past decades, these accumulated trends have culminated in the forthcoming summit in Glasgow. In the coming weeks we are likely to witness COP 26 being an iconic instance of a privatized multistakeholder space where the financial corporations dominate the agenda and confirm and promote a joint UN-corporate roadmap for the climate.

While the multistakeholder strategies have evolved within the specificities of each industrial and financial *"sector"*, an analytical mapping of 103 multistakeholder initiatives commissioned by Transnational Institute and Friends of the Earth International, has shown common trends and modalities being used by big business.[9] Transnational corporations and mega-philanthrophes have hijacked global governance, with the World Economic Forum as a main actor in driving this privatisation (see box).

This is in line with the general rise of corporate power and its advance into the arenas of the multilateral system. The years between 2000-2020 saw an acceleration of this process. The analysis of the 103 multistakeholder initiatives set up during this period revealed common trends in setting goals and modes of operation, ensuring that it is the corporations, not the states, that make the key decisions.

UN MULTISTAKEHOLDERISM
a brainchild of the World Economic Forum

Classic multistakeholderism has its roots in management theory. However what is under discussion here is corporate multistakeholderism - which relates directly to the discourse and strategies first popularised by the World Economic Forum (WEF) founder, Klaus Schwab, as integral to *"stakeholder capitalism"* (Schwab and Vanham 2021). The WEF, which meets annually in Davos, Switzerland, brings together what Susan George calls the Davos Class[10] - the rich and powerful from governments, the UN, corporations and big business (polluters as well as financiers), and some token, carefully selected representatives from civil society. One of the most significant partners of the WEF has been the World Business Council for Sustainable Development (WBCSD) – the biggest CEO led corporate coalition, which has the participation of more than 200 corporations. Founded in 1995, it has partnered with the WEF in promoting the multistakeholder approach in several key sectors of the economy, particularly in responding to the current intersecting global crises (including the climate crisis) and has worked hard to co-opt the discourse of the Sustainable Development Goals.

The WEF has been particularly successful in its strategy of grasping key moments like major global crises to expose the flaws and weaknesses of the multilateral system, and using them to further their multistakeholder agenda. First, in response to the 2008 global financial crisis, it launched its Global Redesign Initiative (GRI) in 2010.[11] In June 2020 it presented the Great Reset, which explicitly identified the COVID-19 pandemic and its multiple impacts as the marker *"which is fundamentally changing the traditional context for decision-making."*[11]

Resistance, however, is growing, to the advance of the multistakeholder strategy. It is experienced on the ground as a naked corporate rule, even if dressed up in the discourse of sustainable development, and is negatively impacting the daily lives and livelihoods of millions of people. In 2020, the Mapping Multistakeholderism study was commissioned by the Transnational Institute (TNI) and Friends of the Earth International (FOEI), in collaboration with the Multisectoral Work Group on Multistakeholderism. This mapping study addressed the rise of multistakeholderism as a strategy which has moved beyond the spaces of the WEF and the so-called World Business Council for Sustainable Development (WBCSD), and argued that it has been deliberately operationalized over the past twenty years to address identified policy failures, targeting the UN multilateral institutions of global governance in health, food and agriculture, environment, climate change, education, and the internet.[13]

At COP26, the WEF and the WBCSD are involved in several groups who aim to influence the agenda on private finance, including the Climate Disclosures Standards Board, the Mission Possible Platform, the Coalition for Climate Resilient Investment, and not least an offspring of the WEF itself, the International Business Council. All four groups are allocated different roles in the key proposal on private finance written for COP26 by Mark Carney, the special adviser for the UN Secretary General and to the UK Prime Minister Boris Johnson (see below)..[14]

2 BUILDING BIG FINANCE ALLIANCES FOR COP26

The discussions at COP26 will be the first time a climate summit addresses private financial flows in a comprehensive way. The issue has been touched on briefly, for example at COP25 in Madrid, and has been raised frequently by high income countries.[15] Now, at a climate summit co-hosted by perhaps the nation on earth with the most stakes in financial markets, the UK, the nature of the contribution of the financial sector will be decided.

To prepare, both the UN Secretary General Guterres and the UK Prime Minister Boris Johnson, in late 2019 and early 2020, picked a *"Special Envoy on Climate Action and Finance"* [16] and *"Finance Adviser on COP26"* respectively - Mark Carney. The agendas of the two political heavy weights at COP26 were explained when announcing the appointment.

According to the UN Secretary General the tasks ahead were about *"building the frameworks for financial reporting, risk management and returns in order to bring the impact of climate change to the mainstream of private financial decision making and to support the transition to a net zero carbon economy."* [17] Boris Johnson spoke in a tone reflecting the ambition of the City of London to become the world leader on green finance[18], when he said that Mark Carney would *"help the UK to lead in mobilising businesses and investors to support our net zero revolution."* [19] The two were on the same page. A Terms of Reference from the UK Prime Minister to Mark Carney described the job in detail, and Carney delivered on all points (see below).[20]

UNEP FI AND CORPORATE NET ZERO ALLIANCES: flawed promises

With a past in Goldman Sachs, and as former governor of the Bank of Canada and the Bank of England, Mark Carney is a well-known face in the world of finance, and has a substantial network of contacts. Furthermore, at his disposal he has enjoyed the support of UNEP FI and a well-staffed secretariat in the UK Treasury – the COP26 Private Finance Hub – to help build a coalition of financial corporations prepared to sign up to a *"net zero by 2050"* commitment, and hence to join the broader coalition called Race to Zero.

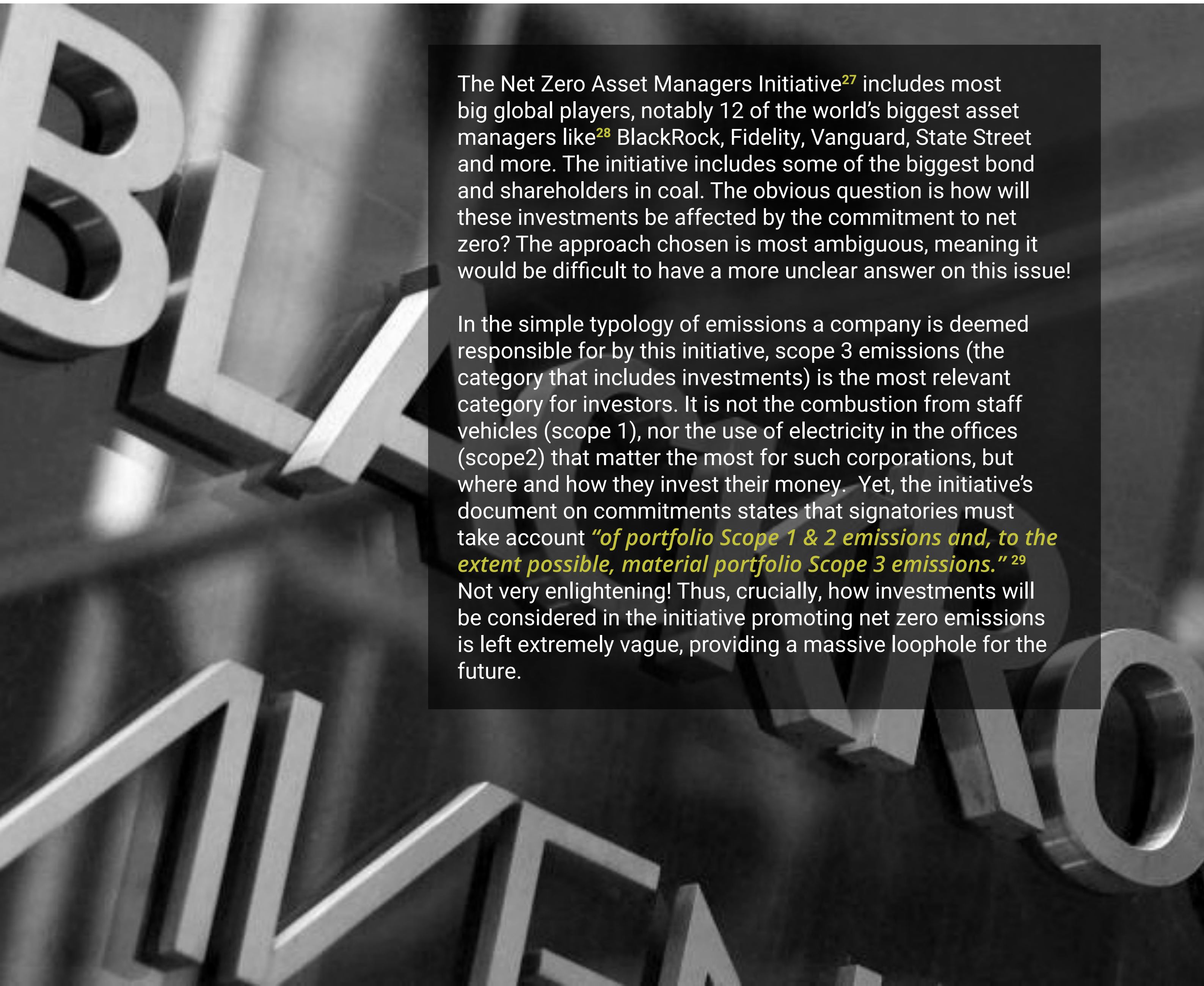
With COP26 around the corner, it is clear that this agenda has been effective: hundreds of financial institutions, big and small, have signed up to join one or more of the coalitions set up for the purpose, the most important of which are: the Net Zero Asset Managers Initiative[21], the Net Zero Asset Owners Alliance[22], the Net Zero Banking Alliance[23], the Net Zero Insurance Alliance[24], and not least the Glasgow Financial Alliance for Net Zero, the umbrella body that will perform key functions after COP26. The fact that these alliances have gained support from about 300 financial institutions is a sign of well-oiled machinery – and that the financial sector can see benefits in the design of the process. The big question is to what effect. Who has signed up to what, and what are the implications for finance and climate change during and after COP26?

The corporate net zero approach being promoted has serious flaws. Crucially, there is the whole concept of *"net zero"*. *"Net zero"* is the idea that we do what we can to reduce emissions at source, and any emissions that we can't reduce, we can compensate for by sucking extra CO2 out of the atmosphere using carbon removal technologies which can range from tree-planting to direct air capture (DAC) technology. However, it has been used by polluting governments and industries to justify a continued increase emissions today, with the promise of removing them in the future, particularly when the *"net zero"* target is as far away as 2050. It legitimises a *"burn now, pay late"* approach which has seen emissions continue to rise despite a plethora of *"net zero"* commitments.[25]

Instead of cutting emissions at source and transitioning our economies away from fossil fuels, corporate *"net zero"* plans are full of many of the same dangerous distractions that big polluters have been pushing for decades: investing in fossil gas, while wrongly claiming it's better for the climate than coal; promoting experimental and costly technologies like direct air capture or carbon capture and storage (CCS), claiming that future emissions will be offset or captured at source if and when the technology is ready, while continuing with business as usual in the meantime; planting vast quantities of trees to offset emissions, which will require land that is simply not available; promoting offsets and carbon markets so big polluters can pretend to buy their way out of the problem by paying someone else to make the cuts, even though these schemes have been widely discredited.[26]

We must then ask if the UNEP FI setup holds any promise when it comes to reforming financial markets to meet the climate challenge. Are there are signs – on top of the use of the dubious *"net zero approach"* – that we risk years of inertia, empty words and moves to avoid any real action while claiming to be on the right path? The short answer is yes. The *"commitments"* that financial corporations have signed up to have further fundamental flaws.

ASSET MANAGERS vague commitments



The Net Zero Asset Managers Initiative[27] includes most big global players, notably 12 of the world's biggest asset managers like[28] BlackRock, Fidelity, Vanguard, State Street and more. The initiative includes some of the biggest bond and shareholders in coal. The obvious question is how will these investments be affected by the commitment to net zero? The approach chosen is most ambiguous, meaning it would be difficult to have a more unclear answer on this issue!

In the simple typology of emissions a company is deemed responsible for by this initiative, scope 3 emissions (the category that includes investments) is the most relevant category for investors. It is not the combustion from staff vehicles (scope 1), nor the use of electricity in the offices (scope2) that matter the most for such corporations, but where and how they invest their money. Yet, the initiative's document on commitments states that signatories must take account *"of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions."*[29] Not very enlightening! Thus, crucially, how investments will be considered in the initiative promoting net zero emissions is left extremely vague, providing a massive loophole for the future.

BANKS
no real interim target before 2050

The Net Zero Banking Alliance has 84 members on the list, 35 of whom are considered founding members.[30] What is remarkable about this alliance is the number of banks on the list that have become infamous in recent years for their disregard for climate change. Members include BNP Paribas, which increased its financing of fossil fuels by a stunning 41 percent in 2020 compared to the 2019 level. In mid October, the alliance was also joined by the global bank with the highest activity in fossil fuels - JP Morgan Chase.[31] When compared to its 2016 level, the bank has increased its fossil fuel activity by no less than 141 percent.

The membership list includes several other banks with a similarly questionable position (see box). Given the above, it is important to pay close attention to the alliance's promises. Is there any sign of a reverse in investment direction in the foreseeable future? But on that point in particular the banking alliance flunks. While it does mention *"interim targets"* for 2030, the scale of these targets remain unspecified.[32] What these banks are expected to do before 2030, then, is left conveniently undetermined.

THE NET ZERO BANKING ALLIANCE

all worst offenders in but one

The Net Zero Banking Alliance is the biggest of the net zero alliances built before COP26 to ensure the involvement of financial firms. It includes all worst offenders in the "hall of shame" in the report "Banking on climate chaos" from 6 environmental groups, except for the bank in the category "Worst in China" (the Bank of China). Due to the vagueness of the commitments, they can pride themselves of supporting a UN convened initiative on climate change:

#1

WORLD'S WORST FUNDER OF FOSSIL FUELS 5 YEARS IN A ROW

JP MORGAN CHASE

IN FUNDING THE EXPANDERS

CITI'S funding of 100 key companies with the worst fossil fuel expansion plans is on the rise.

ON GAS

BANK OF AMERICA had the highest LNG financing in 2020, continuing its support of fracked gas shippers.

ON FUNDING FRACKING

WELLS FARGO has continued funding fracking companies, making it the top fracking bank four years in a row

WORST IN CANADA

the RBC has the highest overall fossile fuel financing in Canada, strong on tar sands and pipeline expanders.

WORST IN ASIA

the MITSUBISHI UFJ FINANCIAL GROUP is Asia's worst funder of tar sands and fossile fuels overall since the Paris Agreement.

WORST IN EUROPE

BARCLAYS in the UK is Europe's worst funder of tar sands, fracked oil and gas, coal power and fossil fuels overall since the Paris Agreement.

WORST IN AUSTRAILIA

AUSTRALIAN AND NEW ZEALAND BANKING GROUP is the worst funder of fossil fuels for five years in a row.

WORST IN SUPPORTING THE OIL MAJORS

BNP PARIBAS led huge deals to supermajor companies like BP and Total.

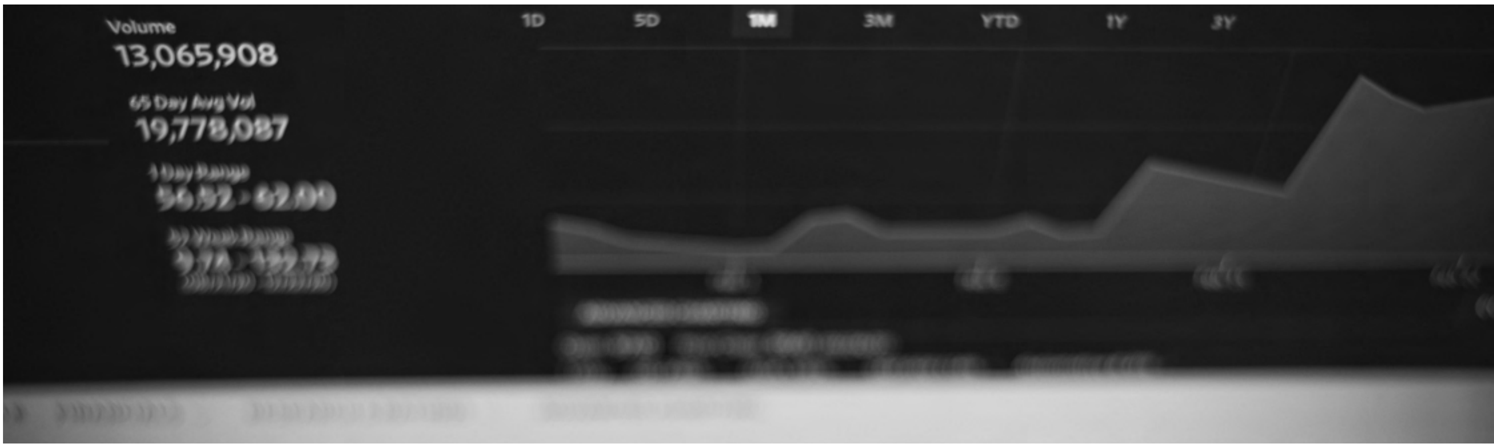
Read more in "Banking on Climate Chaos", published by Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance, and the Sierra Club.

ASSET OWNERS
no interim target, no divestment

The Net Zero Asset Owner Alliance has a less remarkable membership of many small funds, including six Danish pension funds.[33] Funds like Prudential, Société Génerale, Allianz and Legal & General are members, but this is one of the smaller alliances. The world will not miss out on a lot for that - for all the flaws in the two alliances described above, the Net Zero Owner Alliance is the least committal. There are no interim targets before 2050, and though short, the text names the *"fiduciary duty"* (the duty to secure returns for its clients) as the alliance's core principle.[34]

When this is coupled with the fact that this alliance is explicitly disinterested in a divestment strategy, as noted in a document prepared for the COP26[35], the Net Zero Asset Owner Alliance appears to be hot air.

There is, thus, disappointingly little in this complex of UN-convened net zero architecture that holds promise. It is based on a design flawed from its inception (by putting *"net zero by 2050"* at its heart), and was further weakened by the UN letting industry lead the effort, which in turn led to commitments full of loopholes.



HEDGE FUNDS
eager to buy divested dirty assets

The biggest problem, perhaps, is that the huge corporate efforts to frame and form the international decisions on private finance and climate change at COP26, avert any real discussion on how to ensure all significant players are compelled to change their approach to business now that the imminent climate disaster calls for it. Loose commitments and self-regulation from some of the financial institutions are simply insufficient and dangerous - even if net zero companies do divest from fossil fuels to some extent. Without catch-all disciplines and strong enforceability, non-signatories are likely to pick up whatever profitable assets other corporations dismiss. On this point, happy hedge fund managers recently expressed satisfaction to the Financial Times. One remarked: *"They [big institutional investors] are all so keen to get rid of oil assets, they're leaving fantastic returns on the table."* [36] His fund is up 100 percent this year.

Still, alarmingly, the above is not the only sign of how the official UNFCCC is about to abdicate its responsibility to govern the private financial side of the climate challenge. They are but one element of a bigger design intended to leave the initiative to financial corporations - and not just those that have signed commitments. This is clear from the main proposal on private finance for COP26, tabled by Mark Carney.

3 COP26 HOW BIG FINANCE WROTE THE SCRIPT

the main proposals on private finance at COP26 are based on work already done by a series of coalitions of private finance corporations

The Net Zero family is more than a commitment. Once financial institutions sign up, they are invited into global decision-making on climate policy. And the agenda prepared for them in the coming years is based to a large extent on ideas developed by financial institutions. That is clear in the 31 pages key document on private finance tabled for COP26 by Mark Carney: *"Building a Private Finance System for Net Zero – priorities for private finance for COP26"* [37]. The document – sometimes referred to below as 'Carney's proposal', advocates for a disturbing picture of privatised decision-making.

The proposal developed by Carney outlines four main elements that should be addressed at COP26: Reporting, risk management, returns and mobilization. Under each heading Carney offers specific suggestions on how to move forward. Strikingly though, the main proposals on private finance at COP26 are based on work already done by a series of coalitions of private finance corporations. In total the document lists 16 different business coalitions in the official proposal, 11 of which are dominated by the financial industry. The coalitions are either listed because they represent a kind of *"best practice"* that should be emulated in the follow-up to COP26, because their proposals are said to serve as blueprints for the way forward, or because they are seen as key actors around which the global agenda on private finance and climate change is to develop.

REPORTING
on financial stability, not climate change impacts

Reporting relates to the way a company assesses and explains its operations. In this case it is about how a financial firm reports on the impact of climate change on its activities (for example. how some investments are less lucrative due to incidents related to climate change, eg. if extreme weather conditions have undermined the value of an asset, or if there is a lower demand for coal)– and, in principle, it should be about how its activities impact the climate even when it has no obvious bearing on the firm's bottom line (so-called double materiality). Accurate and comprehensive reporting by itself will not bring about much change, as it is simply about understanding impact. However it can be the basis for other measures that could make a difference, such as risk-assessment, a real policy for net zero, or a decision to divest from harmful investments. Not getting the basics right, then, can have a severe impact when it comes to real action.

The chapter on reporting in Carney's proposal for COP26 has one name all over it: the Task Force for Climate-Related Financial Disclosures (TCFD).[38] The TCFD is an initiative of an international institution, the Financial Stability Board, announced in December 2015 during the climate summit in Paris. From the beginning it was a private-led initiative, governed by representatives from big financial institutions. Currently, the leadership includes representatives from JP Morgan Chase, BlackRock, Industrial and Commercial Bank of China, BNP Paribas and other financiers of big polluters.

TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES:
standard setters with a vested interest

The Taskforce for Climate-related Financial Disclosures is a group dominated by financial firms that have developed standards for reporting on climate-related information about companies' activities. With COP26 it will grow in status and form the backbone of a privately run effort to address climate change. The members include representatives from both big polluters and their financiers, including:

Other members include Eni (Italian oil and gas company), Tata Steel (India), and Mitsubishi Corporation.

For a full list of members see endnote 38.

JP MORGAN CHASE

THE WORLD'S NO. 1 FOSSIL FUEL BANK BY MOST ACCOUNTS

BLACKROCK

THE SECOND LARGEST INVESTOS IN COAL IN THE WORLD

CITIGROUP

SECOND ONLY TO JP MORGAN CHASE IN BANKING ON FOSSIL FUEL EXPANSION

BNP PARIBAS

NO. 1 BANK IN EUROPE IN BANKING ON FOSSIL FUELS

INDUSTRIAL AND COMMERCIAL BANK OF CHINA

THE WORLD'S NO. 1 BANK IN COAL ACCORDING TO AN ASSESMENT BY URGEWALD

BHP

THE WORLD'S BIGGEST MINING COMPANY WITH A CARBON FOOTPRINT LARGER THAN AUSTRALIA

The TCFD set out to elaborate a model reporting standard that would "provide effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks." [39]

The TCFD released its recommendations in June 2017,[40] and they have been put to use - according to its own latest statistics 1,500 companies worldwide have expressed support, including 60 percent of the 100 largest public companies.[41]

Lately, however, the model has been criticised by quite a few well-positioned organisations. In February 2021, the head of UNEP FI, Eric Usher, turned against the TCFD model because of its "exclusive focus" on financial stability rather than climate stability. The impact of a company's activities on the climate is poorly reflected in the reporting model according to Usher.[42] Another key actor, the Carbon Disclosure Project, recently attempted to get the TCFD to strengthen its standards by changing its objective from a 2 degrees increase in temperature to 1.5 degrees. It also tried to get the Task Force to insert interim targets, and to be more consistent, transparent and science-based. But despite these efforts, the 2017 recommendations have not been modified.

In other words, the TCFD model leaves a lot to be desired. Perhaps it can be improved. But it is crucial to be aware that it is run by the taskforce members, all of whom represent financial corporations, including some of the worst climate-offenders, such as top-fossil fuel banks JP Morgan Chase, BlackRock and BNP Paribas. For that reason alone it is deeply alarming to see the TCFD model proposed as the global standard in Carney's proposal for COP26.

RISK MANAGEMENT
mitigating risk to financial firms, not the planet

Carney's proposal also considers what should be done in the area of risk management, or in other words, how financial institutions should respond to the risks stemming from climate change in the short or long term. On this point the text is remarkably myopic – it lays out different ways that financial institutions can assess their resilience to climate change and adjust their portfolios accordingly. Supervisors, central banks, the IMF and the Financial Stability Board should develop measures to assess risk from climate change to the financial sector – through stress tests, guidance on supervision of climate risks, mapping of *"risk transmission channels"*. But most of this efforts would be aiming to ensure that the *"financial sector develops tools and products to manage climate-related financial risks."*

Clearly, this is not about developing rules for the financial sector's involvement in projects that lead to high emissions or huge environmental risks. It is about how financial institutions can come to terms with new conditions as climate change unfolds, and, with some help from public institutions, how they are to develop their own approach to risks. The financial sector is nervous about *"stranded assets"* (money lost on adventures that backfire), and wants to develop finely tuned metrics to steer away from them. However this risk assessment approach does not reflect on the effect of these companies on the climate. And since these risk assessment exercises in financial institutions typically operate with a time horizon of five years, there is little to stop them from accelerating climate change in the longer term.

The proposals on risk assessment are thus focused on self-regulation to safeguard companies' own bottom line, and do not meaningfully engage with the risk to the planet. Moreover they are built on the belief that financial institutions can learn to predict how climate change evolves. These proposals, bizarrely, argue that the very sector that recently proved dangerously incapable of conducting risk assessments in its own area, leading to the global financial crash and its horrific social impacts across the world, can somehow miraculously become able to predict the course of climate change, and take timely measures to protect against it.

RETURNS
making money from net zero

The chapter in Carney's proposal on *"returns"* is about how to put financial firms in a better position to make the most of what is called the "enormous commercial opportunities" in *"the transition to Net Zero"*. On the basis of assessments of transition plans, financial firms should be in a better position to judge whether eg. a particular company is worth investing in, if it fits the criteria of company transitioning to net zero.

To that end, the financial sector will work with a plethora of actors, including un-specified NGO communities and credit rating agencies. What is specified, though, is that when it comes to measuring their own portfolios, industry should develop the metrics on the basis of existing work, including that of the Investment Association (IA). The IA represents asset managers, and its membership is a *"who's who"* of the biggest asset managers – Vanguard, BlackRock, Fidelity, State Street, JP Morgan Chase, Barclays etc.[43]

The IA is a club for some of the biggest financiers of the biggest polluters on the planet. For instance, according to a recent statistic the IA can pride itself on having 14 members that rank in the top 20 biggest investors (bondholders and shareholders) in coal[44]. In the IA's two most recent position papers on climate change, the word "divest" is not used one single time.[45] Despite this rather glaring omission, the official UN proposal, Carney's proposal, suggests making the IA's work on climate change the basis for further work on assessing the qualities of an investment.

Also, a call for financial firms to commit to net zero by joining one of the frameworks available comes with few qualifications: eight different initiatives are listed as possible vehicles for financial institutions' commitments to net zero, six of which are run entirely by the financial industry itself.

THE INVESTMENT ASSOCIATION
14 of the 20 top coal investors

The Investment Association (IA) is highlighted in the official UN proposal on private finance as a group whose work on "consumer-friendly metrics to express how their investments align with their values on climate change" should be used by others. The IA represents investment managers in the UK. Members include 14 of the top 20 investors in coal worldwide:

1 VANGUARD
2 BLACKROCK
3 CAPITAL GROUP
4 STATE STREET
6 T ROWE PRICE
7 FIDELITY
9 JP MORGAN CHASE
12 SUMITOMO MITSUI TRUST
14 SUN LIFE FINANCIAL
16 FRANKLIN FINANCIAL
17 WELLS FARGO
18 NOMURA
19 MITSUBISHI UFJ FINANCIAL
20 ALLIANZ

Source: Urgewald, Finance Research on the global coal exit list (GCEL), 25 February 2021.

MOBILISATION
rolling out a red carpet for investors

The fourth and last issue to be addressed at COP26 under the private finance heading is *"mobilisation"*: *"unlocking domestic capital resources in coordination with international flows."* In the main, the challenge is about finding investors and money to support energy projects, in particular in *"emerging economies"*, and to facilitate investments "in decarbonisation activities to offset emissions elsewhere". Apart from an emphasis on the need for multilateral development banks to opt for private sector investments and to spend their money providing guarantees for privately driven projects, instead of investing themselves, this chapter is mostly about a *"red carpet strategy"*.

In essence, Carney's proposal outlines recommendations that emerging economies make a series of concessions to foreign investors, ie financial firms, to facilitate investments. These recommendations have been developed by the so-called Climate Finance Leadership Initiative (CFLI) in two reports. The recommendations include tax breaks, lower tariffs, deeper liberalisation of capital flows, easing of rules to allow for more comprehensive foreign ownership. The CFLI also endorse carbon markets: *"A robust carbon market with participation from small landowners to large corporates is important to achieving a country's NDCs ['nationally determined contributions]) Whether through domestic compliance schemes or nested jurisdictional REDD+ carbon accounting, carbon markets and the offsets they generate will help attract further investment in forestry and agriculture."*

This looks, coincidentally, like the traditional wish-list of a big investor in the North. Besides the proposal to remove barriers to the operation or carbon markets, there is an emphasis on the kind of carbon market that could meet finance companies' need for offsets. So, it should come as no surprise that the members of the CFLI are, like with other alliances, big corporations. The CFLI was established when the UN Secretary General appointed Mike Bloomberg, the Wall Street tycoon, as his Special Envoy on Climate Action in 2018.[46] Members of the CFLI include Allianz Global Investors, AXA, Bloomberg, Enel, Goldman Sachs, Japan's Government Pension Investment Fund (GPIF), HSBC, and Macquarie.[47]

In the future, according to the plan laid out in Carney's proposal for COP26, the CFLI is set to be at the centre of *"capacity building"* – the international knowledge centre with a formula for how best to treat investors.

4 AFTER COP26: BIG FINANCE TAKES CONTROL

The massive influence that Big Finance has had on the COP 26 agenda– on the models for implementation being proposed, and via their ubiquitous presence in UNEP FI convened coalitions – is only the beginning. Given that the four work streams proposed for discussion in themselves do no invite much government intervention, but are already left in the hands of financial firms themselves, the follow-up will logically be about how the different actors in the various corporate run net zero alliances proceed. But there is another layer: coordination and further collective development of the plans. And here too there is little if any place for government, or for any decision taken by a democratically elected and representative assembly for that matter. Instead some of the biggest financial corporations in the world, and some of the biggest financiers of the fossil fuel industry, are invited to take the steering wheel of the vehicle tasked with the follow-up to COP26, making the corporate capture complete.

The vehicle, or the coalition, in question is the Glasgow Financial Alliance for Net Zero (GFANZ), considered the umbrella for the different sectoral net zero initiatives on banking, asset managers etc. The GFANZ was launched in spring 2021 by Mark Carney and the COP26 Private Finance Hub, which has a 25 strong staff based in the UK Treasury.[48] At the top of this alliance we find the CEO Principals Group, singled out to *"coordinate efforts and promote a smooth but rapid decarbonisation of the economy."* This group is to *"raise ambition"*, coordinate among finance leaders, catalyse technical collaboration, drive commitments, and ensure credibility in Net Zero commitments. The GFANZ should create the *"basis for collaboration and leadership on net zero in the finance sector."*[49] In Mark Carney's words its aim is to *"act as the strategic forum to ensure the financial system works together to broaden, deepen, and accelerate the transition to a net zero economy."* [50]

So, who are the members of the alliance that will perform such a globally important role? Surprise, surprise, once again we find a number of well-known names from Big Finance, including BlackRock (the second biggest investor in coal), HSBC (which has increased its financing of fossil fuels substantially in the past five years), as well as Citibank and Bank of America – the number two and three fossil fuel financing banks in 2020.[51] (see box)[52]

THE GLASGOW FINANCIAL ALLIANCE: letting financiers of polluters take charge

The Glasgow Financial Alliance for Net Zero is set to become the cornerstone of the follow-up to COP26. It is to provide "a basis for future collaboration and leadership on net zero in the finance sector." The members of the core coordinating group, the socalled CEO Principals Group, include representatives from:

CITIGROUP

NO. 2 ON BANKING ON FOSSIL FUEL EXPANSION WORLDWIDE

BANK OF AMERICA

NO. 3 ON BANKING ON FOSSIL FUEL EXPANSION WORLDWIDE

BLACKROCK

NO. 2 GLOBAL INVESTOR IN COAL

HSBC

HSBC HAS EXPANDED ITS BANKING ON FOSSIL FUELS SINCE THE PARIS AGREEMENT, INCLUDING FINANCING OF OFFSHORE OIL AND GAS IN WHICH IT RANKS NO. 5.

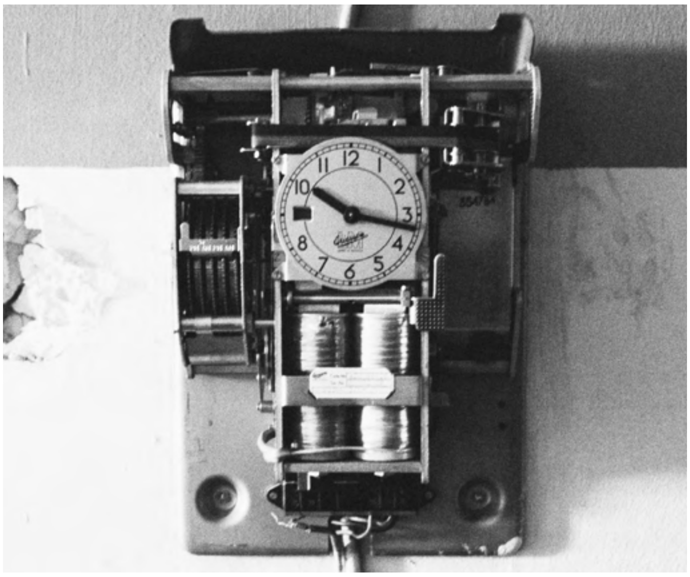
For the full list of members of the GFANZ CEO Principals Group (as of September2021) see endnote 52.Sources for scores above: Rainforest Action Network et al, Banking on Climate Chaos, 2021 and Urgewald, Finance Research on the Global Coal Exit List.

If there are flaws in the design of the net zero coalition's plans, this will be perhaps the most important external forum to discuss them. If there is a lack of clarity in the decisions made at COP26, the only likely forum to address this will be the GFANZ. And there will be plenty to handle. The problem is that this alliance represents institutions with vested interests of billions and billions of dollars. To imagine that they would somehow leave their financial interests at the door when they step into the meeting room of the GFANZ CEO Principals Group is unimaginable, and frankly, naïve. And given that the *"net zero"* design left to them to complete and implement is packed with loopholes, COP26 seems destined to leave a toxic legacy. While those in charge of COP26 claim that they have mobilised big finance to work towards the much-needed reductions in emissions, what they have actually done is hand corporate interests the keys to this crucial element of any attempt to deal with climate change: once again those with huge vested interests are being allowed to regulate themselves, no matter the social or environmental implications.

Nowhere will the impact of this disastrous possibility be felt more than in the global south. In developing countries – low and middle income – the need for financing to deal with climate change is massive. And at COP26 this will be a big issue. High income countries have not lived up to a promise they already made over a decade ago at COP15 in 2009 - to reach 100 billion US dollars in annual transfers to developing countries by 2020. That will not happen until 2023 at the earliest.[53] Even when it is finally reached, that wil stilll leave a massive void – trillions will be needed to prevent disastrous climate change. At COP26, private finance will thus be presented by Mark Carney as the magic wand to solve this problem. In his view, ***"large flows of private capital from advanced to developing economies"*** [54] can be generated. In fact, he claims ***"only mainstream private finance can shape the incentives we require, scale the solutions we have and fund the breakthrough technologies we need."*** We should not, Carney suggests, look so much at public funding to handle climate change, the big haul will come from private sources, as ***"it can turn billions committed to climate investment through public channels into trillions."*** [55] And even if there is little evidence to suggest that this level of private investment will actually happen, the price will have to be paid upfront: developing countries are once again being pushed to undertake a massive economic restructure to put them at the mercy of the biggest private financial institutions.

5 WANTED: A SENSE OF EMERGENCY

The signatories to the Paris Agreement are about to embark on a very risky adventure. While the original agreement did acknowledge the need to change financial markets, there was little in the text to suggest what should be done. Today, at this crucial juncture for the future of the planet, we see Big Finance deliberately take the steering wheel, and from now on the modus operandi on investment and climate will be governed by the belief that a lot of money can be made in this area. At some point financial institutions will be expected to start developing plans to align their activities to low emissions, but as explained above, the current efforts in this direction are very weak and not credible. The commitments of Big Finance ring hollow, and the net zero design to be discussed at COP26 is riddled with loopholes. Unless some of the biggest banks, asset managers and investment funds in the world, suddenly stop making profit their main objective, the whole project will soon prove to be a huge greenwash exercise. If climate change was just a remote possibility, that might have been bearable. But given the increasingly dire need for urgent action, the unconvincing and non-committal *"net zero"* strategy under corporate leadership should have been ruled out from the beginning.



This was surely the result of the financial sectors own efforts to capture the agenda. But at the UN level, they found the door wide open. The formulas considered at that level – by the UN Secretary General, by the UK Prime Minister, and indeed by their choice of adviser. When giving testimony to a committee in the House of Commons in July 2021, Mark Carney was clear on his preference for a light touch approach to finance. It is not – he insisted – *"the role of the regulator to step in and provide a proxy or replacement for climate policy"*, in other words, regulating the financial sector to stop them creating risks for the planet, should not be an option. Indeed, that seemed to be foundational to his design: *"The essence of the system we are trying to put together is that for the companies in hard-to-evade sectors—steel and cement are two classic examples—that want to invest, have plans to invest and need capital in order to move forward, we want to have a system set up so that the bank, the investor, the insurance company or whoever is not prevented from providing that capital. That is the key point."* [56]

So, while Big Finance acknowledges the need to safeguard the financial system and their own future by preventing excessive risk taking, we are not at a point where the risk of their activities destroying the planet calls for imperative measures. That is the essence of Carney's design, and the reason we must reverse course. We urgently need a new agenda on private finance to create a global governance structure and set of regulations that strictly ban the funding of activities that would take the planet beyond 1.5 degrees rise in global temperature.

The other crucial lesson from this turn of events is the need to free the UN system from the recent dangerous experiments with delegation of power to coalitions of corporations. In the absence of strong resistance, what will unfold at COP26 and in the coming years, is that democracy will be dropped in favour of corporate capture. That must not be allowed to happen – not when it comes to climate change, or any other matter.

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