

Eric Usher
Head, UNEP Finance Initiative
International Environment House
11-13 Chemin des Anémones
CH-1219 Châtelaine
Geneva, Switzerland

NZBA implementation of the new criteria of the UN Race to Zero campaign

Dear Mr. Usher,

We welcome the recently updated Race to Zero criteria. We believe that they can help ensure that the net-zero commitments of financial institutions and other non-state actors result in meaningful climate benefits.

As a coalition of civil society organisations with an interest in ensuring that banks (along with other non-state actors) deliver on their responsibility to help combat climate change, we are writing to you today to insist that UNEP FI use its key position in the Net-Zero Banking Alliance as both convenor and steering committee member to ensure that the Alliance implements fully the new Race to Zero criteria. With 115 member banks representing almost 40% of global banking assets, the Net Zero Banking Alliance (NZBA) has the potential, and responsibility, to play an important role in limiting global warming to 1.5°C.

As you are no doubt aware, the continued accreditation of the NZBA as a Race to Zero partner will depend on the Alliance updating its guidelines to reflect the latest Race to Zero criteria. Furthermore, continued participation in the Glasgow Financial Alliance for Net Zero (GFANZ) will also depend on aligning with the Race to Zero given that GFANZ made clear in its 2021 Progress Report that “All GFANZ members must align with the Race to Zero criteria.”¹

We note that the NZBA’s April 2021 “Guidelines for Climate Target Setting for Banks”² state that they are to be reviewed “at least every three years, and sooner when required.” We believe that the new Race to Zero criteria mean that a review and updating of the guidelines is required long before April 2024. Specifically, such a review should be completed in time for the NZBA’s members to be able to update their policies in line with these guidelines by the June 2023 deadline for compliance with the new Race to Zero’s criteria.

Given the reality that the NZBA’s guidelines are inconsistent in numerous respects with the new Race to Zero criteria, we were extremely concerned to read the article in Capital Monitor (August 17) which

¹ <https://assets.bbhub.io/company/sites/63/2021/11/GFANZ-Progress-Report.pdf>

² <https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf>

states that UNEP-FI believes “it is unlikely that individual alliances will need to update their core commitments to meet Race to Zero’s new rules.”³ To us this assertion questions the whole structure of GFANZ and its requirement for Race to Zero compliance, so we hope that the journalist has incorrectly reported UNEP–FI’s position and we would welcome clarification from you on this.

We have outlined below the key things that the NZBA guidelines must require member banks to do in order to align with the Race to Zero’s ‘the Starting Line’ criteria. This includes:

1. **Pledge to “phase down and out unabated fossil fuels as part of a global just transition.”** According to the Interpretation Guide,⁴ “Race to Zero members must restrict the development, financing, and facilitation of new fossil fuel assets in line with appropriate scenarios”⁵ and phase out their financing of thermal coal by 2030 in OECD countries and by 2040 in non-OECD countries. Mark Carney, Michael Bloomberg and Mary Schapiro recently released a statement reiterating this criterion on coal and said “there is no rationale for financing new coal projects”.⁶
2. **Ensure that all financed and facilitated emissions are addressed in climate plans and targets.**⁷ This includes land-based emissions, including those related to planned and unplanned deforestation.
3. **Set an interim target to achieve by the end of the decade, which reflects maximum effort toward or beyond a fair share of the 50% global reduction in CO2 by 2030.** As recognised by the Race to Zero, this means that banks with a large exposure to developing economies might require more flexibility and therefore that banks with large exposure to developed countries - the majority of the NZBA membership - will have to go beyond the required 50% cut in CO2 emissions.
4. **All paths to 1.5C require halting deforestation as soon as possible and all NZBA members must achieve deforestation-free value chains by 2025 at the latest.** An August 2022 update to the Race to Zero Interpretation Guide clarified that a 2025 target on deforestation is a mandatory component of the Starting Line criteria.⁸

³ <https://capitalmonitor.ai/sdgs/sdg-13-climate-action/gfanz-what-the-race-to-zeros-new-guidelines-mean/>

⁴ <https://climatechampions.unfccc.int/wp-content/uploads/2022/06/EPRG-interpretation-guide-2.pdf>

⁵ The interpretation guide defines appropriate scenarios as those based on the latest widely recognised climate science, such as those created by the IPCC and IEA, with no or low overshoot, not harming the achievement of other SDGs and not making unrealistic assumptions about future technologies.

⁶ <https://www.gfanzero.com/press/statement-on-no-new-coal-from-michael-r-bloomberg-mark-carney-and-mary-schapiro/>

⁷ According to the Interpretation Guide, “Scope 3 for financial institutions should mean including portfolio/loanbook/insured/facilitated emissions, which are composed of the investee companies and/or clients’ emissions, including the Scope 3 of the underlying investee companies and/or clients”.

⁸ According to the interpretation guide, all RTZ members ‘shall set relevant commitments to achieve and maintain territories, operations, and supply chains free of deforestation by 2025 at the latest, guided by for example, the definitions and principles from the Accountability Framework initiative (AFI). Members shall also support healthy landscapes across value chains and surrounding/impacted areas, avoiding or reducing with a view to phasing out activities that lead to ecosystem degradation, including wetlands’ drainage and degradation of soil and water resources.’

5. **Align member policy lobbying and advocacy activities with their net-zero operations** as part of the new criterion “Persuade”.
6. **Publicly disclose a Transition Plan covering actions to be taken within the next 12 months, 2-3 years, and by 2030.**

We also call upon the UNEP FI secretariat and Steering Committee to strongly encourage NZBA members to move beyond the starting line and also implement ‘Leadership Practices’, as defined by the Race to Zero. This includes:

- Embed nature in the heart of plans, actions and disclosures.
- Scale-up investment in emerging markets and developing countries to empower those in their ecosystem to implement race to zero plans.
- Set specific targets for short-term reduction of methane and other GHGs.
- Advocate for appropriate regulation and facilitating measures to ensure that alignment to 1.5°C becomes the default for all actors.
- Explain how they will support communities affected by both climate impacts and the climate transition, to address injustices and build towards a more equitable future.

As you are aware, new applicants for membership in net-zero alliances with Race to Zero accreditation are required to adopt the strengthened ‘Starting Line’ criteria immediately and are encouraged to embed the ‘Leadership Practices’. Existing members will need to meet the criteria by 15 June 2023 at the latest, therefore it is paramount all NZBA members begin to act on these targets immediately.

Given the short timeline and the urgency of the matter, we request a response outlining the process for the NZBA to update its guidelines so as to retain its Race to Zero accreditation, and an explanation for how it will ensure its members are aware of and will comply with their obligations. More specifically we seek to understand:

- 1) What is the timetable for the NZBA to update its guidelines to incorporate the Race to Zero Starting Line criteria?
- 2) In the meantime, how will the NZBA ensure new members comply with the Starting Line criteria?
- 3) How will the NZBA make sure that existing members implement the Starting Line criteria by 15 June 2023?
- 4) What will be the consequences if new or existing NZBA members fail to comply with the criteria?

We would appreciate a response no later than 11th October and responses will be shared with the signatories of this letter. Please direct responses to Kelly.shields@shareaction.org.

As the NZBA highlighted in its first anniversary statement in April this year; “There is simply no time to waste, and no room for anything less than the highest of ambitions”.⁹

We look forward to hearing from you.

Thank you,

AbibiNsroma Foundation, Ghana
AnsvarligFremtid, Denmark
Bank on our Future, UK & United States
BankTrack, The Netherlands
Climate Safe Lending Network, US
Environmental Defence, Canada
Fair Finance International
Global Witness, UK
Make My Money Matter, UK
Reclaim Finance, France
ReCommon, Italy
ShareAction, UK
Sierra Club, United States
Stand.earth, Canada and United States
Talanoa Institute, Brasil
350.org, Japan

⁹ <https://www.unepfi.org/news/industries/banking/nzba-first-anniversary/>