

Speech by Laura Clarke on the challenge ahead for sustainable finance and journey to COP26

E ngā mana, e ngā reo, e ngā iwi, e rau rangatira mā, tenā koutou katoa.

First can I say what a privilege it is to be here today, addressing such an illustrious group of CEOs and leaders in business, public policy and climate action. This is exactly the sort of collective action we need – pooling ideas, sharing responsibility – to tackle the scale of the challenge facing our world, and all those who live in it.

The opportunity

I have been invited to speak in the context of the UK's hosting of the next UN climate change conference – COP26 – in partnership with Italy. We are also President of the G7 while Italy takes on the G20 Presidency.

This makes 2021 a defining year of leadership for the UK and presents us with a golden opportunity to press for greater global ambition – more ambition to reduce emissions, more ambition to build resilience, and more ambition to cooperate and support each other in a green recovery.

We are already seeing momentum building.

China has committed to net zero by 2060; Japan and South Korea have committed to net zero by 2050, and the US has just re-joined the Paris Agreement and in the last few days put the social cost of carbon at US\$51 per unit.

New Zealand is also showing leadership: and as COP26 Presidency we welcome the package of ambitious advice put forward by New Zealand's Climate Change Commission as just discussed by Jo Hendy, and by the New Zealand Government's commitment to respond to the recommendations with ambition. We look forward to seeing New Zealand's updated NDC ahead of COP26.

In addition to ambitious plans to reduce emissions, we want all countries to help speed up progress in five key areas 'in the real world':

In clean energy, we need to shift away from fossil fuels and invest in innovative, low cost, clean technologies.

Renewable energy sources such as solar and wind are already cheaper than coal in most countries. And a recent report from the International Renewable Energy Agency found that boosting investment in renewables would increase jobs in this sector to 42 million globally by 2050, four times more than today.

In resilience, we need to help communities adapt to the worst effects of

climate change, through resilient infrastructure and agriculture. Adaptation investments consistently deliver high returns, with benefits between 2 and 10 times the cost.

This is important for both the UK and NZ, as island nations, and of course for Pacific Island states here in this region.

In nature, we need to restore and protect natural habitats by scaling up nature-based solutions – such as tree planting – and greening our supply chains. Nature can provide up to 30% of the climate change mitigation needed to meet our Paris Agreement Goals. New Zealand's Jobs for Nature package is a good example of how we can achieve this.

In transport, we need to bring forward the date when zero-emissions vehicles will be not only cleaner than petrol and diesel but also cheaper.

The UK welcomes the new ambitious action proposed for transport in New Zealand, which has one of the highest per capita road transport pollution levels. We in the UK face similar challenges with road freight.

The fifth area is finance which will underpin all these endeavours – investment that needs to be 'future proofed' – green and sustainable. It can't all come down to the public sector either: we need to mobilise flows of private finance into clean sectors.

Sustainable finance

And this is what I am excited to talk to you about today: green, sustainable finance, and the role that finance, capital and investment have to play on the journey to COP26 and delivery of the Paris Agreement goals AND in helping to build greener, more resilient and sustainable economies.

The big question is "what do we need to do to unlock the investment that secures a green recovery?"

For me – the starting point is imagining what the economies and societies of the post-COVID world should look like.

I think it's uncontroversial to say that we would all like to have:

- clean air and clean water
- a stable climate, with temperature rises in check
- thriving biodiversity and healthy oceans
- a resilient economy and green jobs that are future-proofed
- legal and regulatory frameworks that provide clarity and predictability

- and (let's face it) good returns on investment

In short, we need to get to a point where we are living and interacting with this world in a sustainable way – so that we can be good ancestors, living true to the principle of kaitiakitanga.

And that means planning, making decisions, and investing with that vision in mind.

Which brings me to the COP26 private finance work, which has one simple aim: to ensure that every financial decision takes climate into account. That hasn't been the case to date: but it's where we need to be.

Many of you will have listened to Mark Carney's Reith Lectures, late last year – so lots of this won't be new to you. But Mark, who was Governor of the Bank of England and is now the Finance Adviser for COP26, has been working with central banks, regulators, and the public and private sectors to collectively build the financial frameworks needed to deliver a net zero 2050.

The frameworks revolve around the 3R's:

The first is reporting – as Mark Carney would say 'what gets measured gets managed'.

We've made huge progress with the The Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD). What we are aiming to do for COP26 is to refine those standards and then develop pathways to make them mandatory, so that this is comprehensive and consistent across the global economy.

Last year New Zealand became the first country to announce a mandatory climate-related financial disclosure regime that will require captured financial entities to report against a standard developed by an External Reporting Board. The UK has followed suit – and we hope many more will do the same.

The second R is risk management. We need to see a step change in climate risk management at the heart of the financial system, so with our banks and major insurers.

The best way to do that is through better supervision of these issues and through climate stress testing.

Again NZ is on the ball here with the Reserve Bank joining the world leading Central Banks and Supervisors Network for Greening the Financial System (NGFS) in 2018. This group is focused on accelerating work on environmental financial risk, and scaling up green finance. I'm sure that like me, you've heard Adrian Orr speak many times on this.

And the third R is about Return. The opportunities in the transition to net zero.

Because the good news is that, on every pressing issue we face, there are solutions that are not just available, but cost effective. There are trillions of dollars in sovereign wealth funds, pension funds, insurance and asset portfolios looking for investible and sustainable projects with good long-term value and rates of return.

In these efforts we can also make sustainable options the trusted and attainable options for consumers. After all, market-leading companies have demonstrated that it is entirely possible to be profitable and sustainable at the same time.

In fact, businesses and investments that are Environmental, Social, and Corporate Governance (ESG) aligned are increasingly out-performing those that are not, even in the current economic crisis.

So – in practical terms – what does this transition to green, sustainable finance look like?

It will look like every company in every sector – every bank, every insurer, every pension fund – disclosing a transition plan to net zero. It will see the shift away from investment in fossil fuels vis a vis clean energy, transport and building.

It means thinking harder about investments. It means innovating and developing new investment models. It means examining climate risk as part of portfolios. It means encouraging those seeking investment to share their transition plans.

It means developing global standards and metrics to follow the progress against that strategy. And finally, it means detailing governance and accountability on that strategy.

And I know that all sounds like a lot, like a burden.

But this is exactly where both the UK and New Zealand can show leadership.

The UK is doing its best to walk the talk, driving a clean recovery at home and around the world. Between 1985 and 2016 the UK economy grew by 70 % while emissions fell by 34%. But of course we have more to do.

We are investing NZ\$5.5bn into improving the energy efficiency of homes and public buildings. We have committed NZ\$2bn in the transition to electric vehicles. We are putting over NZ\$1.2bn towards protecting natural habitats. Investing NZ\$10bn in bolstering our own resilience through flood and coastal defences.

We have committed – in line with the Climate Change Committee recommendations – to reduce our emissions by 68% by 2030, to make getting to net zero by 2050 possible. We are doubling our international climate finance contribution to NZ\$22bn over the period 2021 to 2025, to support other countries in making the transition. We issued the first ever Sovereign Green Bond last year to help finance projects that will support the transition to a green economy.

And the UK will become the first country in the world to make Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosures fully mandatory across the economy by 2025, going beyond the 'comply or explain' approach. We followed NZ's lead on this. But went further: bringing every company into the policy.

And just last week, the Bank of England was given a new mandate to support the UK Government's ambition to become net zero by 2050.

Valuing nature

We are also pushing for a conceptual shift in how we assess or value nature.

Last year, HM Treasury led a global review of the Economics of Biodiversity (known as the Dasgupta Review), which explored the sustainability of our engagements with Nature, and what we must do differently to enhance our collective wealth and well-being, and that of our descendants. Because it cannot be right that – to take the Amazon as an example – our natural resources are worth more dead than alive.

New Zealand is also showing leadership in this area – in making us think differently about how we value things, and how we value nature.

The Aotearoa Circle's ambition and commitment to pursue sustainable prosperity and reverse the decline of New Zealand's natural resources is the sort of leadership that every country needs.

It is also good to see the Circle take leadership on both land and water with the National Food Strategy and the Seafood Sector Adaptation Strategy. And including wellbeing in the Sustainable Finance road map is an innovative way to guide investment decisions.

The Climate Leaders Coalition (many represented here today of course), which collectively represents 60% of NZ emissions across all sectors, is also leading the way, with 100 Chief Executives making pledges on reporting and reducing emissions.

The New Zealand Government is also leading the way, with its wellbeing economics, and wellbeing budget – measuring not just output and growth, but the impact on an individuals' wellbeing and the environment.

And as we negotiate the UK-NZ Free Trade Agreement – we've just completed Round three – NZ and the UK have a shared ambition to be early movers on using trade policy to advance our environmental and sustainability goals, and support the shift to a green economy.

In both countries, businesses are making shifts because of the threat that climate change poses to their businesses and investments, as well as the significant economic opportunities that come with being an early mover in the development of new low-carbon goods and services. It is an economic, regulatory, and moral imperative.

But the hard work is yet to come and that is delivering those commitments. For many of those companies the next step is about financing the transition to zero carbon.

Conclusion

So we have the challenge now of setting strong foundations on which to build as the economy recovers from the pandemic, and as we seek to become net zero by 2050.

Lord Deben, Chair of the UK's Independent Climate Change Committee, has been on a virtual visit to New Zealand these last few weeks. Many of you will have seen him talk – but his strong pitch is that the economic recovery and growth, and our net zero ambitions, are complementary, not contradictory: by focussing on a green recovery, we help to meet our 2050 target; and in turn by seeking to meet the target we can help to power our economic recovery. And we need investment to underpin these endeavours – as Mark Carney said, the “power of money” will ultimately play the biggest role in combating climate change.

There is no better time than now to seize the opportunity to change our systems and green our planet, and harnessing the power of business and finance. Generations that follow will be watching.