PRINCIPLES FOR PARIS-ALIGNED FINANCIAL INSTITUTIONS

Climate Impact, Fossil Fuels and Deforestation

Financial institutions (FIs)[1] that commit to "Paris alignment" must also commit to aligning with the Paris Agreement's goal of limiting global warming to 1.5°C[2] while respecting all human rights and the specific rights of Indigenous Peoples.[3] Any "net zero" targets or other FI climate commitments must also align with this goal. Transforming these commitments into actionable plans that meet the full ambition of the Paris Agreement should be guided by these facts:

- **Global carbon dioxide emissions must be more than halved from 2010 levels by 2030 and then reduced to effectively zero by 2050** to have even a 50% chance of limiting global warming to 1.5°C, according to "pathway 1" in the 2018 IPCC "Special Report on Global Warming of 1.5°C" (SR1.5).[4] Pathway 1 has a low level of overshoot[5] and the lowest level of dependence upon carbon dioxide removals.[6]

- **Potential emissions from coal, oil, and gas already in production would push us far beyond 1.5°C, and likely even 2°C**, so any expansion of fossil fuel exploration or extraction, or expansion of infrastructure that drives continued and expanded extraction, is incompatible with the Paris Agreement.[7] Limiting global warming to 1.5°C requires that a rapid, managed phaseout of existing fossil fuel production and use begin now.

- **Protecting and restoring forests, grasslands, wetlands, seas and other natural ecosystems is essential for climate mitigation.** Reducing deforestation and the degradation of natural ecosystems protects critical carbon sinks. Any expansion of industrial scale forestry, agriculture, or commodity production that directly or indirectly results in forest degradation and deforestation, new infrastructure in Intact Forest Landscapes, or violations of the rights of Indigenous Peoples, is incompatible with the Paris Agreement.[8] It is also vital to end finance of highly carbon-intensive agroindustrial practices.

- **Paris alignment is necessary for climate justice and human rights.** Limiting global warming to 1.5°C is a matter of justice and the protection of human rights.[9] It is necessary for respecting the rights of communities on the front lines of the climate crisis, fossil fuel extraction and infrastructure, and deforestation.[10] Rights must also be respected when taking action to address climate change, and a just transition must be secured for workers and communities currently dependent upon economic activities that will need to be rapidly phased out.

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It follows that for Paris or 1.5°C alignment, **FIs must align the overall climate impact of their activities with, at minimum, the SR1.5 pathway 1.**[11] In order for an FI to reach this goal they must commit to the following principles:

1. The FI must adopt a commitment by COP26[12] that requires that the projects and companies it supports are aligned with 1.5°C:

A. The FI must immediately exclude financing[13] for any *project* that involves exploration for new fossil fuel reserves, expands extraction of fossil fuels, or builds infrastructure that incentivizes new extraction or extends the lifetime of existing extractive or consuming projects. The FI must develop and implement plans that ensure that any existing fossil project receiving support intends to wind down operations on a timeline aligned with, at minimum, SR1.5 pathway 1.

B. The FI must rapidly phase out all financing for coal companies (as defined by the Global Coal Exit List).[14] The FI must commit to rapid year-on-year reductions in its finance for all coal companies so that its exposure to and finance for these companies are reduced to zero by 2030 at the very latest in the OECD,[15] and by 2040 in the rest of the world.[16]

C. The FI must immediately cease finance for any *company* that is expanding fossil extraction or infrastructure, or exploring for new reserves. The FI must require all of its fossil clients to publish plans by COP26 at latest to wind down fossil fuel operations on a timeline aligned with, at minimum, SR1.5 pathway 1. Financing must be withdrawn from companies that refuse to publish or comply with fossil phase out plans.

D. The FI must prohibit financing for any *project* that involves the degradation or loss of natural forests or other natural ecosystems, with particular emphasis on peatlands, or any *company* that fails to comply with a No Deforestation, No Peatland, No Exploitation (NDPE) policy at a corporate group level.

E. The FI must make explicit what it is requiring of fossil fuel or deforestation-risk clients, by when, and what consequences follow from failing to meet those requirements. The FI must be transparent about the basis for any claims that continued support for such clients accelerates the client's transition towards climate alignment. Companies expanding the production and use of fossil fuels or the degradation of ecosystems, or that are violating human or Indigenous rights, cannot be regarded as transitioning toward climate alignment.

2.

The FI must have in place a process by COP26 to measure and disclose its climate impact, and must commit to phase out financed emissions in alignment with 1.5°C and to develop a specific plan for establishing science-based targets.

A. The FI must make a commitment to reduce its climate impact to zero by 2050 at the latest, with an interim commitment of halving its impact by 2030 at the latest. An FI's climate impact must decline sharply year-on-year from 2021 onwards.[17] Finance for emitting activities in OECD countries (with higher capacity and responsibility to transition) should be phased out more quickly than for the world as a whole.

B. The FI must measure and disclose its overall carbon footprint. Methodologies for measuring and disclosing the FI's carbon footprint must be transparent and verifiable and encompass all direct and indirect emissions caused by its lending, underwriting, investment, insurance and other services. These methodologies must include activities that impact land use emissions, in particular the degradation and conversion of forests and peatlands.

C. Emissions from fossil fuels and deforestation will need to be zeroed out by 2050. The FI and its clients cannot achieve Paris alignment through "net zero" accounting based on discredited schemes such as offsets, bio-energy with carbon capture and storage (BECCS), tree plantations, or other untested "negative emissions" or geoengineering technologies with the potential for causing large-scale social and environmental harm.[18] Similarly unacceptable are accounting tactics such as using carbon intensity metrics based on emissions compared to revenue, or counting increased financing of renewables as offsetting fossil fuel finance.

D. The FI must install a process for transparent third-party monitoring of its progress toward meeting its commitments and annual reporting of the results.

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ENDORSEMENTS

Development of these principles was coordinated by **Rainforest Action Network**, in collaboration with these endorsing organizations:

350.org
Amazon Watch, US
Asian Peoples Movement on Debt and Development (APMDD)
Asociación Interamericana para la Defensa del Ambiente (AIDA)
Bangladesh Krishok Federation
BankTrack, Netherlands
Catholic Network US
Catholic Youth Network for Sustainability in Africa
CEE Bankwatch Network, Europe
Center for Energy, Ecology, and Development (CEED), Philippines
Center for International Environmental Law, US
Centre for Financial Accountability, India
Climate Action Network Canada - Réseau action climat Canada
Climate Hawks Vote, US
Coastal Livelihood and Environmental Action Network, Bangladesh
Digo Bikas Institute, Nepal
Environics Trust, India
Environmental Defence, Canada
EquityBD, Bangladesh
Friends of the Earth France
Friends of the Earth Japan
Friends of the Earth US
Focus on the Global South, Thailand
Freedom from Debt Coalition, Philippines
Fundación Ambiente y Recursos Naturales (FARN), Argentina
Ginew Collective, US
Greenpeace
Indian Social Action Forum
Indigenous Environmental Network, US/Canada
Kiko Network, Japan
Majority Action, US
Manthan Adhyayan Kendra, India
Market Forces, Australia
Migrant Forum Asia
Monitoring Sustainability of Globalization (MSN), Malaysia
Nadi Ghati Morcha, India
Oil Change International, US
Oriang Women's Movement, Philippines
Pakistan Fisherfolk Forum
People and Planet, UK
Philippine Movement for Climate Justice
Positive Money, UK
Private Equity Stakeholder Project, US
Profundo, Netherlands
Rainforest Action Network, US
Reclaim Finance, France
Re:Common, Italy
Recourse, UK
Riverbasin Friends, India
Sanlakas, Philippines
Sierra Club, US
Solutions for Our Climate, Korea
Stand.earth, US/Canada
Stop the Money Pipeline, US
Tax and Fiscal Justice, Nepal
The Sunrise Project, Australia
Urgewald, Germany
WALHI Friends of the Earth, Indonesia
Womenhealth Philippines
Women's Earth and Climate Action Network (WECAN)

ENDNOTES

1. These principles apply to both private and public institutions. Public financiers have an obligation to adopt more ambitious deadlines than those in the private sector. For example, the European Investment Bank has committed to end all fossil fuel energy financing by the end of 2021.

2. One of the Paris Agreement (PA)'s three overarching purposes (in addition to limiting temperature rise and increasing adaptation) is: "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." Art. 2.1(c).

3. "Indigenous Peoples' Rights to Autonomy and Self-Government as a Manifestation of The Right To Self-Determination" IWGIA, 2019. Also see "Free Prior and Informed Consent – An Indigenous Peoples' right and a good practice for local communities" UN DESA, 2016. The Paris Agreement Preamble states "Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity" The rights of peasants, fisher communities, rural workers, African descendant and other communities must also be respected. See also UN Convention on the Elimination of All Forms of Discrimination against Women (1979) and UN Declaration on the Rights of Peasants and Other People Working in Rural Areas (2018).

4. For pathways see IPCC SR1.5 Summary for Policymakers, p.14. Actual CO_2 reduction modelled in P1 is 58% from 2010-2050. Pathways 1-3 also require reductions or limitations in emissions of non-CO_2 climate forcers such as CH_4, N_20 and black carbon.

5. Overshoot means exceeding 1.5°C temporarily.

6. Pathway 1 assumes some carbon removals from afforestation but has the lowest level of CO_2 removals among the four illustrative pathways cited in SR1.5 Summary for Policymakers, p.14. Pathways 2-4 depend on the large-scale use of socially and ecologically problematic, and technically and economically unproven, "negative emissions" technologies and approaches such as fossil fuel combustion, and bioenergy, with carbon capture and storage.

7. Kelly Trout, "The Sky's Limit and the IPCC Report on 1.5 Degrees of Warming," Oil Change International, 17 October 2018; Dan Tong et al. "Committed emissions from existing energy infrastructure jeopardize 1.5°C climate target" *Nature*, 1 July 2019.

8. The PA notes "the importance of ensuring the integrity of all ecosystems, including oceans, and the protection of biodiversity, recognized by some cultures as Mother Earth".

9. See e.g. "Failure to act swiftly on climate change risks human rights violation on massive scale," Amnesty International, 8 October 2018.

10. The PA notes "the importance for some of the concept of 'climate justice', when taking action to address climate change" and states that "Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity".

11. It should be noted that scenarios developed by the IEA cannot be used as a test for 1.5°C alignment. Despite mounting pressure, the IEA has not yet developed an energy scenario that is compatible with limiting global warming to 1.5°C. See joint letters sent to the IEA demanding a 1.5°C scenario by leaders within the climate, business, scientific, and investor communities at: https://mission2020.global/letter-to-iea.

12. Planned to be held in Glasgow, Scotland in November 2021.

13. The terms "finance" and "financing" in these principles refer to lending, underwriting, investments, insurance and advisory and other financial services, including indirect finance through intermediaries.

14. https://coalexit.org/

15. Austria, Australia, Belgium, Canada, Chile, Colombia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UK, USA (as of 8/27/20). The coal criteria in these principles when taken together would ensure that only very small amounts of exposure to coal would be left in investor portfolios by the deadlines of 2030 and 2040. These deadlines are from https://climateanalytics.org/briefings/coal-phase-out/.

16. Major Italian bank Unicredit announced in August 2020 that it was committed to "a total phase-out of coal sector financing in all markets by 2028." This is currently the strongest coal commitment among major banks.

17. The UNEP 2019 "Emissions Gap" report states that global emissions must fall by 7.6% per year 2020-2030 to stay on track to hit the 1.5°C goal.

18. See e.g. "Fuel to the Fire: How Geoengineering Threatens to Entrench Fossil Fuels and Accelerate the Climate Crisis" Center for International Environmental Law, 2019.