

To: Members of the House of Lords

To: Baroness Penn  
Parliamentary Secretary

To: Andrew Griffith MP  
Economic Secretary to The Treasury

HM Treasury

1 Horse Guards Road  
Westminster  
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**18 January 2023**

*Sent via email only*

Dear Baroness Penn, Economic Secretary Andrew Griffith, Members of the House of Lords,

**Subject: Financial Services and Markets Bill – curbing deforestation finance**

In 2019, I was honoured to be appointed Chair of the Global Resource Initiative (GRI), a cross-sector taskforce comprised of business, civil society and financial leaders. The GRI Taskforce was established by the government to make recommendations for actions to reduce the UK's deforestation footprint driven by the use and consumption of 'forest-risk' commodities such as palm oil, soy, beef, and timber and to improve the sustainability of our food system.

Deforestation accounts for around 12% of the world's greenhouse gas emissions, principally driven agricultural expansion.<sup>1</sup> According to the science, commodity-driven deforestation must be ended by 2025 to limit global temperature rises to 1.5c.<sup>2</sup>

Finance plays a key role in the UK's impact on global supply chains. In March 2020, **the GRI Taskforce strongly recommended the introduction of new legislation to prevent the financing of deforestation by UK financial services.**<sup>3</sup> This was followed by a more detailed set of recommendations for how this could be achieved in May 2022.<sup>4</sup> The Financial Services and Markets Bill may provide an opportunity to address this recommendation.

The UK financial sector lends and invests, directly and indirectly, in forest product value chains highly exposed to human rights and deforestation risk. These financial flows are difficult to quantify, but certainly amount to hundreds of billions of pounds each year.<sup>5</sup> This exposes the UK economy as a whole and individual financial institutions to significant material risk. At least 69% of agricultural land conversion over

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<sup>1</sup> Intergovernmental Panel on Climate Change (IPCC), "Special report on climate change and land use," Summary for Policy Makers, A.3, p. 10, 2019, <https://www.ipcc.ch/srccl>

<sup>2</sup> Science Based Targets initiative (SBTi) Forest, Land, and Agriculture Guidance (FLAG), <https://sciencebasedtargets.org/sectors/forest-land-and-agriculture#:~:text=The%20SBTi%20FLAG%20Guidance%20offers%20a%20common%2C%20robust%2C%201.5%2C%20B0C.%20Key%20requirements%20of%20the%20SBTi%20FLAG%20Guidance>

<sup>3</sup> Global Resource Initiative Taskforce, 'Final Report', March 2020, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1087635/global-resource-initiative-finance-report-may-2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1087635/global-resource-initiative-finance-report-may-2022.pdf) [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/876465/gri-taskforce-executive-summary.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876465/gri-taskforce-executive-summary.pdf)

<sup>4</sup> Global Resource Initiative Taskforce, 'Finance Report', May 2022, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1087635/global-resource-initiative-finance-report-may-2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1087635/global-resource-initiative-finance-report-may-2022.pdf)

<sup>5</sup> Ibid.,

the last decade has been conducted illegally, putting both forests and the lives of those who depend on them at risk.<sup>6</sup>

In 2021, the government acted upon the GRI Taskforce's recommendations by introducing Schedule 17 of the Environment Act. Under forthcoming secondary regulations, large companies will be required to establish a due diligence system to assess and mitigate the risk of importing commodities grown on illegally deforested land, reporting annually on their progress.

Yet while this is an important step, regulating supply chains alone is not enough. The government did not include human rights risks or UK financial services within the scope of the Environment Act, despite our recommendations.

In the absence of a clear regulatory incentive, most financial institutions are failing to assess or manage deforestation and related human rights risks. Many have no relevant policy at all.<sup>7</sup>

The GRI Taskforce concluded its work in May 2022 by reiterating the need for new legislation to provide due diligence obligations for financial institutions equivalent to those that will be placed on supply chain companies under the Environment Act 2021. Our analysis concluded this to be necessary because risk reporting mechanisms such as the Taskforce on Nature-related Financial Disclosures (TNFD) and voluntary net zero pledges are insufficient to prevent deforestation financing.

To this end, the Taskforce recommended the Government should make it illegal for financial institutions to invest in or lend to supply chain companies that are unable to demonstrate forest risk commodities have been produced in compliance with 'local laws' (i.e. legally).

In essence, our regulations should ensure financial institutions do not directly or indirectly fund or support deforestation linked to forest risk commodities. **In practice this means that financial institutions should be required to assess and identify environmental and human rights risks and impacts within their portfolios and take action to prevent or mitigate those risks and publicly report on progress.** This was the Taskforce's conclusion, with input from leaders from across finance and the private sector.

I encourage you to revisit our independent recommendations and consider them in relation to the Financial Services and Markets Bill. I am aware that there are relevant amendments on deforestation that were tabled in the Commons and that are anticipated in the Lords.

The nation's long-term financial health and wellbeing is dependent on addressing the biodiversity loss and the climate crisis. The choice between environmental protection, human rights and a competitive economy is a false dichotomy.

Yours sincerely,

Sir Ian Cheshire



Chair of the Global Resource Initiative Taskforce  
(Former Chair of Barclays)

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<sup>6</sup> Forest Trends, 'Illicit Harvest, Complicit Goods', 2021, <https://www.forest-trends.org/pressroom/new-report-tropical-forests-the-size-of-denmark-illegally-cleared-every-year-for-commercial-crops-consumed-worldwide/>

<sup>7</sup> Global Canopy, 'Forest 500', <https://forest500.org/rankings/financial-institutions>