



Rt Hon Boris Johnson MP
Prime Minister
Prime Minister's Office, 10 Downing Street
London SW1A 2AA

21 June 2022

Dear Prime Minister,

We are writing to you to underscore our ongoing support for the UK Government's net-zero strategy and ambitions, and in that context express our very serious concerns on the prospect that the UK will include natural gas activities within the scope of its 'green taxonomy.'

IIGCC, PRI and UKSIF collectively represent a very significant number of financial services institutions and investors based here in the UK and globally.¹ We are vocal advocates for public policy and regulation which supports national economies towards the achievement of net-zero carbon emissions. A clear, consistent, and enabling policy environment is critical to the viability of the transition to net zero, and successful policy implementation will help minimise risks to the real economy, to individual entities and to the financial system as a whole.

Under the UK's leadership as COP26 President, the positive outcomes from Glasgow have demonstrated that limiting global temperature rises to 1.5°C is still possible. A financially stable future where our communities and assets are resilient to the impacts of climate change, and economic and investment opportunities are maximised, remains within our grasp. The current energy security and cost of living crises must be addressed as a matter of urgency, and this can be done effectively alongside the pursuit of longer-term climate objectives, not in place of. This hugely challenging environment we face has drawn the net-zero mission into even sharper focus for us all.

To achieve this vision, the policies that underpin implementation of the UK's net zero strategy must be consistent with the goals of the Paris Agreement. As such, we strongly welcome the development of a 'green taxonomy' that clearly defines economic activities which support the UK's 2050 net-zero objective and provides investors with the certainty they need to assess the sustainability of their portfolios.

The inclusion of natural gas would undermine the taxonomy's stated purpose, discrediting its value for many of our members, while also significantly damaging the UK's global leadership position on sustainable finance and climate action for years to come. The UK's taxonomy must be based purely on science and aligned with a net-zero carbon emissions future. Its credibility must not be undermined by lobbying and political expediency.

¹This letter was developed in collaboration with a number of IIGCC, PRI and UKSIF members, but does not necessarily represent the views of the entire membership, either individually or collectively.

There are a number of reasons why natural gas does not belong in the 'green taxonomy.' The taxonomy has always been intended by policymakers as a robust, science-based tool to define 'green activities' and enable capital to flow towards activities that accelerate progress towards the UK's climate goals. Specifically for investors, it should provide clarity over the proportion of portfolios that can be considered 'green' and help firms report back on this to clients and savers.

While the continued use of natural gas may be necessary as a 'bridge' during the transition, especially as countries respond to the ongoing energy crisis, this does not mean gas should be considered 'green.' Very important short-term considerations on energy security must not be conflated with the taxonomy. Excluding natural gas from the taxonomy will not deprive gas-related activities from funding in the capital markets.² However, its inclusion will send very misleading signals to investors needing clarity on the alignment of their holdings with the UK's objective of carbon neutrality.

The inclusion of natural gas would be in direct conflict with the UK's ambitious decarbonisation targets, the Greening Finance Roadmap's stated ambition for the UK's domestic regulation to represent international best practice, and more broadly the legacy of COP26 in keeping global temperature increase below 1.5°C possible. The scientific evidence is clear that there is no remaining carbon budget for new investments in this area.

The Climate Change Committee's 'Sixth Carbon Budget' sets out that total demand for natural gas will need to fall significantly, by 70%, as the UK's energy sector transitions towards net-zero. Furthermore, the recent 'Energy Security Strategy' sets the objective of reducing gas consumption by "over 40% by 2030". Natural gas's inclusion will not help the UK achieve either of these critical milestones.

The taxonomy will form the cornerstone of the UK's sustainable finance regulatory framework, and diluting its scientific credibility will have detrimental impacts on the wider disclosure requirements and investment products which reference it. Gas's inclusion could have particularly damaging repercussions for consumers, should the taxonomy form the primary environmental criteria for the UK's upcoming investment labels system. We foresee a scenario where savers raise serious concerns over their funds' commitment to sustainability should gas be included; particularly, with the proposed criteria for funds to achieve a 'sustainable' label potentially being the proportion of a fund's assets aligned to the taxonomy. 'Greenwashing' would become a far greater risk as a consequence.

We strongly urge you, and your colleagues across government, to show global leadership and exclude gas from the UK's 'green taxonomy,' which would help create a robust, evidence-based, and world-class framework.

Just over six months on from COP26, it is imperative that the UK continue to demonstrate leadership on tackling the climate crisis and achieving a net-zero world, and building a credible and science-based taxonomy will play an important part in this mission. We look forward to hearing from your team in due course.

Yours sincerely,

²A recent survey among large European investors, carried out by a banking member of UKSIF, found that 90% of investors in this group envisaged no significant changes to their investment strategies when questioned if gas and nuclear's inclusion in the EU's taxonomy would impact their policies in relation to these activities.



Stephanie Pfeifer
Chief Executive CEO

David Atkin

James Alexander
Chief Executive

CC: Rt Hon Rishi Sunak MP, Chancellor of the Exchequer; Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy; Rt Hon Alok Sharma MP, COP26 President

Background on letter's signatories:

IIGCC:

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has over 365 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management.

PRI:

The Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. Supported by the United Nations, it works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. Launched in New York in 2006, the PRI has grown to more than 4,900 signatories, managing over US\$121 trillion.

UKSIF:

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in financial services committed to the growth of sustainable and responsible finance in the UK. Our 290+ members include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others, representing over £10trn in assets under management (AUM).