

Subject *The inclusion of the financial sector in the Deforestation Regulation*

Dear EU Commissioner for the Environment, Oceans and Fisheries Virginijus Sinkevičius and Minister of Agriculture of the Czech Republic Zdeněk Nekula,

We, the undersigned financial institutions¹, are deeply concerned by the ongoing destruction of natural forests and other ecosystems globally and its contribution to climate change, biodiversity loss and human rights violation. The commitments of financial institutions are not enough to halt the financing of activities that put forests at risk. Therefore, we call upon the Member States and the European Commission to stand with the Parliament and support the inclusion of the financial sector in the Deforestation Regulation.

The responsibility of the financial sector

Forests are vital carbon sinks and biodiversity hotspots, as well as home to indigenous communities, who are preserving and defending such pristine ecosystems. The financial sector plays a key role in shaping business and the economy, and therefore in halting deforestation and forest degradation. It must reconsider its practices and priorities to play a constructive role in the economy, ensuring that its activities foster economic and societal progress without undermining the environmental foundations of our livelihoods, and contributing to environmental regeneration wherever possible.

It is therefore essential to limit possible harm to nature to a minimum and foster activities that support balanced ecosystems wherever possible. Anything less will not do. However, despite voluntary commitments and policies to tackle deforestation, financial institutions are continuing to provide investments linked to deforestation practices².

The Deforestation Regulation

Currently, the European institutions that you represent are negotiating the final text for an EU regulation on deforestation-free products. This Deforestation Regulation would ensure products consumed in the EU aren't driving deforestation and forest degradation. It is of high importance that the Regulation lives up to the commitments made in the European Green Deal and upholds the EU's international commitments on climate, biodiversity and human rights, such as to [the Sustainable Development Goals](#) and the [Glasgow Leaders' declaration on forest and land use](#). The Regulation offers a historic opportunity to minimise the EU's impact on forests and other valuable ecosystems within its own borders and around the world – and the financial sector must also play its part in it.

We welcome the ambitious [position by the European Parliament](#) voted on 13 September 2022, which calls for due diligence obligations for financial institutions based in the EU. Such provisions would mean that financial institutions should assess the risk their financing and other financial services are providing support to activities leading to deforestation and forest degradation and mitigate such risks. This would guarantee that the EU's action to halt EU-driven global deforestation is not undermined by allowing the financial sector to continue financing the very same companies whose products would be anyway covered under the Deforestation Regulation.

¹ Consisting of banks and asset managers representing over 177 billion euro

² <https://www.reuters.com/business/finance/worlds-top-finance-firms-continue-fuel-deforestation-report-warns-2022-10-18/>

By following the European Parliament's position, the financial sector will be part of EU efforts to live up to its responsibility to halt its contribution to deforestation for their global operations. This ultimately helps shifting the EU's financial flows away from activities at risk of deforestation, forest degradation and human rights violations. It will therefore contribute to building a financial sector that can respond to the real economy needs in the context of climate change and biodiversity loss and support those financial institutions that already assess these potential risks voluntarily.

In short, the EU has a historic opportunity to help companies and financial institutions operating in Europe to achieve deforestation- and conversion-free supply chains. This is a unique chance that could send a strong signal to other economies, showing EU global leadership by putting nature protection, human rights and public health at the heart of its policies. As the negotiations between the European Commission, Parliament, and Council unfolds, the responsibility of the financial sector should be considered. Therefore, we urge Member States and the European Commission to stand with the European Parliament and support the inclusion of the financial sector in the Deforestation Regulation.

29 November 2022,

ASN Bank

ASN Impact Investors

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