

To: secretariat@unfccc.int, COP30 Deforestation Roadmap team.

COP 30 Presidency Roadmap for Halting and Reversing Deforestation and Forest Degradation by 2030, implementing paragraphs 33 and 24 for the outcome of GST1

About Earth Capital Nexus

Earth Capital Nexus is a global research initiative hosted by the Grantham Research Institute on Climate Change and the Environment and the LSE Global School of Sustainability, led by Professor Nicola Ranger. LSE EarthCap brings together world-leading research, technical expertise and convening power to address a critical blind spot in today's global economy: the invisibility of natural capital and physical climate risks in financial and economic decision-making.

Submission

We welcome the opportunity to input to the COP30 Presidency's Roadmap for Halting and Reversing Deforestation and Forest Degradation by 2030.

In respect of both the Deforestation Roadmap, and its sister Roadmap on the Transition Away from Fossil Fuels, a critical element will be to produce a set of time-bound and specific actions, with associated periodic reporting, that will produce the certainty of implementation that the historic consensus reached in the First Global Stocktake has, to date, lacked. As European Central Bank Executive Director, Frank Elderson, recently noted, *"policy certainty, combined with the right incentives, is essential to ensure that long-term perspectives are prioritised over short-term gains, and public and private objectives reinforce rather than undermine one another."*¹ With certainty of policy commitment and direction, and clear milestones against which to judge implementation, the private sector and markets will begin to adjust investment and pricing to incorporate the transition towards deforestation (and fossil fuel free) economies, which will, in turn, have the effect of supporting and accelerating implementation with capital, changing incentives, and supporting innovation.

Integrating the protection of forests as systemically-important natural systems to the Roadmap and supporting policy architecture

Global prosperity and security rests on a foundation that remains largely invisible in economic and financial decision-making: the stability of the Earth's natural systems, including its forests. Forests regulate rainfall across continents and store billions of tonnes of carbon and yet their value as critical infrastructure remains largely unaccounted for.

While all ecosystems play important and interconnected roles, scientific research increasingly highlights a subset of ecosystems whose degradation could trigger impacts of systemic global significance. We refer to these as Global Systemically Important Natural Systems (G-SINS): their degradation would not simply represent an environmental loss — it would create cascading shocks to food prices, supply chains, fiscal stability, and financial markets. Like systemically important banks after the global financial crisis, they are "too big (or too important) to fail" and so require pre-emptive protection. Yet they remain under-recognised and under-protected within global risk governance and systems for safeguarding macroeconomic stability.

A number of key points stem from this:

¹ <https://www.ft.com/content/6fa21bdb-1387-4fb8-afc9-3d0b53affa58?syn-25a6b1a6=1>

- **Forests (and nature) are macro-critical** – in macroeconomic policy, the IMF defines an issue as macro-critical if it affects, or has the potential to affect, domestic or external stability. There is increasing evidence that some natural systems, including tropical forests, meet this threshold, as their degradation can transmit shocks through water security, energy markets, food systems, supply chains, and trade, generating cascading impacts across local and global economies. Clearly recognising the macro-criticality of forests and embedding their protection and restoration into existing macroeconomic frameworks as critical economic assets, and integrating them into fiscal policy and frameworks, can support the efforts to be outlined in the Roadmap. These are not just environmental issues, they are material financial and economic ones.
- **Tackling market failures** – the continued degradation of forests is not simply an ecological failure, it is incentivised by a series of compounding market failures that reduce the incentives on businesses, investors, and governments to safeguard and restore these critical ecosystems. The risks to business and investment portfolios of continued deforestation are under-identified, including due to limited supply chain and investment due diligence, under-assessed, under-disclosed, and therefore not systematically incorporated into pricing models, corporate governance frameworks, and credit risk assessments. Decision-relevant data remains lacking, resulting in the risk signals to governments and financial supervisors being too benign. Time horizon mismatches also weaken market signals. The financial benefits of activities that degrade ecosystems are often realised in the short term, while the economic costs of environmental degradation, such as declining agricultural productivity or increased disaster risk, may materialise over longer time horizons. Corporate governance structures and financial reporting frameworks often prioritise shorter-term returns, limiting incentives to account for long-term and systemic risks and investor assumptions of the substitutability of assets are mismatched with increasing awareness of tipping points and irreversible impacts. The system-wide nature of the risks limit incentives for individual action, creating a problem of competition and collective action. Academic evidence shows that nature-related risks are only partially priced within financial markets. This market failure justifies macro-prudential policy intervention and system-level stewardship to manage risks accumulating at regional and global scales across value chains and within investment portfolios.
- **The need for reallocation of subsidies** – incentives for businesses and investors are tilted towards damaging activity by subsidies that continue to support the profitability of activity that is resulting in deforestation. Private sector actors will prioritise profit and returns, allocating capital accordingly, but a clear vision with meaningful milestones to reallocate subsidies will shift incentives and capital allocation will follow accordingly. A clear timeline to operationalise Target 18 of the Kunming-Montral Framework is essential to the Roadmap.
- **Recognising the financial risk of deforestation within the global financial architecture** – a clear recognition of the materiality, or potential materiality of risks associated with deforestation and its importance to price stability as well as long-term financial stability would bring it within the existing mandates of global groups of regulators, ministries of finance, and central banks. At present, no body within the international architecture is monitoring these collective risks, meaning there is under-assessment of their potential to disrupt economies, stability, and growth.
- **Investment incentives through recognition of forests as essential for global economic stability** – the regulating services of forests, not only in their carbon sequestration but in their critical regulation of national and trans-national water and rainfall cycles, are crucial to the stable operation of the global economy. Investment in the protection and restoration of forests is therefore a mitigant of systemic risk (the risk to the functioning of the financial system) and systematic risk (the overall level of risk in the financial system). These are risks to which all participants in the financial system are exposed, and cannot be mitigated through diversification or avoidance. And, given the global reliance on a functioning financial system, all are reliant on its

stability, whether they are market participants or not. Recognition of the benefit of investments in restoration and protection of forests in financial frameworks – such as through favourable capital treatment in the prudential frameworks for banks and insurers, and through incentives for pension funds – can be made on a risk-basis, as investment that supports the stability of all other assets in the system². A holistic Roadmap would therefore look at the regulation of finance as a whole, not just forest assets, and incorporate these risks that are already material as necessary to be considered under existing regulation and duties.

² Further discussed here: <https://www.lse.ac.uk/granthaminstitute/news/too-big-to-fail-tropical-forests-as-anchors-of-economic-prosperity-and-resilience/>