

PRI RESPONSE

NET ZERO REVIEW: CALL FOR EVIDENCE

October 2022

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for the UK. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into 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.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Department for Business, Energy & Industrial Strategy's call for evidence on a review of net zero.

ABOUT THIS CONSULTATION

The Department for Business, Energy & Industrial strategy commissioned an independent review of net zero targets, led by Chris Skidmore MP. The review will consider how the approach to net zero can deliver maximum economic growth and investment, support UK energy security and affordability for consumers and businesses, and minimise costs born by businesses and consumers. The call for evidence offers a wide range of stakeholders the chance to share views on the whole economic transition, maximising net zero growth opportunities, the challenges to address, and the future of net zero pathway.

<https://www.gov.uk/government/consultations/review-of-net-zero-call-for-evidence/net-zero-review-call-for-evidence>

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PRI RESPONSE TO NET ZERO REVIEW

The PRI welcomes the opportunity to respond to the independent Net Zero Review, and hope that through this engagement, the ability of net zero targets to deliver maximum economic growth and investment will be further evidenced.

It is both vital, and in the UK's national and economic interest, that momentum of leading efforts to address the global climate urgency is not lost. Importantly, the investment community stands ready to support the UK's climate ambitions and to provide the capital necessary to the transition to net zero, thereby creating wealth and new jobs, promoting energy security in the long-term and cementing the legacy of UK leadership at COP26.

The UK's commitment to being the world's first net zero financial centre is further substantiated by its capacity to lead by action in the transition than many other countries, given the UK's access to renewable sources, technology, and its historical contributions to global negotiations. The UK government's commitment has been key to driving investor confidence. For momentum in confidence to be sustained, commitments must now be translated into clear, tangible action.

Over 450 financial institutions, including many PRI signatories, have committed to align capital with the achievement of net zero by 2050 under the Glasgow Financial Alliance Net Zero (GFANZ). GFANZ holds an expectation that governments follow up on their commitments to the Paris Agreement of keeping global temperatures below 1.5°C. Progress and optimism is rife; but the market cannot deliver on the Paris Agreement and net zero alone. Policy makers have a key role to play in promoting an enabling framework to achieve net zero objectives.

KEY RECOMMENDATIONS

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 challenging environment has drawn the net zero mission into even sharper focus for all stakeholders, especially investors. 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. The PRI has developed recommendations and highlighted priorities in our '[Reconciling energy security with net zero commitments](#)' briefing and a [joint letter to the UK government](#) with IIGCC and UKSIF, to uphold the net zero ambition.

Government policies set the rules of the game that govern the financial system, which in turn affects the sustainability and stability of financial markets. Policies also critically affect the ability of long-term investors to generate sustainable returns and create value. Investors want governments to focus primarily on creating a stable environment for private investment through policy frameworks.¹ From a financial policy perspective, the PRI supports the UK government's efforts to implement the Green Finance Strategy and urges policymakers to progress at pace on this topic. Our recent report, [A Legal Framework for Impact UK: Integrating sustainability goals across the investment industry](#) highlights

¹ PWC (2020), Unlocking capital for Net Zero infrastructure. <https://www.pwc.co.uk/assets/document/Unlocking-capital-for-net-zero-PwC-Nov-2020.pdf>

that while the UK financial regulatory framework is already broadly permissive with regards to investors' abilities to pursue positive sustainability impacts, further clarifications will help facilitate and accelerate these practices. This will support the UK's ambition to become the first global net zero aligned financial centre.

In addition, clear policies to underpin the UK's net zero commitment will send a powerful message to investors and serve as a pivotal and stable backdrop to stimulate investment.

In a similar way, net zero asset classes are already seen as investable by long-term investors. However, there is still a need to attract and allocate more private investment into the UK. Here, the importance of investable business models is elevated. The value of political stability to PRI signatories cannot be understated, and the UK government should facilitate this by creating an enabling investment environment through policy and market signals.

To achieve the UK's net zero commitments, the PRI makes the following recommendations:

- The UK government should prioritise actions to **reduce energy demand**, such as tackling building and heat sector demand, boost energy efficiency, and accelerate policy progress in the UK Heat and Buildings Strategy.
- Deliver both the **net zero agenda and levelling up proposals in coordination** and strengthen the harmonisation of UK climate strategies with devolved and local plans, which warrants that UK regions' "Level Up" towards a greener economy is conducted in an equitable manner.
- The UK government highlights the importance of **policy stability and investable business models** in key zero-carbon technologies to attract private capital into the UK. This should include full use of auctions for wind and solar, the maintaining of incentives for take up in electricity vehicles and the development of new market mechanisms in heating, CCS, hydrogen, and small modular reactors.

THE CALL FOR EVIDENCE

Economic Growth (*How does net zero enable us to meet our economic growth target of 2.5% a year? What export opportunities does the transition to net zero present for the UK economy or UK businesses? What opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business?)*

There is a strong economic rationale for transitioning to meet net zero goals. A net zero economy will provide green jobs, put the UK on a sustainable growth path, and offer opportunities for UK businesses and policymakers to share their expertise internationally. This will strengthen the Government's pro-growth, inflation reducing agenda. As indicated in the UK's Climate Change Committee's (CCC) Sixth Carbon Budget report, a net zero transition could attract £10 billion per year of investment into the UK, whilst creating 600,000 new jobs by 2030. For example, offshore wind is often seen as an attractive investment opportunity for investors, thanks to the related stable policy framework that has reduced risk and spurred investments. Therefore, the PRI supports the view that a net zero objective is the primary instrument in which we can gain economic growth in the future.

On the other hand, evidence compiled by the IPCC² and the UK Climate Change Risk Assessment³ shows that the costs of climate change to the UK and its trading partners are high and increasing. By 2045 this could reduce UK GDP by 1% per year and costs the UK economy over £10bn per annum in damages⁴. In addition to these direct costs, the UK through its financial sector would also be exposed to economic impacts of climate change in other countries. As the Bank of England and the Financial Stability Board have highlighted, the manifestation of climate change-induced physical risks and the risks of a disorderly transition to a low-carbon economy could have destabilising effects on the financial system, including through a rise in risk premia and falling asset prices in shorter term.

The cost of **inaction brought about by delays or abrupt changes in policy** are also profound and could lead to even more dangerous climate change than as the IPCC notes could go beyond government's and society's "ability to adapt"⁵. Staying on the course to net zero will allow the UK to minimise these costs, leading to a greater, more reliable foundation for economic growth. The UK should therefore prioritise capturing the opportunity that a net zero agenda offers, alongside mitigating risks.

Energy Security and affordability (*How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?*)

Sustainable, net zero aligned financial systems are the lynchpin for long-term energy security and affordability. The current energy crisis demands that we address the triple challenge of energy security, sustainability, and affordability.

As the PRI set out in our June policy brief, the need to balance energy security concerns with short-to-long-term climate policy objectives is paramount. Most importantly, however, energy security concerns must not conflict with net zero objectives. Instead, the net zero transition offers countries and consumers a cushion against future supply-side shocks, which is of heightened importance to the UK, notably due to the cost-of-living crisis.

Our '[Reconciling energy security with net zero commitments](#)' policy paper highlights policy recommendations to that effect, including that the UK Energy Security Strategy should be integrated with national development and policy planning, to ensure that in the short- to medium-term, the UK government's climate targets can be adequately financed and fulfilled.

² See latest assessment reports here <https://www.ipcc.ch/>

³ HM Government (2022) UK Climate Change Risk Assessment https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1047003/climate-change-risk-assessment-2022.pdf

⁴ *Ibid.*

⁵ IPCC (2022) Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel <https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/>

Decarbonisation *(What challenges and obstacles have you identified to decarbonisation?)*

The PRI recommends that the UK government **pursue power sector decarbonisation at pace** and ambitious **energy efficiency policies**. Emissions from heating UK housing is the most notable obstacle to pursuing decarbonisation. Put simply, the UK cannot meet its target for net zero emissions by 2050 without near-complete decarbonisation of the UK housing stock. Yet without de-risking sectors through government intervention and subsequent market signals, securing critical capital at the scale and pace required to achieve a credible pathway to decarbonisation will be challenging.

The UK government should introduce regulation to **require new buildings to use zero carbon heating** and follow **highest standards of energy efficiency**, while **decarbonising existing stock**:

- The PRI strongly recommends energy efficiency improvements including a gradual phased-in ban of gas boilers, not limited to new builds. This major retrofit programme could generate new jobs nationwide and stimulate local economies.
- A Future Homes Standard must require new build homes to be future proofed with low carbon heating and higher levels of energy. The Department for Business, Energy & Industrial Strategy and the Ministry of Housing, Communities & Local Government should introduce a sustainable housing label. Through this ambitious standard, clearer guidance would be set, and new homes built would be in line with a net zero by 2050 scenario.

Policy priorities *(Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner? Is there a policy idea that will help us reach net zero you think we should consider as part of the review?)*

A clear, consistent, and enabling policy environment is critical to the viability of the net zero transition, and successful policy implementation helps minimise risks to the real economy, to individual entities and to the financial system as a whole. As the PRI's Inevitable Policy Response highlights, delay in action creates a more fearful and volatile response to policy change. The commitment to net zero must be met through clear targets that are measurable and transparent in delivery. International bodies, such as the IPCC and the International Energy Agency (IEA) have already developed science-based scenarios to meet a net zero by 2050 objective. Clear policy action increases investor confidence: investors are signalling interest to invest in these opportunities, but to do so, they require reliable and concrete policies.

The UK Government must set out a clear delivery plan for the transition of the real economy and financial services, with **credible sectoral roadmaps underpinned by the near-term policies, actions and milestones** needed to shift financial flows towards net zero. As the PRI, IIGCC, and UKSIF have outlined, the starting point must be policies that transform the real economy, prioritising sectors whose transition will contribute most to the UK's economic, social and climate goals and sending the right policy signals to investors. This must be supported by the implementation of the UK's updated green finance strategy and clarity on planned policies to deliver on the COP26 commitment for the UK to become the world's first net zero aligned financial centre.

The PRI recommends that policymakers support ambitious commitments and take decisive action to deliver a net zero economy by 2050. The UK government should gear a policy focus towards **energy efficiency measures, power sector decarbonisation, and renewables**.

- Scaling up clean **energy solutions** today will pave the way towards a more affordable, stable, and resilient energy system in the UK. These measures, in securing a net zero energy system, are the most efficient ways to deliver energy security and affordability.
- To maximise the economic opportunities presented by net zero and capitalise on the opportunity to secure more jobs, we urge the UK Government to **deliver the net zero agenda in coordination with the Levelling Up agenda**. A just transition connects climate action with the need for an inclusive economy and sustainable development. It builds on well-established global frameworks and anticipates the social implications of a shift to a net zero economy. Given the increasing urgency of addressing the cost-of-living crisis, a net zero agenda with consideration to just transition would ensure that the potential short-term costs for consumers are mitigated.
- The UK Government should set out a clear delivery plan for the transition of the real economy and financial services, with **credible sectoral roadmaps underpinned by the near-term policies, actions and milestones** needed to shift financial flows towards net zero. As the PRI, IIGCC, and UKSIF [have outlined](#), the starting point must be policies that transform the real economy, prioritising sectors whose transition will contribute most to the UK's economic, social and climate goals and sending the right policy signals to investors. This must be supported by the implementation of the UK's updated green finance strategy and clarity on planned policies to deliver on the COP26 commitment for the UK to become the world's first net zero aligned financial centre.

Resources

The following PRI publications highlight our main priorities and recommendations:

PRI, UNEP-FI, Generation Foundation, 2021. A Legal Framework for Impact.

<https://www.unpri.org/policy/a-legal-framework-for-impact/4519.article>

PRI, UNEP-FI, Generation Foundation, 2022. A Legal Framework for Impact UK: Integrating sustainability goals across the investment industry. <https://www.unpri.org/a-legal-framework-for-impact/uk-integrating-sustainability-goals-across-the-investment-industry/10582.article>

PRI, IIGCC, and UKSIF, 2022. Joint letter: CEOs of leading investor groups call on new government to uphold net zero ambition <https://www.unpri.org/download?ac=16992>

PRI, IIGCC, and UKSIF, 2022. Joint letter: CEOs of leading investor groups call on UK government to support a Green Taxonomy.

https://dwtyzx6upklss.cloudfront.net/Uploads/f/k/i/iigccprianduksiflettertogovernmentfutureofuksgreentaxonomy21june2022_886990.pdf

PRI, 2021. How Government and Investors can deliver net zero in the UK.

<https://www.unpri.org/download?ac=15590>

PRI, 2022. Reconciling energy security with net zero commitments. <https://www.unpri.org/policy-reports/reconciling-energy-security-with-net-zero-commitments-uk/10141.article>

PRI, The Inevitable Policy Response to climate change. [https://www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response#:~:text=The%20Inevitable%20Policy%20Response%20\(IPR,policy%20responses%20to%20climate%20change](https://www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response#:~:text=The%20Inevitable%20Policy%20Response%20(IPR,policy%20responses%20to%20climate%20change)

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Department for Business, Energy & Industrial Strategy further to ensure the government achieve its net zero target in the UK.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org