PRI RESPONSE TO THE BEIS COMMITTEE'S CALL FOR EVIDENCE ON POST-PANDEMIC ECONOMIC GROWTH

ABOUT THE PRI

1. The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 3,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US $90 trillion in assets under management. 461 of these signatories, representing $9 trillion, are based in the United Kingdom.

2. The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

3. The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

4. For any questions regarding this submission or the PRI's UK policy work more broadly, please contact Emmet McNamee at emmet.mcnamee@unpri.org.

SUMMARY OF THE PRI'S POSITION

5. The PRI is grateful for the opportunity to submit evidence to the Committee. The far-reaching effects of the COVID-19 crisis and the scale of the government intervention it has necessitated require government to consider the effects of today's actions on the long-term prospects for people and planet.

6. Compared with other G7 countries and the European Union, who have pledged higher investment levels than the UK on multi-year support, the UK's response to COVID-19 has focused on short-term measures, to protect workers and more recently to stimulate local

economies. The recent announcement of a £2bn house insulation scheme is a positive example of a policy that will create jobs, save people money and reduce carbon emissions.[1]

7. Yet this needs to be paired with long-term policy design going forward. With both the Comprehensive Spending Review and the publication of the National Infrastructure Strategy due to take place this year, the government must align these frameworks with a long-term green recovery from COVID-19.

8. Comprehensive, cross-departmental measures to ensure a green recovery over the long-term will carry a number of benefits. It will provide certainty to businesses and investors, stimulating investment. It will prioritise investment in sectors with the greatest economic multiplier, generating jobs and emissions reductions. It will contribute to the delivery of a successful COP26 in 2021, burnishing the 'Global Britain' brand post-Brexit. It will prevent higher costs and more disruptive policy measures down the line.

9. This should also support the government's levelling up agenda. The regions of the UK that have already suffered from deindustrialisation are most at risk from low-carbon transition. A just transition will protect and improve people's quality of life as the UK decarbonises.

10. Given the stresses COVID-19 has already placed on public finances, the government should do more to leverage private finance. It can do this by using public investment to crowd in private investment, through the creation of a dedicated institution to fill the gap left by the sale of the Green Investment Bank and the European Investment Bank. It should also improve systematic awareness of climate risk among the investment industry, through regulatory tools such as the Task Force on Climate-Related Financial Disclosures (TCFD) and the EU taxonomy.

RESPONSE TO DETAILED QUESTIONS

What core/guiding principles should the Government adopt/prioritise in its recovery package, and why?

Whether the government should give a higher priority to environmental goals in future support?

11. While government interventions to date have focused on attempting to address the immediate fallout of the COVID-19 crisis, its future support must focus on measures that will help rather than hurt the UK's long-term prospects and policy commitments. This means including the UK's commitment to achieve net zero emissions by 2050, alongside other environmental and social goals, as a central plank in the recovery package.

[1] https://www.bbc.com/news/business-53313640

12. Addressing climate change remains a simultaneously long-term and urgent priority. The Committee on Climate Change has stated clearly in its recent Progress Report to Parliament that, "our long-term climate goals remain unchanged by the pandemic".[2] It remains the case that the UK needs to accelerate progress to date by bringing forward policies and funding to put decarbonisation on track to meet the legislated 2050 net-zero goal, and progressive interim targets.

13. The recovery presents new opportunities to increase progress on decarbonisation while creating high quality jobs and economic growth. The PRI supports the Committee on Climate Change's (CCC) six principles for recovery[3], namely:

- Use climate investments to support economic recovery and jobs
- Lead a shift towards positive, long-term behaviours
- Tackle the wider 'resilience deficit' on climate change
- Embed fairness as a core principle
- Ensure the recovery does not lock-in greenhouse gas emissions or increased risk
- Strengthen incentives to reduce emissions when considering tax changes

14. These principles need to be embedded in long-term policy frameworks. With both the Comprehensive Spending Review and the publication of the National Infrastructure Strategy due to take place this year, the government must align these frameworks with a green recovery from COVID-19.

15. A recovery that fails to integrate these principles is not only a missed opportunity but would actively damage the UK's long-term economic prospects. As the PRI's *Inevitable Policy Response* project has found, delayed action carries high costs and ultimately necessitate abrupt, disorderly and disruptive policy changes, forecasted by 2025.[4]

Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

16. There is strong alignment between the sectors identified by leading research that will deliver a sustained recovery and the sectors (sustainable vehicles, power, land use, and buildings) that will enable the UK to meet net zero, as set out in recent analysis by the PRI.[5]

[2] https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/
[3] https://www.theccc.org.uk/2020/05/06/take-urgent-action-on-six-key-principles-for-a-resilient-recovery/
[4] https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article
[5] https://www.unpri.org/sustainable-markets/briefings-and-consultations#net-zero

17. Recent analysis on the economics of a green recovery published by Oxford University[6] identifies a wide range of policy interventions that are vital for decarbonisation as likely to generate high job creation and high economic multipliers, as well as significant GHG emissions reductions. The International Energy Agency (IEA) has published a sustainable recovery plan comprising more than 30 energy policy measures for implementation in the next three years, with a focus on economic growth and cutting global emissions.

18. Common themes on research into ensuring a green recovery for the UK include:

- **Transport:** accelerating the shift from traditional to electric vehicles through intermediate sales targets, subsidies and investing in charging infrastructure.
- **Power:** boosting low-carbon power generation with higher ambition 2030 targets while redesigning the electricity market for flexibility.
- **Land use:** setting up a market mechanism to leverage private investment for afforestation while respecting biodiversity requirements.
- **Energy efficiency:** requiring a low carbon standard for new homes while investing in a major retrofit programme across the country.

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Further details on key policies for these sectors is set out below.

19. PRI's sustainable recovery report[7] sets out why investors will provide concerted support for policy action on these fronts, and will also be active in collaborating with the UK government to support the design and delivery of effective policies and the investment required to bring them to market and to scale.

(i) Transport

20. Consumers who wish to purchase an electric vehicle (EV) should be supported in doing so. Demand-side incentives should be designed to ensure (at least) price parity between electric and traditional vehicles, while investment should continue in the national charging infrastructure.

21. Road transportation is among the highest emitting sectors in the UK, contributing 25% of the country's total. Greenhouse gas emissions from this sector have fallen just 2% since 1990. Some trends are in fact moving in the wrong direction – as the result of a shift towards larger vehicles the average car sold in 2017 and 2018 was less carbon-efficient than in the previous year.

[6] https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf
[7] https://www.unpri.org/covid-19-resources/sustainable-and-inclusive-covid-19-recovery-and-reform/6016.article

22. The COVID-19 crisis has introduced a number of additional considerations for UK transport policy. A short-term trend with potential long-term consequences is that people are relying less on public transport in favour of other forms of transport, including cars. In addition, while price parity between EVs and traditional vehicles was projected by the mid-2020s[8], a prolongation of the oil price slump precipitated by COVID-19 could delay this by a few years.

23. The government's Road to Zero strategy should be amended to include intermediate EV sales penetration targets – for example, ¼ of new car sales to be zero emissions by 2025 – to ensure the smooth development of the EV sector.

24. Such targets should be used to determine what demand-side incentives to use to accelerate EV uptake. A combination of grants and subsidies for EVs, including continued support via the Plug-in Car Grant and Zero Road Tax, as well as taxes for traditional vehicles and fuel will be necessary to ensure consumers are incentivised to opt for EVs as soon as possible.

25. This must be accompanied with investment in charging infrastructure through a regional lens. Charging and refuelling infrastructure will require over £1bn in investment per year to 2030. While most will be privately funded, public funding will be needed for remote and sparsely populated regions. Public support via schemes such as the Electric Vehicle Homecharge scheme and the On-Street Residential Chargepoint scheme for local authorities should continue, and be scaled up for remote regions.

(ii) Power

26. Low carbon power generation targets should significantly increased for the next decade to accelerate decarbonisation while delivering a green jobs boost across the country.

27. Power generation has been an area of success for the UK - In 2017, 52% of electricity was supplied from low-carbon sources, up from 23% in 1990.[9] The UK leads the world in offshore wind generation, while until recently onshore wind and solar PV were hampered by their exclusion from the Contracts for Difference schemes.

28. Low-carbon capacity must be significantly increased. The 2030 government target for low-carbon power generation should be increased from 57% to 75-85%, with prioritisation given to cost-competitive forms of power generation. This would necessitate expanding the envelop for Contracts for Difference auctions to attain annual deployment targets of 1GW for onshore wind and 4GW for solar PV.

[8] https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/
[9] See note 2.

29. Spending on renewable power generation is suited to the present moment as it generates a larger number of jobs over the short-term but requires less labour for operation and maintenance, freeing up labour as the economy returns to capacity.[10]

(iii) Land use

30. Greater afforestation will be required for the UK to meet its climate commitments, yet even current targets which fall short of the ambition required are not being met. A greater role must be given to the private sector via a market mechanism for afforestation.

31. The Committee on Climate Change estimates that around 22% of land devoted to agriculture needs to support alternative uses, including afforestation, bioenergy production and habitat restoration in order to reach the net zero target by 2050.[11] The UK is one of the least wooded countries in Europe, with only 13% tree cover, compared with an average of 42% in Europe, 32% in Germany and 31% in France. The 2020 Budget pledged to plant 30,000 hectares of trees over the next 5 years. However, the government missed its previous commitment, to plant 11 million trees by 2020, by around 70%.

32. Afforestation of at least 30,000 hectares per year to 2050 is required to meet the UK's net zero commitments, potentially up to 50,000 hectares per year in a high ambition scenario. The government should leverage private investment through the creation of an Emissions Trading Scheme or Contracts for Difference-style market mechanism which would guarantee a fixed payment at the start of the contract. These measures could increase forest cover from 13% to 17% of UK land.

33. This is another area where government spending today could yield instant positive results – spending on natural capital projects such as afforestation is fast-acting because worker training requirements are low, many projects have minimal planning and procurement requirements, and most facets of the work meet social distancing norms.[12]

34. For both government and private sector-led tree planting and management, however, enshrining respect for the "right tree in the right place" principle in policy design is a prerequisite. There is a need for effective oversight to ensure biodiversity and to create opportunities for other forms of landscape-based sequestration.

(iv) Energy efficiency

35. Investment in a green retrofit programme nationwide would drive decarbonisation of a significant source of emissions while saving occupiers money and stimulating local

[10] https://ukerc.ac.uk/publications/low-carbon-jobs-the-evidence-for-net-job-creation-from-policy-support-for-energy-efficiency-and-renewable-energy/
[11] https://www.theccc.org.uk/publication/land-use-policies-for-a-net-zero-uk/
[12] https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf

economies. This should be supplemented with a zero-carbon standard for new buildings from 2025.

36. Energy use in homes accounts for about 14% of UK greenhouse gas emissions. The UK cannot meet its target for net zero emissions by 2050 without near-complete decarbonisation of the UK housing stock. These emissions need to fall by at least 24% by 2030 from 1990 levels but are currently off-track. In 2017, annual temperature-adjusted emissions from buildings rose by around 1% relative to the previous year.

37. A package of policies is needed to decarbonise the existing building stock, which should include (i) large-scale government subsidisation programmes for specific technologies (e.g. a one-off payment for heat pump installations) and (ii) gradual phased-in ban of gas boilers. A major green retrofit programme could generate jobs nationwide and incentivise the acquisition of skills that will be necessary for the future economy.

38. In addition to this, the government's Future Homes Standard should require that all new buildings from 2025 onwards be (i) disconnected from the gas grid; (ii) use zero carbon heating (e.g. heat pumps or other); and (iii) follow EPC A standards of energy efficiency.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

39. As noted above, achieving a sustained economic recovery is inextricably linked with progressing the UK's net zero commitment. Related to this, the economic recovery should support the post-Brexit 'Global Britain' brand by delivering a successful COP26, and the 'levelling up' agenda by investing in a just transition.

40. COP26 will constitute one of the most significant international summits in recent memory. The success of this summit will depend to a certain degree on the diplomatic efforts of the host country, In 2015, French diplomats were seen as vital contributors to, and earned widespread plaudits for, the signing of the Paris Agreement.

41. In 2020 and 2021, as countries consider revising their Nationally Determined Contributions (NDCs), they will look to the actions of the UK as hosts. The UK showed international leadership as the first G7 country to legally commit to net zero emissions by 2050. Yet the lack of a comprehensive decarbonisation strategy and in particular an adequate green recovery plan may undermine the ambition of other signatory countries and the success of the summit.

42. The UK can still ensure a successful COP26 and an early quality mark for the Global Britain brand. Part of this will lie in the UK's diplomatic efforts and cooperation between the FCO and BEIS, among others. Yet it will also require domestic leadership from the UK on decarbonisation and a green economic recovery.

43. Regarding regional equality in the UK, given the fact that there is increasing evidence that the COVID pandemic has had a particularly severe impact on the health and economic situation of the poorest and most vulnerable sections of the UK population, the case for 'levelling up' has been further strengthened.

44. The concept of a just transition has emerged as a key pillar of climate strategy, emphasising the imperative for the transition to a net zero and resilient economy to have a strong social dimension. It is the right thing to do to deliver sustainable development, and it is also necessary to build broad-based coalitions for ambitious climate action.

45. It is vital that the UK government's economic and industrial policy ensure that the COVID recovery provides high quality jobs and economic opportunity for communities that have been left behind in the past and have suffered during the pandemic. The regions of the UK that have already suffered from deindustrialisation are most at risk from low-carbon transition.[13]

46. Both public and private investment will be crucial to delivering the 'levelling up' agenda and the transition to a net zero carbon economy. It is important that UK government policy provide clear signals and opportunities for the UK finance and investment sector to participate in make this a reality.

How can the Government borrow and/or invest to help the UK deliver on these principles?

47. Alongside public spending, the government should seek to incentivise private sector investment to reduce the burden on the exchequer. Financing the shift to a net zero emissions economy is a strategic opportunity for UK financial services.

48. To realise this the UK government needs to introduce investor friendly policies that will deliver on UK emission reduction targets and offer clear and stable incentives for the scaling up of green and climate resilient investments. Financing the UK's Industrial Strategy and a green economic recovery will require the mobilisation of a large amount of private sector funding for infrastructure, which according to one estimate will need to be £693 billion by 2031.[14]

49. This will require developing systematic awareness of climate-related risks and opportunities to better connect the UK capital markets with the government's emission reduction goals. The mass adoption of the TCFD recommendations by UK investors and listed companies will play

[13] https://neweconomics.org/2019/11/trust-in-transition?mc_cid=7aa1829e53&mc_eid=cedd292ddd

[14] http://www.aldersgategroup.org.uk/our-reports

a key role in addressing awareness barriers and translating information about climate change into financial metrics.

50. Beyond TCFD, which focuses on financial risk, there is a need to introduce tools that will incentivise financial markets to support and align with the government's net zero by 2050 commitment.[15] One such tool is the EU taxonomy, which requires funds marketed as sustainable to disclose the proportion of their portfolio that is aligned with a net zero trajectory. The UK government should consider onshoring the taxonomy requirements for UK investors, many of whom will need to comply with its requirements for funds they market in the EU.

51. A dedicated institution to crowd in private finance could play a highly beneficial role in achieving the UK's infrastructure goals. Public institutions, such as the former Green Investment Bank and the European Investment Bank, have played a pivotal role in financing the low carbon infrastructure in the UK. The former GIB invested £3.4 billion and attracted £3 of private sector finance for every £1 invested.

52. The PRI supports recent calls for the creation of a new "National Investment Bank".[16] Such an institution would not necessarily have to be limited in scope to supporting decarbonisation-related projects, but could also contribute to broader goals such as delivering the government's levelling up agenda. However, sustainability would need to be a core focus of the institution, which should not support projects that would contradict the UK's climate commitments.

What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)?

53. An important lesson is that the costs of preparation and prevention dwarf those of addressing with the costs of a crisis. Those countries who had well-developed pandemic response plans in place have saw significantly reduced loss of life and economic impacts.

54. In this vein, the costs of mitigating, in as much as possible, the effects of climate change will be a fraction of those of dealing with the consequences of a warming climate. Serious climate change has been referred to as a potential "green swan" event, leading to a cascade of unpredictable effects and undermining the financial system.[17]

[15] https://www.responsible-investor.com/articles/with-the-tcfd-in-its-fifth-year-it-s-time-to-make-net-zero-mandatory-for-financial-institutions
[16] https://www.ft.com/content/11a9b80d-867e-458d-a122-232843303ccf
[17] https://www.bis.org/publ/othp31.pdf

55. Similarly, investing in climate adaptation now is necessary to avoid pecuniary and non-pecuniary costs further down the line. Rising food prices, droughts, commodity shortages, extreme flooding and coastal erosion threaten to wipe trillions of pounds off economies globally. A decline in natural assets could cost £368bn a year globally, which will add up to £8tn by 2050.[18] The UK is projected to suffer some of the worst financial losses of G7 countries, due to the economic costs of flooding and erosion and declining fish stocks.

[18] https://www.wwf.org.uk/globalfutures