

IIGCC response - UK Net Zero Review: Call for Evidence

About us

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the UK and European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 350+ members representing over £44 trillion AUM, are in a position to catalyse real world change through their capital allocation decisions, stewardship and engagement with companies and the wider market as well as through their policy advocacy.

For more information visit www.iigcc.org and [@iigccnews](https://twitter.com/iigccnews)

Executive summary

IIGCC is pleased to respond to the Department for Business, Energy and Industrial Strategy's (BEIS) Call for Evidence on the Net Zero Review. Our members, over half of which are UK-based, firmly believe that the transition to net zero provides considerable opportunities to boost economic growth, create jobs and address the burgeoning challenges of energy security and independence. It will help to cement the nation's position as a world-leader in green products and services, boosting international competitiveness and underpinning ambitious – and welcome – commitments to become the world's first net zero aligned financial centre. And critically, it will help to ensure the UK avoids the worst impacts of a climate crisis that threatens to undermine prosperity, disrupt businesses and communities, and burden government with substantial costs.

The UK's world-leading investment community is well positioned to help the Government achieve its climate goals and to provide the capital necessary to support the transition. IIGCC's members are already taking action to align their investments and portfolios by delivering emissions reductions in the real economy and scaling investments in the businesses, projects and activities that can get us to net zero. Through their capital allocation and investment decisions, investors stand ready to bring about the positive transformation of the UK economy in a way that is affordable, competitive and sustainable. However, in order to do this, they need clarity on the policy frameworks and signals that will help to steer capital where it is needed.

The scale of the undertaking ahead is considerable, but so too are the opportunities. IIGCC therefore calls on the Government to ensure the right policies are in place to create the enabling environment for investors that can make this positive transformation a reality.

We would be happy to discuss further any aspect of our response and look forward to hearing from you.

Overarching questions:

1. How does net zero enable us to meet our economic growth target of 2.5% a year?

Maintaining the UK's net zero commitments, and accelerating near-term action against this commitment, will help to deliver sustainable economic growth at both the regional and national level. This will be driven by the emergence of new, innovative industries, combined with the scaling of existing green technologies and the transition of the broader economy. It is estimated that the growth of these industries could create 600,000¹ new jobs by 2030, many of which will be spread across the country and present immediate opportunities, such as those relating to the retrofitting of buildings. Returns on investments in green projects could credibly be expected to surpass government targets; for example, HM Treasury has set the UK Infrastructure Bank a returns target of 2.5%-4% for green infrastructure projects it invests in.² This may even be a conservative estimate. While the OECD's long-term forecasts for UK GDP growth between 2015 and 2030 have been estimated at 2.3% per year, the projected compound annual growth rate for the low carbon economy could be as much as 11% per annum between 2015 to 2030, and 4% per annum from 2030 to 2050.³

In contrast, the costs of inaction on net zero are clear. Research from the London School of Economics estimates that under current levels of policy ambition, the total cost of climate change damages to the UK are projected to increase from 1.1% of GDP at present to 3.3% by 2050, which would represent a clear drag on economic growth.⁴

Investors have a vital role to play in driving growth and supporting the achievement of the UK's net zero commitment through their capital allocation, stewardship and engagement activities. The investment community stands ready to support both the UK's climate and growth ambitions by providing the capital necessary for the transition to net zero. This can create wealth and new jobs, while also promoting energy security in the long-term and cementing the legacy of the UK's global leadership at COP26. However, in order to do this, investors need clarity on the policy frameworks that will help to steer capital where it is needed and support the transformation of the UK economy. Without this clarity, investors will be unable to deliver on their own net zero commitments and take the necessary actions to align their portfolios with the transition. Government must therefore set out a clear delivery plan, with credible sectoral roadmaps underpinned by the near-term policies, actions and milestones needed to shift financial flows towards net zero and deliver economic growth.

2. What challenges and obstacles have you identified to decarbonisation?

As highlighted in our response to Q1, investors face a number of policy-related barriers to aligning their portfolios with net zero and supporting the decarbonisation of the real economy. These include:

¹ Oxford Economics (via Lloyds Banking Group) Green Growth Opportunities for the UK, available [here](#).

² UK Infrastructure Bank (UKIB) Strategy Report 2022, available [here](#).

³ Ricardo Energy & Environment for the CCC report on UK business opportunities of moving to a low carbon economy, available [here](#).

⁴ LSE Policy brief: What will climate change cost the UK? available [here](#).

- A lack of clarity on sector-level pathways, setting out how key carbon-intensive sectors will transition to net zero by 2050, and underpinned by near-term policy milestones and actions. Without this policy clarity, investors will find it more challenging to assess the credibility of their investees' transition plans, in turn undermining their investment decision-making and engagement activities.
- A need for measures to support the transformation of the real economy in line with net zero and ensure a pipeline of investable projects are available ('financing green'). This will help to accelerate and scale investments in the range of climate solutions needed to meet net zero commitments.
- A need to establish a comprehensive regulatory framework for net zero finance, underpinning the UK's ambitions to be a global leader in this space.
- Delayed implementation of the UK's sustainable finance regulatory framework, including:
 - transparency over activities in the real economy that align with the UK's net zero objectives
 - consistent, comparable and decision-useful disclosures on the sustainability risks and opportunities that companies are exposed to, and the impact of their activities on the climate and wider sustainability factors
 - robust frameworks for assessing the credibility of corporate transition plans.

IIGCC's recommendations for how the Government can address these barriers are set out in detail in our response to Q3.

3. 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?

Government can help businesses and investors to drive growth and the net zero transition by establishing a supportive policy environment that sends clear market signals and promotes regulatory certainty. Contrary to the belief that businesses favour a deregulatory agenda, recent polls suggest that an overwhelming number of corporations and financial institutions believe that regulation is critical for them to deliver on their net zero ambitions and support economy-wide decarbonisation.⁵ Indeed, and as mentioned in previous responses, without a supportive policy environment it will be difficult (if not impossible) for investors setting their own net zero targets to take the actions necessary to meet this goal. A supportive policy environment can also stimulate competition within and across the sectors that will drive the transition, enabling resources to be allocated efficiently and underpinning the growth and competitiveness objectives the Government intends to introduce for the FCA and PRA. IIGCC therefore recommends that the Government should speed up the implementation of the Net Zero Strategy and address policy obstacles and gaps, prioritising:

- **Robust, science-based sector pathways** to support investors in identifying investment gaps and channelling capital towards the areas of the economy that will have the greatest impact on real world emissions reductions.

⁵ University of Cambridge Institute for Sustainability Leadership, 'new poll indicates strong business appetite for net zero regulation,' available [here](#).

- Underpinning these pathways by **developing and implementing clear policies that provide the financial markets with the signals** to guide investment and drive green growth. This requires greater policy clarity and delivery for priority real economy sectors, including:
 - **Buildings**, especially with regards to improved energy efficiency standards, low-carbon heat, including net zero requirements for all new buildings and the development of a national retrofit strategy for residential and commercial buildings
 - **Power sector** decarbonisation and the rapid scaled-up deployment of renewables, which are now the cheapest form of energy⁶
 - **Infrastructure**, especially supporting innovative technologies to transform the vast network of infrastructure into green infrastructure, e.g. through the development of low and zero district heating networks⁷
 - **Transport**, in particular an acceleration of electric vehicle adoption and where the overall economic and social benefit of EVs, connected and autonomous vehicles could be in the region of £51bn per year by 2030, with the potential for 320,000 newly created industry jobs⁸
 - **Industry**, where a robust UK carbon market should be supplemented by plans to support electrification⁹
 - **Agriculture and land use**, where the UK Climate Change Committee (CCC) highlights that policy development is particularly lagging.¹⁰
- The establishment of a comprehensive framework for financing decarbonisation through the **updated Green Finance Strategy**.¹¹ In line with IIGCC's response to BEIS' Call for Evidence on the Green Finance Strategy, this should include ensuring the framework for green finance is credible and science-based, supports the transition of the real economy, addresses policy barriers faced by investors, promotes global interoperability and fosters innovation.
- To support the Green Finance Strategy, and consistent with the letter we recently co-signed alongside E3G and UKSIF, the Government should put in place a clear and robust '**Net Zero Investment Plan**' to scale up private investment and capture the growing market around net zero investment opportunities. The Investment Plan should include a delivery tracker to assess financial flows in support of the UK's climate goals, which in turn can support assessments of investment needs for decarbonisation across different sectors, and how investment gaps can be bridged.
 - The strategy should also ensure that principles related to the just transition are embedded in net zero financial policy-making. For example, applying a regional and local lens in the strategy, and promoting green jobs and training. This could include

⁶ International Renewable Energy Agency article (IRENA): 'Majority of New Renewables Undercut Cheapest Fossil Fuel on Cost,' available [here](#).

⁷ Bloomberg NEF: District Heat Networks Need the Private Sector to Deliver a Net-Zero Transition, available [here](#)

⁸ KPMG: Connected and Autonomous Vehicles, available [here](#).

⁹ CCC's Independent Assessment: The UK's Net Zero Strategy, available [here](#).

¹⁰ CCC: Current Programmes Will Not Deliver Net Zero, available [here](#).

¹¹ See IIGCC's response to BEIS's Green Finance Strategy [here](#).

progressive interventions that permit the redistribution of potential transition costs so as not to exacerbate existing inequalities.

- Swift implementation of the UK’s **sustainable finance policy framework**. Building on the momentum of the UK’s successful rollout of mandatory TCFD disclosures across the economy by implementing policies that enable investors to identify green economic activities, assess the credibility of their investees’ net zero transition plans, and channel capital in line with net zero:
 - Taxonomy – publishing the long-anticipated consultation on the UK Taxonomy will provide the market with much-needed clarity and transparency over opportunities to invest in line with net zero.
 - Government must ensure the UK Taxonomy sets a high-bar by maintaining a science-based approach. Earlier this year, IIGCC wrote to the government to emphasise the need to exclude gas-related activities from the Taxonomy, which would undermine its credibility in the eyes of investors and increase the risk of greenwashing¹²
 - It will be important to ensure the Taxonomy is interoperable with other regional and national taxonomies to the extent possible, in order to support investors with global horizons. However, a degree of divergence may be necessary to ensure the Taxonomy accounts for the specificities of the UK economy, and to uphold its scientific integrity (e.g. by excluding gas-related activities).
 - Sustainable Disclosure Requirements (SDR) – rapid rollout of SDR across the economy to support the flow of decision-useful information on sustainability risks and opportunities across the investment chain.
 - To the extent possible, the UK should look to ensure that the SDR regime for investors is as consistent as possible with the EU Sustainable Finance Disclosure Regulation (SFDR), while reflecting the needs of the UK market. This will help to support UK investors with respect to their cross-border EU business.
 - The integration of mandatory, science-based transition plan disclosures (based on the work of the Transition Plan Taskforce) within the SDR regime will also help to inform investors’ capital allocation decisions and engagement activities.¹³
- The UK’s status as a world leader in green finance also provides the Government with a considerable opportunity to influence the debate on the international stage. For example, the Government’s decision to become an early adopter of mandatory TCFD-aligned disclosures across the economy means the UK is well-positioned to drive greater international adoption of mandatory TCFD reporting frameworks. This would provide investors with a credible global baseline for consistent, comparable climate-related disclosures across their holdings. More broadly, the UK could also use its influence to accelerate international ambition on net zero commitments. This includes encouraging

¹² See IIGCC, PRI and UKSIF’s letter to the UK Prime Minister [here](#).

¹³ See IIGCC’s response to the Transition Plan Taskforce’s Call for Evidence [here](#).

governments to ensure their 2030 targets in their Nationally Determined Contributions are aligned with limiting temperature rises to 1.5°C and implement the domestic policies necessary to achieve this objective.

4. What more could government do to support businesses, consumers, and other actors to decarbonise?

In line with our previous responses, IIGCC believes that the most important action the Government can take to support decarbonisation is to ensure policy frameworks are in place to enable investors to allocate capital in line with net zero. Investors would welcome greater dialogue with officials and Ministers in order to set out their views in detail and work with government to develop solutions to common problems and challenges.

See our response to Q3 for more detail.

5. Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner?

Swift and comprehensive implementation of the policies highlighted in previous answers could support a more economically efficient delivery of net zero. According to the CCC,¹⁴ low carbon investment must scale up to around £50 billion each year from 2030 to 2050 in order to achieve the UK's net zero commitment. This will require both public and private finance, but the vast majority of finance will be delivered by the private sector, and notably the investment industry; recent estimates suggest that private investors could deliver 70% of total investment needed globally to reach net zero.¹⁵ It follows that providing investors with the policy signals they urgently need to allocate this capital effectively will be critical to ensuring the transition is economically efficient.

Clear policy signals on sector transition pathways, supported by a robust, science-based Taxonomy, and decision-useful disclosure frameworks, will help investors to identify where capital needs to be directed in support of the transition. In addition, targeted Government support for innovation in the sectors in which the UK has a clear competitive advantage could also support economic efficiency objectives. For example, clean energy technologies such as tidal and offshore wind both have estimated returns of nearly three times the average across all technology fields and are particularly likely to generate value that is retained in the UK.¹⁶

Consistency in the policy signals sent by Government will also help ensure that both net zero and growth are achieved in the most economically efficient manner. This is particularly relevant to energy production, where consistently prioritising the development of renewable energy will be significantly more economically efficient than expanding fossil fuel production. Domestically, in 2020 wind and solar production was found to be 30-50% cheaper than previously estimated,¹⁷ clearly demonstrating the rapidly falling cost curve of these technologies and their growth-boosting potential. Renewables are consequently now cheaper than fossil fuels, with onshore and offshore

¹⁴ The CCC's Sixth Carbon Budget, available [here](#).

¹⁵ Glasgow Financial Alliance for Net Zero (GFANZ) press on 'amount of finance committed to achieving 1.5 C now at scale needed to deliver the transition,' available [here](#).

¹⁶ The Economy 2030 Inquiry: Growing Clean, available [here](#).

¹⁷ UK Government: BEIS Electricity Generation Costs (2020), available [here](#).

wind and solar power all commanding about £40 per megawatt hour on the market today (2022), whereas gas-fired power generation costs about £140 per megawatt hour.¹⁸ Given the average oil and gas discovery takes about five years to come into production,¹⁹ recent policies concerning North Sea oil and gas development, where the CCC indicates that there is considerable uncertainty over future production levels and a clear requirement for production to decline significantly by 2030, risk sending inconsistent and inefficient market signals.²⁰ Additionally, we have heard from our membership that greater policy clarity and momentum on shifting the focus of electricity taxes and levies to target gas specifically would make a significant difference to the economics of the scaled-up electrification from renewables required to achieve net zero. However, there has been little progress or clarity from Government to-date on such its consideration of such measures.

Improving the energy efficiency of buildings, both commercial and residential, can also help to deliver an economically efficient transition. The CCC note that policies that drive improvement in energy efficiency drive decarbonisation and help to reduce energy bills, and the CCC therefore recommends increasing funding and plans for energy efficiency. A clear retrofit strategy outlining how the Government expects to meet its target for most homes to achieve EPC C by 2035, with the inclusion of innovative forms of financing that include institutional investors, would assist investors in allocating capital to support the decarbonisation of buildings.

6. How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?

IIGCC firmly believes that the solutions required to address the ongoing energy security and cost of living crises are the same as those needed to achieve the UK's longer-term climate objectives. Maintaining commitments to net zero, and accelerating near-term delivery against this commitment, can help to reduce future energy bills, create jobs and maintain GDP growth.²¹ Recent industry analysis has shown that in the UK context, accelerated action on net zero could reduce household energy bills by 7% in 2025, rising to 28% by 2030 and 50% by 2050, compared to a 'business as usual' scenario. As well as complementing a pro-growth agenda, increased investment in green, domestic energy sources and infrastructure (such as low and zero carbon district heating networks) will reduce the UK's exposure to volatile fossil fuel prices and the instability created by overreliance on energy imports and will support the transition towards low-carbon energy.²²

Investors stand ready to provide the capital necessary to scale these investments. But to play their part in driving growth, maintaining energy security and contributing to the achievement of the UK's climate objectives, they need clear policy signals from Government. As noted in our recent letter to the UK Prime Minister, the starting point must be policies that transform the real economy, prioritising sectors whose transition will contribute most to the UK's economic and climate goals. The Government should swiftly deliver on energy efficiency measures and pursue power sector

¹⁸ The Guardian: Limits on renewables 'will keep UK energy bills higher this winter,' available [here](#).

¹⁹ North Sea Transition Authority: NSTA launches 33rd Offshore Oil and Gas Licensing Round, available [here](#).

²⁰ CCC 2022 Progress Report to Parliament, available [here](#).

²¹ We Mean Business Coalition: Cutting Bills and Creating Jobs, available [here](#).

²² IIGCC, PRI and UKSIF letter to UK Prime Minister on upholding net zero ambition, available [here](#).

decarbonisation and renewables integration at pace. Scaling up clean energy solutions today will pave the path towards a more affordable, stable, and resilient energy system in the UK in the future.

7. What export opportunities does the transition to net zero present for the UK economy or UK businesses?

It is estimated that the global export opportunity for UK companies producing the goods and services to reach net zero could be worth more than £1 trillion by 2030.²³ IIGCC believes that the UK should continue to capitalise on its comparative advantage across a range of industries to drive export-related growth, including information and communication services, science and technology, and financial services. As highlighted by the UK Board of Trade's Report on Green Trade last year, the UK has a strong foundation as a green exporter and the low-carbon economy could deliver between £60bn and £170bn of export sales of goods and services by 2030. The global net zero transition will also lead to rapidly increasing export opportunities in the coming decades, particularly in sectors such as clean-energy technologies, representing opportunities for investors.²⁴

Exports of UK financial services specifically were worth £61.3 billion to the UK economy in 2021,²⁵ and green finance as a share of this total is growing exponentially. Globally, the green finance market has grown at an exponential rate over the last decade, from \$5.2bn in 2012 to \$540.6bn in 2021.²⁶ It has been estimated that low carbon financial services could generate an export opportunity for the UK of up to £7.5bn per year in 2030, rising to £17bn per year by 2050. London's well-established reputation as a preeminent global financial hub, coupled with the UK's commitment to becoming the world's first net zero financial centre, means that the UK is well-positioned to capitalise on these trends. Indeed, the UK is already a major exporter of 'green goods,' ranking 9th globally on 'green' exports (accounting of 2.5% of global export volume of such products). Capturing these opportunities for the financial sector can also support the Government's proposal to introduce a new secondary objective of international competitiveness for the PRA and the FCA.

The investment industry will be pivotal in helping to ensure that the UK bolsters its position as a world leader in the export of green finance services. UK-managed assets within overseas domiciled funds continue to grow, and the client base for the industry is also becoming increasingly international. The updated UK Green Finance Strategy could help to establish an enabling framework to underpin the UK's leadership in this space and capture the export opportunities presented by the transition to net zero. However, IIGCC emphasises that this can only happen if the UK's policy framework for green finance is fit for purpose. In IIGCC's response to BEIS' Call for Evidence on the updated Green Finance Strategy, we set out our views on how this can be achieved. Key considerations in this context are:

- The UK's green finance system must be **science-based**. A key consideration here will be ensuring the UK sets a high bar when developing its green taxonomy. IIGCC, UKSIF and PRI recently wrote to the UK Government to express our concerns about the potential inclusion

²³ McKinsey: Opportunities for UK business in the net-zero transition, more information [here](#).

²⁴ UK Board of Trade Report: Green trade, available [here](#).

²⁵ House of Commons Library, financial services: contribution to the UK economy, available [here](#).

²⁶ TheCityUK: Enabling the net zero transition, available [here](#).

of natural gas activities within the scope of the UK taxonomy.²⁷ Excluding gas (and other activities that are incompatible with net zero) will help to cement the taxonomy's credibility, providing an opportunity to set a world-leading example for other international taxonomies and encourage capital inflows.

- The Government must encourage **interoperability** between the UK's green finance framework and emerging national and regional frameworks, particularly in relation to climate and sustainability-related disclosures and the UK taxonomy. This will help to scale flows of cross-border capital and make projects more investable. The UK is well-placed to promote convergence between sustainable finance policies and frameworks, which will accelerate green investments both in the UK and abroad.
- The UK's green finance system should promote **innovation**, facilitating the development of high-quality investment products and services that credibly support investors' sustainability objectives and the UK's climate goals, aligned with evolving best practice.

Questions for businesses

8. What growth benefits/opportunities have you had, or do you envisage having, from the net zero transition?

As noted in our previous responses, the net zero transition presents significant opportunities for economic growth that will in turn generate sustainable, long-term investment returns on behalf of IIGCC members' clients and beneficiaries. These returns will be underpinned by the successful transition of companies' business models and strategies, and scaling investment in innovative sectors providing the climate solutions that can accelerate the decarbonisation of the UK economy.

9. What barriers do you face in decarbonising your business and its operations?

See IIGCC's response to Q2.

10. Looking at the international market in your sector, what green opportunities seem to be nascent or growing?

See IIGCC's response to Q7 for more information on the international opportunities presented by the net zero transition.

11. What challenges has the net zero transition presented to your business?

See IIGCC's response to Q2.

12. What impacts have changing consumer choices/demand had on your business?

Demand for sustainable investments amongst UK-based investors continues to grow, with inflows into responsible investments increasing by around 11% from August 2021 to August 2022,²⁸ according to data from the UK Investment Association. The overall share of responsible investments

²⁷ IIGCC, PRI and UKSIF letter to the UK Prime Minister calling for natural gas to be excluded from the UK's 'green taxonomy', available [here](#).

²⁸ The Investment Association: August 2022 Monthly Press Release, available [here](#).

within UK-based assets under management stood at 6.4% at the start of October 2022,²⁹ up from around 2% of the total in October 2019.³⁰

IIGCC's members are responding to this demand from clients and beneficiaries. Through the IIGCC-convened Net Zero Investment Framework,³¹ investors are taking action to align their investments with net zero and deliver emissions reductions in the real economy by engaging with their holdings and scaling investment in the range of climate solutions needed to reach net zero. Our members also engage, via Climate Action 100+, with the world's largest corporate greenhouse gas emitters to assess the credibility of their transition plans and encourage greater ambition on net zero. However, as we have emphasised elsewhere in our response, our members need clarity on the policy frameworks and signals that will further enable them to meet end-investor demand for sustainable investments. This includes real economy measures that provide a pipeline of projects for investors to channel their capital towards, greater availability of good quality, consistent data on climate and sustainability factors, and robust frameworks for corporate transition plans that enable investors to credibly assess their investees' efforts to reach net zero.

13. What impacts have decarbonisation/net zero measures had on your business?

The UK has implemented a number of measures that have had a positive impact on the investment industry's ability to reorient capital in line with net zero. The rollout of mandatory TCFD disclosures across the economy, for example, has provided investors with more and better information on how their holdings are identifying and managing climate-related risks and opportunities. The Government must now swiftly implement the wider range of sustainable finance and real economy policies needed to create an enabling environment for investors to channel their capital into the economy in a way that supports the UK's climate and growth objectives. See IIGCC's response to Q3 for further detail.

14. What more could be done to support your business and/or sector to decarbonise?

See IIGCC's response to Q3.

15. Do you foresee a role for your business within an expanded UK supply of heat pumps, energy efficiency, electric vehicles, hydrogen economy or clean power?

IIGCC's members are ready to support both the UK's climate and growth ambitions by providing the capital necessary for the transition to net zero. The role for investors in helping to deliver net zero is clear. An expanded UK supply of heat pumps, improved energy efficiency, further acceleration of electric vehicle adoption, a growing hydrogen economy, the rapid scaling up of clean power generation and the development of low and zero carbon district heating networks will only be possible with a significant scaling up of investment from the private sector and a shift in capital allocation. But, as set out in IIGCC's response to Q3, investors need supportive, stable and clear policies from Government now to do so.

²⁹ The Investment Association: October 2019, available [here](#).

³⁰ The Investment Association: Outflows Rise Ahead of Challenging Autumn Forecast, available [here](#).

³¹ Net Zero Investment Framework: Implementation Guide, available [here](#).

16. For clean power industry: what barriers to entry have you found in deploying new plant and technologies?

IIGCC is not responding to this question.

17. How many green jobs do you estimate will be created in your sector by 2030?

IIGCC is not responding to this question.