

Investment Association's written evidence to the Environmental Audit Committee's inquiry into accelerating the transition from fossil fuels and securing energy supplies

About the Investment Association

1. The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage over £9.4 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond.
2. The IA is proud to support the Net Zero Asset Managers initiative as a supporting partner organisation and to date investment managers with more than £7 trillion of assets under management in the UK have made this net zero commitment.

Summary

3. Climate change is one of the single biggest systemic risks facing society and the planet today. The Investment Association, representing the UK-based investment management industry, is committed to climate action. We support the Paris Agreement goal to limit global warming to well below 2°C, and preferably to 1.5°C, compared to pre-industrial levels, and the global goal on adaptation of enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change. As investors, we see it as part of our fiduciary duty and in the interest of our clients, to help accelerate the shift to a net zero society.
4. We recognise that the cost of living is rising for many people and households. Rising gas and electricity prices will make it more difficult for many to heat their homes and may also place pressure on the ability of some businesses to operate, thus impact the UK's economic growth and the well-being of millions of people. A comprehensive and stronger focus on energy efficiency and retrofitting buildings and a shift to more low-carbon electricity generation will help to reduce this cost, improve resilience to future energy price shocks and help the UK to reduce its exposure to Russian energy. For vulnerable households and businesses, additional and short-term public support may be necessary to help pay energy bills over the coming winter.
5. We note the Climate Change Committee's (CCC) initial assessment of the British Energy Security Strategy which, while welcoming the "hugely ambitious" commitments, said that it was "disappointing not to see more on energy efficiency and on supporting households to make changes that can cut their energy bills now". We agree with the CCC that the strategy had a lack of detail on energy efficiency measures which would make a more immediate contribution to protecting households from high energy prices, support job creation, energy security and emission reduction. The CCC additionally concluded that the Heat and Buildings Strategy's "plans are not yet comprehensive or complete and significant delivery risks remain".¹

¹ Climate Change Committee, 'Independent Assessment: The UK's Heat and Buildings Strategy', March 2022, bit.ly/3ryi9bF.

6. The UK is at a critical juncture on a path to honour its commitments to bring about net zero greenhouse gas emissions by 2050 and to achieve the Paris Agreement goals this century. The UK's 2050 net zero target is regarded as among the more ambitious in the world and the UK Government must continue to display global leadership and, through climate diplomacy, encourage other countries to do the same.
7. Clear policy signalling from UK Government gives companies clarity about their own transition risks, enabling them to improve their reporting on them and adapt their business models accordingly. This in turn helps investment managers engage with these companies more effectively to help support them in making the capital allocation decisions necessary to transition to net zero.
8. We note that the British Energy Security Strategy describes the UK's transition to net zero as "fundamental to energy security" and suggest that this adds to the case for the Government to provide detailed net zero transition plans for sectors across the economy. Ultimately, the Government will be more likely to attract long-term investment if the investment management industry sees a long-term and sustainable approach to energy policy.

Securing sustainable energy supplies and protecting households from high prices

Question 1. How effective will the Government's Energy Security Strategy be: at reducing reliance on oil and gas at the pace required to limit global heating to 1.5 degrees; securing alternative energy supplies; and protecting households from high fossil fuel prices?

9. The UK's commitment to making Cop26 a success is something of which we should all be proud. Having hosted a fruitful conference in difficult circumstances, it is important that we do not allow momentum to be lost in the remaining months of the UK's presidency. Indeed, we hope and expect that the experience of having held the Cop presidency will have an enduring effect on the UK, embedding a domestic policy approach to the transition to net zero which continues to hold the ambition of being world-leading, and sustaining an understanding of what it takes to be influential in the sphere of climate diplomacy.
10. While public and political support for net zero is widely shared, we are now facing a moment where this commitment could be tested. The war in Ukraine and the economic isolation of Russia will place great strain on European energy supply. This comes at a time when an increasing number of households were already struggling with the growing cost of living.
11. The Russian invasion of Ukraine has exposed vulnerabilities in the UK's energy security, and it is right that the British Energy Security Strategy (the Strategy) should seek to address this while taking steps to mitigate the disruption to UK households. It is nonetheless essential that we have a long-term, predictable, and dependable plan in which the public and private sector can scale-up and make affordable and "everyday" the innovative new technologies and energy efficiency measures that will make the transition to net zero possible.

12. In May 2021, the International Energy Agency (IEA) published a study of how to transition to a net zero energy system by 2050 while ensuring stable and affordable energy supplies. Under this IEA pathway, there is no need for investment in new fossil fuel supply (no new oil and gas fields, and no new coal mines or mine extensions) but a requirement for the rapid deployment of new technologies to provide clean energy.²
13. The time and effort to develop new oil and gas fields would only make a limited and short-term contribution to address supply shortages. Analysis from the Economist Intelligence Unit³ concluded that the three new gas fields likely to be the subject of exploration would provide limited impact and not contribute to addressing the present situation. They would make a small contribution to UK gas demand and be unlikely to start operating until 2026 and only reach peak output around 2028.
14. This situation also highlights why it is essential that we plan for a future in which renewable sources of energy can help to provide power which is secure and sustainable. We must accelerate and expand these plans. The Government should strengthen cooperation with the Green Finance Institute, investors, banks and companies producing energy saving, renewable and energy storage technologies to redouble efforts to help individuals and businesses finance and adopt a wide variety of technologies to support affordability, energy security and climate action.
15. The 2050 net zero target is long-term, and the timeframe allows for us to pursue multiple scenarios which could still result in the target being achieved by 2050, including an increase in emissions from some sectors. The UK is on track to meet its third carbon budget target but currently off track for its fourth, fifth and sixth carbon budgets, all of which are already established in law.
16. The net zero process as it is currently established, effectively means that rising emissions in one area should encourage policymakers to seek to accelerate policy change in another area to balance the budget. The Government might choose to respond to an increase in emissions which are a consequence of policy decisions in the British Energy Security Strategy by accelerating the transition in another area, either through greater investment or by implementing a more ambitious and detailed policy framework.
17. The Strategy describes the UK's transition to net zero as "fundamental to energy security".⁴ This adds to the case for the Government to provide detailed net zero transition plans for sectors across the economy. Ultimately, the Government will be more likely to attract long-term investment if the investment management industry sees a long-term and sustainable approach to energy policy.
18. We note the Climate Change Committee's (CCC) initial assessment of the British Energy Security Strategy which, while welcoming the "hugely ambitious" commitments, said that it was "disappointing not to see more on energy efficiency and on supporting households to make

² IEA, 'Net Zero by 2050 A Roadmap for the Global Energy Sector', May 2021, [bit.ly/3EZHg2](https://www.iea.org/reports/net-zero-by-2050).

³ <https://eciu.net/analysis/briefings/how-to-cut-the-uks-dependency-on-russian-gas-permanently>

⁴ BEIS, 'British Energy Security Strategy', April 2022, [bit.ly/3ErV5AC](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/106422/bes-2022.pdf).

changes that can cut their energy bills now”.⁵ We would agree with the CCC that the focus on energy supply measures in the Strategy, while necessary, highlights the relative lack of detail on energy efficiency measures which may make a more immediate contribution to protecting households from high fossil fuel prices.

Question 2. Should Government policies on onshore energy generation or exploration be revised in light of the energy security situation? Given the current and potential speed of deployment, what low-carbon energy sources are most likely to secure supplies of affordable and sustainable energy rapidly?

19. The Government should consider the roll-out of all options to provide low-carbon, onshore energy. This would be beneficial not only to the UK’s energy security but also to the transition to net zero. It is important for both aims that any such source of onshore energy maintains public support.
20. While the British Energy Security Strategy suggests that there is a “range of views on onshore wind” in England, we note that research conducted by YouGov in May 2021 found majority public support for the installation of more onshore wind turbines in the UK. 70% of all survey respondents said they supported the installation of more onshore wind turbines. Notably, this level of support was maintained for respondents who lived within five miles of a wind farm (72% support). All nations and regions of the UK reported more than two-thirds supporting more onshore wind, with similar levels of support in England to other parts of the UK.⁶

Question 3. Is the Government doing enough to protect the high number of households likely to fall into fuel poverty as a result of high fossil fuel prices over the coming year? To what extent, and how rapidly, could energy saving or efficiency measures help to reduce reliance on oil and gas and relieve fuel poverty?

21. We recognise that cost of living is rising for many people and households. Rising gas and electricity prices will make it more difficult for many to heat their homes and may also place pressure on the ability of some businesses to operate and impact UK economic growth. A comprehensive focus on energy efficiency in buildings and a shift to more low-carbon electricity generation will help to reduce this cost. Any effort to promote energy efficiency and introduce new, low-carbon heating technology in homes and commercial property will depend for its success on that technology being affordable.
22. The IA endorses the ‘balanced pathway’ to net zero in buildings as set out in the statutory Climate Change Committee’s Sixth Carbon Budget and the implied policy scenarios, based on existing Government policy priorities, to reduce emissions in buildings through greater efficiency and new heating technologies.⁷ As such, we agree that it is necessary to upgrade the energy efficiency of all buildings over the next 15 years, scale up the market for heat pumps, expand the

⁵ Climate Change Committee, ‘CCC responds to UK Government’s Energy Security Strategy’, April 2022, bit.ly/3rCr38i.

⁶ YouGov, ‘Renewables UK Survey Results’, May 2021, bit.ly/3EigEDY.

⁷ Climate Change Committee, ‘Sixth Carbon Budget: Buildings’, December 2020, bit.ly/3vsFQn8.

rollout of low-carbon heat networks in dense areas, and prepare for a potential role for hydrogen in heating.

23. The investment management industry is committed to working with Government to seek ways to support the allocation of new capital to climate solutions in support of these aims. It is also necessary for the Government to provide sufficient detail on transition pathways relating to heat and buildings for investment managers to make investment decisions and properly scrutinise transition plans in relevant sectors.
24. The Green Finance Institute (GFI) formed the Coalition for the Energy Efficiency of Buildings in 2019. As part of the CEEB, the GFI launched the Zero Carbon Heating Taskforce in autumn 2020 with representatives from the private sector, civil society, and local and national government. The Taskforce was formed to conduct a focused review to identify the “barriers and enablers” to investment into low-carbon heating across the UK housing market. In December 2020, CEEB released a report, *Financing zero carbon heat: turning up the dial on investment*, which set out these barriers and opportunities.⁸ The GFI’s analysis should influence future policy decisions.
25. Non-financial barriers in existing homes identified in the report included low awareness of zero carbon heat technologies alongside public concerns about complexity and cost, a lack of obligation to switch to low-carbon options, issues in flats and between leaseholders and freeholders, the absence of a trusted supply chain and issues with the planning system. For new builds, the report identifies a lack of planning requirements for low carbon heating, outdated planning permissions, a knowledge and skills gap in the construction industry, and low demand from home buyers as impediments to introducing zero carbon heat technologies. The report also notes the lack of a long-term policy framework for scaling up of zero carbon district heating networks.
26. The Carbon Risk Real Estate Monitor (CRREM) was established to support the real estate industry to reduce carbon-risk factors associated with premature obsolescence and potential depreciation due to changing market expectations and legal regulations associated with the transition to net zero. CRREM is a science-based research tool which aims to limit the creation of stranded assets in the real estate asset class by identifying at-risk assets and fostering investments in energy efficiency. We must also be alert to the risk of the creation of stranded assets in the real estate sector as decarbonisation standards become more stringent. The obsolescence of buildings which are not energy efficient may result in higher carbon costs as buildings are demolished and replaced. Timely retrofits, supported by risk analysis tools such as CRREM, can help to prevent or delay obsolescence. Decarbonisation standards, such as the UK green taxonomy, should be consistent with CRREM methodology.
27. The Government’s 2021 Heat and Buildings Strategy made commitments on energy efficiency, heat pumps, heat networks, and a role for hydrogen and provides a foundational level of detail. We note the assessment of the Climate Change Committee that the Heat and Buildings Strategy demonstrates a level of ambition that aligns with its balanced pathway⁹ but that policy gaps remained on home energy efficiency and major strategic decisions still needed to be made on

⁸ Green Finance Institute, ‘Financing zero carbon heat’, December 2020, bit.ly/3ypcZmV.

⁹ Business, Energy and Industrial Strategy Committee, ‘Decarbonising Heat in Homes’, February 2022, bit.ly/38PPBE7.

addressing the relative costs of electricity and gas.¹⁰ These shortcomings appear to be common between the Heat and Buildings Strategy and the British Energy Security Strategy.

Question 4. Which elements of the International Energy Agency's 10-point plans to Reduce Reliance on Russian Natural Gas and Cut Oil Use are relevant to the UK and which could the Government seek to implement as a priority?

28. Several recommendations within the IEA's 10-point plans are of direct relevance to the UK. We would particularly highlight those which relate to existing priorities of the UK Government as expressed in documents including the UK's Ten Point Plan for a Green Industrial Revolution and the Heat and Buildings Strategy.
29. For example, the IEA's 10-Point Plan to Reduce Reliance on Russian Natural Gas recommends accelerating the deployment of new wind and solar projects, while the UK's Ten Point Plan for a Green Industrial Revolution seeks to advance offshore wind. The IEA plan advocates maximising generation from existing low-emissions sources including nuclear, while the UK's plan commits to delivering new and advanced nuclear power. The IEA plan calls on policymakers to speed up the replacement of gas boilers with heat pumps and accelerate energy efficiency improvements in buildings and industry, while the UK plan's commitment to greener buildings includes an intention to accelerate the rate of heat pump installations and ensure that new buildings have high levels of energy efficiency. We expect that the UK Government would be best placed to seek to implement these elements as a priority since they were previously identified as priorities in November 2020 and work should already be underway in pursuit of these goals.
30. Given the growing strain on household budgets and the concurrent need to ensure continued public support for the transition to net zero and the measures that will enable it, we suggest that the UK Government should give further thought to the IEA's recommendation that governments enact short-term measures to shelter vulnerable electricity consumers from high prices. We would also note an apparent reluctance among UK policymakers to encourage a "temporary thermostat adjustment" by consumers. This may be a consequence of previous negative public reactions to such advice from politicians. For example, in 2013 the Prime Minister's official spokesperson stated that it was "entirely false to suggest the prime minister would advise people they should wear jumpers to stay warm," following criticism of comments in an interview with the then Energy Secretary at a time of significant energy price rises. The Leader of the Opposition at the time said, "their policy was hug a hoodie, now it's wear a hoodie".¹¹ Nonetheless, a well-executed public awareness campaign may be of value in reducing fuel consumption. We would ask that both the Government and opposition parties think carefully about how they might coordinate, and react to, such a campaign in a responsible manner.
31. For instance, a mass communication effort to "dial down" the "flow-temperature" of combi boilers could create 6-8% gas bill savings and not impact quality of heating.¹² The Chief Executive

¹⁰ Climate Change Committee, 'Independent Assessment: The UK's Heat and Buildings Strategy', March 2022, bit.ly/3ryi9bF.

¹¹ The Guardian, 'No 10 says people should consider wearing jumpers to keep fuel bills down', 18 October 2013, bit.ly/3KVA1VG.

¹² Heating & Hotwater Industry Council, 'Heating Up to Net Zero', October 2021, bit.ly/38CEPkr.

of Energy UK supports the need for such a campaign, led by Government but supported by energy companies¹³

Tax and the fossil fuel industry

Question 6. Should the Government continue to provide tax reliefs or financial support to the fossil fuel industry, such as the ring-fence corporate tax relief for new oil and gas fields?

32. The IA called on the UK Government to use its presidency of the G7 in 2021 to renew the commitment to phase out fossil fuel subsidies¹⁴ and we welcomed the statement in the Carbis Bay Summit communiqué that G7 leaders “reaffirm our existing commitment to eliminating inefficient fossil fuel subsidies by 2025”.¹⁵ We note the position of the UK Government, in December 2021, that “the UK does not give any subsidies to fossil fuels, and follows the approach of the International Energy Agency, which defines fossil fuel subsidies as measures that reduce the effective price of fossil fuels below world market prices.”¹⁶
33. Working with the Overseas Development Institute (ODI), the International Institute for Sustainable Development (IISD) produces a scorecard on fossil fuel funding. The most recent scorecard, published in November 2020, found that the UK “lacks transparency about government support and continues to provide support for consumers of fossil fuel by foregoing tax revenue and supplying direct budgetary transfers”.¹⁷ This analysis of the UK’s position was conducted one year before the Government’s December 2021 statement, but it is not clear that there has been a notable change in UK approach in this period.
34. There is a risk that this difference in assessments of the UK’s position will undermine the G7 nations’ call on all countries to follow their lead on eliminating fossil fuel subsidies. The UN Framework Convention on Climate Change (UNFCCC) recognises the importance of the principles of “equity and common but differentiated responsibilities and respective capabilities” and the responsibility of developed countries to take the lead in combating climate change.¹⁸ Countries outside the G7 with substantial oil and gas resources may judge that a failure by a G7 nation to act transparently provides all countries with leeway to delay action. This inquiry provides an opportunity for the Government to clarify in which respects it believes the IISD scorecard assessment is inaccurate or outdated.

The transitional role of oil and gas in the energy mix

Question 8. Can the UK’s oil and gas reserves be exploited while limiting global temperature rises to 1.5c in line with the Paris Agreement?

¹³ Cleaning Up, ‘Episode 80: Emma Pinchbeck’, March 2022, bit.ly/38xZhD9.

¹⁴ Investment Association, ‘Position on Climate Change’, November 2020, bit.ly/3MePqRd.

¹⁵ HM Government, ‘Carbis Bay G7 Summit Communiqué’, June 2021, bit.ly/382ErvA.

¹⁶ House of Commons, Written Answer UIN 90854, December 2021, bit.ly/3uXprls.

¹⁷ International Institute for Sustainable Development, ‘Doubling Back and Doubling Down: G20 scorecard on fossil fuel funding’, November 2020, bit.ly/3EtPvxR.

¹⁸ UN, ‘United Nations Framework Convention on Climate Change’, 1992, bit.ly/3vvM1a4.

35. While many IA members committed to net zero are working to develop their own fossil fuel policies, the Net Zero Asset Managers initiative requires signatories to develop robust and science-based policies for fossil fuel phase-out and the need for a just transition¹⁹. Investors' policies will be guided by the IEA net zero scenario which also needs to inform Government energy policies.
36. In a recent letter to the Business Secretary relating to the consultation on the Climate Compatibility Checkpoint for oil and gas licensing in the North Sea, the Chairman of the Climate Change Committee, Lord Deben, states that the UK carbon budgets can still be met if new UK oil and gas fields are developed but that it was not possible to establish the net impact on global emissions of new UK oil and gas extraction.²⁰ Nonetheless, it is reasonable to surmise that exploiting oil and gas reserves which would otherwise have been left in the ground is likely to add both to the UK's carbon budget and unlikely to reduce total global consumption.
37. Lord Deben's letter, which was sent on the day hostilities in Ukraine began and before the publication of the British Energy Security Strategy, also comments on the "signalling effect" of UK decisions on oil and gas extraction. He warns that "to allow extraction may weaken UK diplomacy to encourage other countries to adopt ambitious climate policies". Again, we note the principle set out in the UNFCCC, to which the UK is a signatory, that developed countries should take the lead in combating climate change. If the UK Government's judgment is that it is necessary, in the interests of energy security, to further exploit the UK's oil and gas reserves then it will be important to demonstrate leadership in other areas by providing greater detail and showing greater determination to reduce domestic energy consumption, enable greater energy efficiency and to produce a greater share of energy from renewable sources.

¹⁹ Net Zero Asset Managers initiative, 'Network Partners' expectation of signatories with regard to fossil fuel investment policy', December 2021, bit.ly/3siU4Gf.

²⁰ Climate Change Committee, 'Climate Compatibility of New Oil and Gas Fields', February 2022, bit.ly/3xD3MXr.