THE INVESTMENT ASSOCIATION

Response to consultation

Call for evidence on the independent Net Zero Review

About the Investment Association

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 £10 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 46% of this is for overseas clients. The UK investment management industry is the largest in Europe and the second largest globally.

Executive summary

i. The investment management industry's purpose is to meet its clients' investment objectives while delivering long-term financial returns. These clients are individual retail savers and institutions like pension funds, insurers, charities and governments. Investment objectives are typically financial, for instance having enough money to live on in retirement, and require the consideration of financially material risks in the investment process.

ii. Climate change is one of the greatest systemic risks that we are now facing – our efforts to address climate risk are therefore among the most important actions the industry can take to act in the best interests of our clients. The IA is proud to support members signing up to the Net Zero Asset Managers initiative (NZAM). To date, investment managers with more than £7trn of assets under management in the UK have made this net zero commitment.

iii. The investment management industry is naturally inclined towards providing the long-term, patient capital that is necessary for transition. Our focus is on understanding the risks and opportunities that face investments across the range of asset classes in which we invest.

iv. We are clear that a truly economy-wide transition to net zero will require a transition within most, if not all, companies in which we currently invest. In turn, it presents opportunities for growth as each of those sectors invests in their transition to net zero. Each of these sectors will be best placed to identify the changes that are necessary and the opportunities that will boost growth as they undertake an orderly transition to net zero.

v. This is a major economic shift which will need backing from capital markets and support from government. The Government must ensure that it has a means of understanding and advancing the growth opportunities that exist in every sector if we are to foster the policy and economic conditions necessary for green growth.

vi. In developing sustainable finance regulation, policymakers must also ensure they don't create perverse incentives to invest only in low carbon sectors or regions, rather than supporting real economy transition and decarbonisation.

vii. The UK's net zero target is established in law with a basis in the Climate Change Act 2008, as amended in 2019. Although there is disagreement, particularly on the pace and nature of transition, net zero enjoys broad political support. Despite this consensus, decarbonisation and the growth opportunities that may result from it are being hindered by ongoing policy uncertainty.

viii. There is concern among investors about the potential for a shortfall between the UK's legally binding net zero target and the policy measures in place to achieve an orderly transition in the assets in which they invest. Despite the good intentions of those involved in this latest Net Zero Review, we regret that the exercise may have briefly added to a sense of delay and uncertainty in the UK's decarbonisation policy. It would be welcome if the completion of this review resulted in a greater sense of purpose across Government and acceleration of delivery on the Net Zero Strategy.

ix. Policy certainty is essential. Where viable and proven technologies exist, IA members can work with projects from origination, through development and construction, and into operations. This is most feasible for established industries such as offshore wind which have benefited from consistent support from Governments over several years, if not decades. Similar levels of commitment from Government will provide confidence to invest in other technologies.

x. The UK has taken on a significant leadership role in the last two years with the presidency of Cop26. In doing so, the UK's Cop26 President has noticeably engaged in intensive climate diplomacy with emerging and developing economies. It would be a wasted opportunity if any goodwill built up during the UK's Cop26 presidency was allowed to wain when this role shortly ends. In finding the finance to meet global decarbonisation needs and helping the UK meet its obligation towards emerging and developing countries, the UK has an opportunity to share the developing expertise within the UK investment management industry.

Overarching questions

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

1. The 2022 Growth Plan acknowledged that its aim of achieving a trend growth rate of 2.5% "will not be easy" and will require a concentrated effort "requiring each policy and initiative to be measured against a defining test of whether it helps or hinders growth."[1] We should acknowledge that the net zero policy is not one which, as its primary function, is intended to stimulate growth. Indeed, when Prime Minister

[1] HM Treasury, 'The Growth Plan 2022', September 2022, bit.ly/3ewgIHB.

Theresa May announced the adoption of a net zero target in 2019, she said "it is crucial that we achieve it to ensure we protect our planet for future generations."[2]

2. In this context, it is reasonable for the review to consider how the transition to net zero can be undertaken in a way that does not hinder growth. But we do not face a choice between economic growth and climate action. Indeed, while the UK reduced its greenhouse gas emissions by 43% between 1990 and 2019, the UK economy grew by almost 80%.[3] Instead, this is a choice for long-term, resilient economic growth that takes account of the risks and opportunities posed by climate change to the financial system.

3. While considering whether net zero-aligned policies help or hinder growth we should also be mindful of the potential for climate change to have a negative effect on global and UK growth. HM Treasury's 2021 Net Zero Review noted that while the UK may be less exposed to the physical risks of climate change, the country will remain open to potential adverse outcomes in other regions and within trading partner countries where migration of displaced peoples, damage to global supply chains, and reduced production capabilities may result from the adverse effects of climate change.[4]

4. Being less exposed to the physical risk of climate change does not signal anything like a total absence of risk. Across Europe, the Intergovernmental Panel on Climate Change's (IPCC) working group report on climate change impacts, adaptation and vulnerability has identified risks to people, economies and infrastructures due to coastal and inland flooding, and stress and mortality risks to people due to increasing temperatures and heat extremes. The IPCC also warns of threats to marine and terrestrial ecosystems, water scarcity and losses in crop production.[5] The UK's 2021 Net Zero Review explained that "higher temperatures and an increased prevalence of extreme weather events could lead to reduced productivity growth in the UK". Choosing to limit the UK's action on net zero will do nothing to shield the UK from the effects of climate change.

5. The 2022 Growth Plan is right to say that the transition to net zero "can support the government's growth objectives, creating jobs and business opportunities, and reinforcing the UK's position as a global leader in technologies to address climate change". The UK's mature markets have a strong focus on long-term investment, fostering growth through investor stewardship and engagement with companies and, historically, passing the benefits of stable economic growth to investors. The investment management industry is naturally inclined towards providing the long-term, patient capital that is necessary for an orderly transition. Our focus is on understanding the risks and opportunities that face investments across the range of asset classes in which we invest. This includes investment in companies, bonds, and in major infrastructure projects.

6. We are clear that a truly economy-wide transition to net zero will require a transition within most, if not all, companies in which we currently invest. In turn, it presents opportunities for growth as each of those sectors invests in their transition to net zero. Each of these sectors will be best placed to identify the changes that are necessary and

---

[2] Imperial College, 'Prime Minister visits Imperial as UK pledges net zero carbon emissions', June 2019, bit.ly/3g5EFGf.
[3] HM Treasury, 'Net Zero Review: Interim report', December 2020, bit.ly/3zFfjDx.
[4] HM Treasury, 'Net Zero Review: Final Report', October 2021, bit.ly/3Cyu8L6.
[5] IPCC, 'Climate Change 2022: Impacts, Adaptation and Vulnerability', February 2022, bit.ly/3gH5gcN.

the opportunities that will boost growth as they undertake an orderly transition to net zero. This is a major economic shift which will need backing from capital markets and support from government. The government must ensure that it has a means of understanding and advancing the growth opportunities that exist in every sector if we are to foster the policy and economic conditions necessary for green growth. In developing sustainable finance regulation, policymakers must also ensure they don't create perverse incentives to invest only in low carbon sectors or regions, rather than supporting real economy transition and decarbonisation.

7. The UK is distinct in its concentration of skills and talent, with universities which lead the world on science and mathematics. We benefit from a central time zone and from one of the most widely used languages in the world. Our regulatory and legal systems are world-renowned for their fairness and transparency. These characteristics are the bedrock on which the UK's potential to pursue growth through sustainable finance is built.

8. There are several initiatives which seek to rank green financial centres. Most prominent among them is the Z/Yen Global Green Finance Index which consolidates a range of sustainability factors.[6] These are notable for not only focusing on green finance regulation, products and infrastructure but on wider economic factors including energy intensity of GDP, forestry area and the sustainability of cities and city living which demonstrate that the UK's reputation as a leading global centre for green finance will be based on an array of factors. Ultimately, all these factors can be supported by the responsible allocation of capital and the package of initiatives that constitute the UK Net Zero-aligned Financial Centre.

9. The UK enjoys a long-held reputation for excellence on climate science. In recent years, universities and public bodies have taken steps to bring this expertise into the private sector. The Stern Review on the Economics of Climate Change, published by the UK Government in 2006, has been influential in publicising assessments of the economic risks and costs of climate change. University-led institutions including the Grantham Institute, the Grantham Research Institute, the ESRC Centre for Climate Change Economics and Policy, the Smith School of Enterprise and the Environment, and the Cambridge Institute for Sustainability Leadership represent a network of academic expertise which is open to engagement and cooperation with policymakers and business. The recent establishment of the UK Centre for Greening Finance and Investment in Leeds and London is an example of how the Government can support this academic leadership to the benefit of the UK's economic growth.

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

10. The UK's net zero target is established in law with a basis in the Climate Change Act 2008, as amended in 2019. Although there is disagreement, particularly on the pace and nature of transition, net zero enjoys broad political support. The UK Government and the devolved governments in Scotland and Wales are led by three different parties which all have a policy of achieving net zero by 2050 or before. In Westminster, the Conservative Party, the Labour Party and the Liberal Democrats have all formed governments which have advanced net zero policies and supported the target in their most recent manifestos.

[6] Z/Yen, 'Global Green Finance Index 9', April 2022, bit.ly/3x1ansO. See table 31.

11. This consensus is underpinned by high levels of public support. Last year, Government research found that around 4 in 5 (78%) people surveyed said they strongly or somewhat supported the UK's net zero target, closely mirroring the 83% of people who said that climate change was a concern to them.[7] Despite this consensus, decarbonisation and the growth opportunities that may result from it are being hindered by ongoing policy uncertainty.

12. The decision of the United States Government to withdraw from the Paris Agreement in 2019 – a decision immediately reversed by the new administration in 2021 – has generated a degree of uncertainty around the long-term commitment of the world's largest economy to decarbonisation. Despite the political consensus in the UK and clear statement from the Secretary of State at BEIS when launching this review that the Government "remains committed to reaching our net zero emissions targets"[8] there is some residual uncertainty in the UK about the long-term commitment of policymakers to decarbonisation.

13. There is concern among investors about the potential for a shortfall between the UK's legally binding net zero target and the policy measures in place to achieve an orderly transition in the assets in which they invest. For investment managers and asset owners who have made net zero commitments, there has always been a clear statement that their ability to decarbonise investment portfolios, while maintaining their fiduciary duty to clients, is contingent on appropriate action from government. The Net Zero Asset Managers commitment states that it is "made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met"[9] and, similarly, the Net Zero Asset Owner Alliance commitment is made "with the expectation that governments will follow through on their own commitments to ensure the objects of the Paris Agreement are met."[10]

14. In this context, it is important to note the judgment of the independent Climate Change Committee in its 2022 Progress Report to Parliament that while "the Net Zero Strategy contained warm words on many of the cross-cutting enablers of the transition … there has been little tangible progress" and that "it remains unclear how central, devolved and local government will operate coherently towards the Net Zero goal."[11] Despite the good intentions of those involved in this latest Net Zero Review, we regret that the exercise may have briefly added to a sense of delay and uncertainty in the UK's decarbonisation policy. It would be welcome if the completion of this review resulted in a greater sense of purpose across Government and acceleration of delivery on the Net Zero Strategy.

15. Ultimately, investment managers are accountable to their clients and investment managers have a fiduciary duty to act in the best interests of their clients. The investment management industry's purpose is to meet their clients' investment objectives while delivering long-term financial returns. These clients are individual retail savers and institutions like pension funds, insurers, charities and governments.

---

[7] HM Government, 'Climate Change and Net Zero: Public Awareness and Perceptions', April 2021, bit.ly/3CEvwfl.
[8] BEIS, 'Chris Skidmore launches net zero review', September 2022, bit.ly/3T1v29Y.
[9] The Net Zero Asset Managers Commitment, bit.ly/3CUwfu4.
[10] UNEP & PRI, 'Commitment Document for Participating Asset Owners', April 2022, bit.ly/3Thz11R.
[11] CCC, 'Progress in Reducing Emissions: 2022 Report to Parliament', June 2022, bit.ly/3S3cTqZ.

Investment objectives are typically financial, for instance having enough money to live on in retirement, and require the consideration of financially material risks in the investment process. Investment managers must clearly and comprehensively explain to clients how they assess climate-related risk and what impact that assessment is having on investment decisions.

16. In 2014, the Law Commission published a report on fiduciary duties of investment intermediaries which looked at the investment market through the lens of pension funds and clarified how far those who invest on behalf of others may take account of factors such as social and environmental impact and ethical standards.[12] The development of Race to Zero-aligned net zero commitments has resurfaced this discussion and some markets have seen asset owners question the compatibility of fiduciary duty and net zero commitments. While we are firmly of the view that such commitments are compatible with an investment manager's fiduciary duty and note that some argue that considering environmental factors is an active part of meeting fiduciary duties[13], some investment managers would welcome further clarification of the law in the UK. Providing such reassurance may unlock further investment to support the UK's decarbonisation.

17. The investment management industry needs meaningful, consistent and comparable information across all asset classes to make well-informed investment decisions and to be assured of quality of the data that they in turn publish for clients. Accurate disclosure by investee companies of data relating to their management of material risk factors (which may include risks which are social in nature, governance-related, climate-related or pertaining to any other form of environmental risk) helps investors to assess materiality and manage the risks arising from climate change in investment processes. At present, this data is sometimes unavailable, incomplete or inconsistent. Demand for this data is relatively recent and the market and mechanisms for providing it are still developing. Overcoming this obstacle and providing high-quality, consistent data on environment-related impacts and risks will ease the transition to net zero.

18. Careful consideration should also be given to how the adoption of a carbon pricing mechanism can incentivise the transition by firms across different sectors of the economy. This can serve as an efficient means to provide clear price signals to businesses and their investors of their carbon emissions, internalising the costs of transition to the highest emitting firms and sectors. This should create an incentive for high emitting firms to reduce emissions and seek lower carbon alternatives which will support growth in the low carbon economy. It will be important to ensure the UK approach is appropriately aligned with other international carbon pricing approaches, ideally working through the G7 and G20, to ensure the UK is not placed at a competitive disadvantage.

19. The market for talent in sustainability and responsible investment is very competitive. The growth in demand for expertise in sustainable finance is driven both by client demand and a growing range of policy and regulatory expectations for investment management firms. While a network of educational institutions and industry initiatives is emerging to build knowledge relating to green finance, it is not likely that any of these will be able to meet the immense demand in the financial services sector.

---

[12] Law Commission, 'Fiduciary Duties of Investment Intermediaries', July 2014, bit.ly/2vnJ7Gd.

[13] UNEP FI, 'Fiduciary Duty in the 21st Century', October 2019, bit.ly/3D6SdsS.

20. The Government must ensure that it adequately reflects the opportunities available to work in "green jobs" within the investment management sector. It was notable, for instance, that the 2021 report to Government of the Green Jobs Taskforce made only one mention of the financial services sector, saying that industries hiring for the transition to net zero will need to compete with the "well-worn routes to the financial services sector". If the Government believes – as it should – that the investment management industry is an important element in the transition to net zero, then a step change is required in education and skills policy to promote financial services as a positive and attainable career path for people interested in climate change.

Question 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?

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

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

21. Since the Prime Minister (then the Chancellor) stated his ambition in 2021 to make the UK the world's first net zero-aligned financial centre, there has been much work to establish its essential elements. The announcement of the Transition Plan Taskforce as the first step towards the UK becoming a net zero-aligned financial centre provided a clear signal of the central importance of providing the standards and infrastructure to support all parties in the investment chain who wish to support the orderly transition to net zero.

22. In practice, this means having a Government and regulators with deep knowledge of green finance and who support innovation, a disclosure regime that ensures high-quality information is available at all points on the investment chain, and markets and infrastructure which make investment in the net zero transition simple. The smooth operation of this system should present opportunities for growth.

23. While the FCA has demonstrated careful consideration of the applicability of existing rules to improving quality and clarity in ESG and sustainable investment funds with initiatives such as its July 2021 'Dear AFM Chair' letter and associated '*Guiding principles on design, delivery and disclosure of ESG and sustainable investment funds*', it also acknowledged that these initiatives were "not the end point of setting out our expectations" and were "developed with the aim of being compatible with prospective future disclosure rules".[14]

24. Government and regulators should make every effort to set out a clear, predictable, and relatively fixed strategic plan with an emphasis on ensuring that standards provide reliable, decision-useful information and foster trust between clients and financial service providers. The Government's 2019 Green Finance Strategy did not anticipate many of the initiatives that have since emerged, whereas the 2021 Greening Finance roadmap is now a more useful guide to Government policy. The process of updating the Green Finance Strategy, which began in May 2022 and on which the Government is yet

[14] FCA, 'Authorised ESG & Sustainable Investment Funds: improving quality and clarity', July 2021, bit.ly/39H0d9p.

to report back, is a suitable opportunity to firmly establish the policy framework which the financial services industry should be working to incorporate in their businesses. The Government's ambition should be that this Green Finance Strategy does not require embellishment or clarificatory documents during the period over which it will apply.

25. Since Cop26, the FCA has been undertaking work on the development of Sustainability Disclosure Requirements and investment labels for investment managers and their funds. We have supported this work in the expectation that it will help to provide clear standards for industry, offer transparency to clients, and maintain trust between the two as we navigate the difficult task of the transition to net zero. The FCA's work is still underway and a consultation on the matter was published shortly before the Net Zero Review call for evidence closed.

26. Of relevance to the wider economy is the introduction within the Sustainability Disclosure Requirements of transition plans for corporates. The Transition Plan Taskforce was launched in April with a two-year mandate to develop a gold standard for climate transition plans.

27. We are committed to supporting the companies we invest in to understand how Government policy will affect their industry. An important element of supporting companies in an orderly transition which enables growth will be assessing how they plan to align their business with the transition in the wider economy. Investment managers will best be able to support the orderly transition to net zero through engagement on a company-by-company basis.

28. Regardless of the consensus that might exist around any one policy – and net zero certainly has widespread support – it is not the primary purpose of the private sector to deliver public policy. Investors are scrutinising the strategies of the companies they invest in to understand how they are responding to the public policy environment in which they operate. As the Government develops the framework for transition plans it should ensure they are not solely focused on the overarching Government objective of decarbonising the UK economy but on requiring companies to set out the organisational transformation they will undergo to decarbonise their business models and remain profitable as the wider economy decarbonises.

29. For investment managers to properly scrutinise the viability of company transition plans, the Government must provide granular detail on how policy will shift in pursuit of decarbonisation. It is essential that all Government departments understand and provide the level of detail which companies and investors require. There is a need for a regular and active dialogue between private finance and all departments to ensure investment supports orderly transition and sustains economic growth. The Government should give consideration as to whether a mechanism might be created that allows Government departments to assess where business believes policy gaps exist. This might be achieved through the introduction of transition plans, or by widening the remit of an existing body such as the Climate Change Committee to engage with companies on policy gaps.

30. We note that the independent Green Technical Advisory Group, which was established by the Government to give non-binding advice on developing and implementing a green taxonomy in the UK, has published part one of its advice on the design and

implementation of a UK green taxonomy.[15] To date, the Government does not appear to have commented on this publication or indicated what intention it has to consult on the development of elements of a UK green taxonomy. As investment managers develop systems to consider the transition to net zero as part of their investment processes, they would welcome clarity on whether a UK-specific science-based taxonomy will be a feature of the UK's sustainability disclosure regime.

31. Investment managers, the companies and other assets they invest in, and the supply chains that serve companies, will often have a global outlook. In seeking to ensure a robust investment information ecosystem, the UK must also ensure that it remains aligned with overseas markets. The UK should continue to support efforts to ensure global coherence of standards through initiatives like the International Sustainability Standards Board (ISSB) which can provide a baseline global sustainability reporting standard. We welcome the pragmatism shown in the Government's Greening Finance roadmap where it states it "expects that ISSB standards will form a core component of the SDR framework, and the backbone of its corporate reporting element."[16]

32. It is appropriate to recognise the UK's regulators and policymakers as demonstrating great ambition in the development of a green finance regulatory and reporting framework. Ultimately, long-term commitment to high standards which can be evidenced by facilitating green finance activity will determine the UK's global standing and help promote economic growth.

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

33. It is essential that the UK Government is as clear as it can possibly be as to what its climate and environmental objectives are. While it is understood that the UK has a target of becoming net zero by 2050, a more granular level of detail is necessary if we are to encourage a targeted approach to investment. Given the intense interest in the UK's energy security, the Government's objectives should include an urgent scaling of low and zero carbon technologies with targets much sooner than 2050.

34. For example, the UK Government has set out in its UK Hydrogen Strategy and Hydrogen Investor Roadmap an ambition for up to 10GW of low carbon hydrogen production capacity by 2030. Such an ambition sets a clear objective for Government and industry which should incentivise dialogue with the financial industry. Stating such ambitions – and preferably targets – allows for a process of engagement in which market participants can identify the sector-specific policy change and signals from Government that are needed to make investment more likely. It is important to be clear that a constructive and proactive approach of this nature from Government is essential if the UK wishes to leverage more private investment to meet the UK's climate and environmental objectives.

35. 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

---

[15] GTAG, 'GTAG: Advice on the development of a UK Green Taxonomy', October 2022, bit.ly/3TndnJE.
[16] HM Government, 'Greening Finance: A Roadmap to Sustainable Investing', October 2021, bit.ly/3gcNvls.

households to make changes that can cut their energy bills now".[17] We would agree with the CCC that the focus on energy supply measures in the Energy Security Strategy, while necessary, highlights the relative lack of detail on energy efficiency measures.

36. The IA endorses the 'balanced pathway' to net zero in buildings as set out in the CCC'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.[18] 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 rollout of low-carbon heat networks in dense areas, and prepare for a potential role for hydrogen in heating.

37. The IA's annual investment management survey shows that in 2021, £40bn was invested in infrastructure projects across the UK.[19] This includes investments in economic infrastructure (such as railways and ports) and social infrastructure (such as public buildings). Within economic infrastructure, we observe a marked focus on renewable energy projects (mainly solar and wind farms or waste/water management facilities). Renewable energy projects make up a significant proportion of investment in UK infrastructure projects, which mainly consist of offshore and onshore windfarms.

38. Policy certainty is essential. Where viable and proven technologies exist, IA members can work with projects from origination, through development and construction, and into operations. This is most feasible for established industries such as offshore wind which have benefited from consistent support from Governments over several years, if not decades. Similar levels of commitment from Government will provide confidence to invest in other technologies.

39. The Government should identify and state, as it has already done in some sectors, the generation capacity which it is targeting for different technologies within specified timeframes. This should be based on estimated demand. This should lead to an assessment of the investment required in each technology to achieve this target. The Government may deem it appropriate to set an ambition for how much of that investment need is met by private finance.

40. Many of the industries and technologies which it is hoped will facilitate the UK's transition to net zero are to some extent new or experimental. Naturally, this presents a potential risk for investors which the Government will need to consider. If these industries and technologies are deemed necessary and the timeframes for scale-up are ambitious, then the Government may need to consider mechanisms which de-risk or lower the risk of investment to meet the UK's climate and environmental objectives.

41. 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.[20]

---

[17] CCC, 'Independent Assessment: The UK's Heat and Buildings Strategy', March 2022, bit.ly/3ryi9bF.
[18] CCC, 'Sixth Carbon Budget: Buildings', December 2020, bit.ly/3vsFQn8.
[19] Investment Association, 'Investment Management in the UK 2021-2022', September 2022, bit.ly/3TfURn6.
[20] IEA, 'Net Zero by 2050: A Roadmap for the Global Energy Sector', May 2021, bit.ly/3EZHgd2.

42. The UK's current energy security 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. Research conducted earlier this year for the thinktank Onward found that 55% of respondents thought the war in Ukraine meant the UK should move faster rather than slower (28%) on net zero. More than two-thirds (68%) of those surveyed signalled a preference for investing in renewables (68%) as the best way to secure the UK's future energy supply.[21]

43. 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. 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.

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

44. By October 2022, governments of countries totalling 91% of global GDP had made commitments to transition their economies to net zero.[22] The adjustments that will be required in each of these national economies will create a demand for expertise and technology which enables an orderly transition. First movers will be well placed to capitalise on export opportunities to service this demand.

45. As with the UK's wider reputation for corporate governance, a reputation for high standards in green finance will help to attract capital to the UK. A local market will also be stimulated if there is known to be a significant number of investible opportunities within that market. The Government should, in any case, be looking to support the transition to net zero through infrastructure projects focused on transport, energy and housing. Ensuring that these projects are open to private sector involvement will aid the growth of green finance in the UK, contributing to the development of a net zero-aligned financial centre.

46. Additionally, the Glasgow Climate Pact acknowledged that developed countries have a continued obligation towards emerging and developing countries to provide enhanced support, including through financial resources, technology transfer and capacity-building, to assist with both mitigation and adaptation.[23] Clima Capital Partners, working with Aviva Investors, recently published a report, '*Mind the Gap*',[24] which analysed the costs of climate change mitigation and adaptation commitments for 126 developing countries which had submitted Nationally Determined Contributions (NDCs) under the Paris Agreement. This report found that the aggregate financing need for those countries for the period 2020-30 was between $7.8trn and $13.6trn. In finding the finance to meet this need and helping the UK meet its obligation towards emerging

[21] Onward, 'Taking the Temperature', April 2022, bit.ly/3TVho8o.
[22] https://zerotracker.net/
[23] UN, 'Glasgow Climate Pact', November 2021, bit.ly/3PKt0Ka.
[24] Clima Capital Partners, 'Mind the Gap', April 2022.

and developing countries, the UK has an opportunity to share the developing expertise within the UK investment management industry.

47. The UK has taken on a significant leadership role in the last two years with the presidency of Cop26. In doing so, the UK's Cop26 President has noticeably engaged in intensive climate diplomacy with emerging and developing economies. It would be a wasted opportunity if any goodwill built up during the UK's Cop26 presidency was allowed to wain when this role will shortly end at Cop27 in Egypt. The Government should give serious consideration to introducing a Cabinet-level post of UK Climate Envoy supported by officials in BEIS and the FCDO. A properly resourced UK Climate Envoy would be well-placed to engage with emerging and developing economies on their climate and nature targets and to represent their needs within Government and in engagement with the UK-based private sector. Ultimately, the credibility and viability of investment opportunities in emerging and developing markets would be a matter for the governments and private sector in those countries. A respected UK Climate Envoy could, however, act as an ambassador for UK investors in emerging and developing economies, helping to foster the best investment environment.