



Economic Affairs Committee

Corrected oral evidence: UK energy supply and investment

Tuesday 14 June 2022

3 pm

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Members present: Lord Bridges of Headley (The Chair); Viscount Chandos; Lord Fox; Lord Griffiths of Fforestfach; Lord King of Lothbury; Lord Layard; Lord Livingston of Parkhead; Lord Monks; Lord Rooker; Lord Stern of Brentford.

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Questions 270 - 289

Witnesses

I: John Glen MP, Economic Secretary, HM Treasury; Fayyaz Muneer, Deputy Director, Green Finance and Prudential Policy, HM Treasury.

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Examination of witnesses

John Glen MP and Fayyaz Muneer.

Q270 **The Chair:** Good afternoon and welcome to this meeting of the Economic Affairs Committee. I am delighted to be joined by John Glen, Economic Secretary to the Treasury, and Fayyaz Muneer, deputy director of the green and prudential team at the Treasury. For the sake of good practice, I declare an interest as an adviser to Santander.

My first scene-setter question is this: how do you see the UK bridging the investment gap, estimated by the Climate Change Committee to be around £50 billion a year by 2030, which it has said we will need to meet our net-zero targets?

John Glen MP: I am happy to answer that question directly but, first, I will clarify a few matters, following the letter that I wrote to the committee on 24 May, setting out my portfolio. I will endeavour to answer as fully as I can, as I always have done. I want to be clear about the range of responsibilities that I have in this domain, because they are very broad. The Exchequer Secretary covers energy infrastructure, energy, environment and climate policy, which includes the Treasury review of net-zero and the costs of decarbonisation. It also includes the new nuclear role in green infrastructure, North Sea oil and gas and environment taxes such as the aggregates levy and landfill tax.

The Financial Secretary covers carbon taxes, such as the UK emissions trading scheme, the climate change levy and carbon price and support. I will not go on any further because I can cover the other points depending on the progress we have made in the course of answering the questions. If I cannot answer something, it is because it is not directly in my area, but I will endeavour to write to the committee in full with any answer.

On your first question, it is important to stress that we have made significant progress. The announcements that we have made in the net-zero strategy mean that, since the 10-point plan, we have mobilised more than £26 billion of government capital investment for net-zero. Along with the other measures, that will leverage in £90 billion of private investment by the end of this decade in 2030.

Of course, targeting this expenditure strategically is a challenge when different types of infrastructure are clearly at different levels of maturity. For example, the contracts for difference renewables support scheme supported 16 gigawatts of new low-carbon electricity capacity across all technologies.

Moving beyond government, the right sorts of energy generation can be incentivised and supported in other ways. Later-stage technologies will benefit from investment through the British Business Bank. The Leeds-based UK Infrastructure Bank has been up and running since last year, although the UK Infrastructure Bank Bill is in Committee in the House of Lords this afternoon. It has £12 billion of equity and debt capital and will be able to employ a further £10 billion of government guarantees.

The Government will take further action to mobilise private investment into the net-zero transition. Over the course of this year, we are publishing 10 net-zero roadmaps tailored to the investment community. The first three are on EV, hydrogen and carbon capture and storage. They have now been—

The Chair: Can I just jump in? You may be getting to this but, following up on that point, where do you see specific existing gaps, from your vantage point—I understand your responsibilities—where you think action needs to be taken specifically to encourage greater investment?

John Glen MP: We are not sitting in Whitehall picking out individual gaps; rather, a range of technologies are at different levels of maturity. Given the different levels of assurance over industries' development and their commercial realities, different types of important investment are needed. We do not say that £50 billion is a target; we are focused on meeting the decarbonisation targets in a way that minimises the cost to consumers and maximises the benefits for UK businesses, individuals and households.

The Chair: I take it that you would like to see a lot more investment in renewables?

John Glen MP: Yes, that would be desirable, but the question is, with a finite amount of public money, how can we maximally crowd in additional funding from the private sector? The infrastructure bank will be very important in this.

The Chair: We will come on to that.

Lord Fox: I would like some clarity. I think I heard you say that later-stage technologies would be funded by the British Business Bank. What are they? I am not clear what that means.

John Glen MP: I am not able to be specific on that at this point but I would be happy to write to you to set that out. That is a BEIS responsibility so I am not on top of exactly—

The Chair: If you could write, that would be great. Let us move on to Lord Livingston to go into a bit more detail on some of these points.

Q271 **Lord Livingston of Parkhead:** In the context of the energy security strategy, could you outline HM Treasury's current approach to UK financial institutions lending more to support oil and gas exploration, and new hydrocarbon infrastructure more generally?

John Glen MP: I would be happy to set that out. At the highest level, our strategy is to move away from expensive fossil fuels and transition to a clean energy future, but we have to do that in a way that recognises our obligations to heat homes and fill up cars with energy. We need to be able to move towards greater reliance on domestic provision. The British energy security strategy committed to making better use of those domestic reserves and we want to see continued investment in the UK

continental shelf. The North Sea transition deal sets out the commitments that we have entered into with the oil and gas industry to invest in decarbonising existing projects—through electrification in some cases—as well as the clean technologies of the future, such as hydrogen and carbon capture and storage.

So we are looking at a smooth transition rather than an immediate extinction for oil and gas—I do not think that that is realistic, given our needs today—or the ability to switch immediately to a completely different profile of provision.

Q272 Lord Livingston of Parkhead: Two questions come from that; I suspect that there might be one for you and one for Fayyaz. The first is that the IEA has said, “We do not need any more hydrocarbon exploration”. Does the Treasury reject that? Secondly, we have a situation under the stated Treasury policy where banks might feel quite differently about the framework in which they are operating in terms of lending to the hydrocarbon industry. When Mark Carney gave evidence here, he made the comment that, without a proper framework, financial institutions should not touch the fossil fuel industry at all. How do the Treasury and the Government’s aims mix with the prudential regulation that we are now seeing?

John Glen MP: That is a very difficult question to answer specifically at a firm level. As you will know, when you make investment decisions at the firm level, you have a set of historic obligations and a profile of revenues and expectations of return of capital on those; you then have a prospectus of new capital projects to invest in. We are saying that there needs to be a transition. What we have also done—I will probably come on to talk about this in terms of the transition plans and the work we are doing to obligate listed companies, further to the Chancellor’s COP 26 announcements about making us the first net-zero-aligned financial centre—is create transparency over that transition.

I am aware of what the IEA says about investing and improving reserves but I am interested in transparency on the transition journey so that firms, and therefore investors in those businesses, can be clear about what that transition looks like. We are not issuing bands; we are setting a framework for transition, given the imperative for net-zero by 2050.

Lord Livingston of Parkhead: In terms of prudential regulation, stress tests and the like, do you think it is consistent with a, shall we say, changed government attitude towards investment in hydrocarbons, particularly given the understandable changing external circumstances?

John Glen MP: I will start and then Fayyaz can fill in the gaps and correct me, which he does very well and very often. We are at a stage of beginning prudential oversight and regulation of the financial sector in terms of stress tests. We have done the first round of those stress tests. I recognise that it is a very complicated area. How far the Bank should get involved—

The Chair: I am sorry to jump in, Minister, but we will come on to stress tests later.

John Glen MP: Fayyaz, do you want to finish me off, as it were?

Lord Livingston of Parkhead: “Is the policy joined up?” was really my question. I apologise for getting ahead—you might want to take this later—but we are in a situation where the government policy regarding investment in hydrocarbons has changed, for good reason. Are we running behind in our general approach to prudential regulation and encouragement of the banks to support the Government’s policy as opposed to supporting the previous policy, which was, perhaps, no further investment?

The Chair: We will be coming on to this in a moment. Sorry, Lord Livingston. Can I just be very clear, Minister? Are you saying to UK financial institutions—many of which, I understand, are observing the IEA scenario in terms of how they determine financing—that they should be looking at the IEA scenario? Just to be absolutely clear, it says, “Beyond projects already committed as of 2021, there are no new oil or gas fields approved for development in our pathway”. Are you saying that institutions should look at that and say, “Actually, you know what, if this company has a robust transition plan, it is okay to invest and finance its North Sea oil and gas exploration”? Is that the view from the Treasury?

John Glen MP: That is broadly the view, yes. We need to be pragmatic about the fact that we need a transition. Transparency around transition is the driver of behavioural shifts, in the way I look at this. Specific investment decisions will be a matter for the firm. We will never comment on specific decisions but, obviously, there will be presentational challenges. I recognise that from the fact that, for example, 70% of people want to make investments that do not cause any harm and there is a lot of appetite for clean investments. Those judgments will have to be made in that context.

Q273 **Lord Stern of Brentford:** I would like to pursue the idea of what makes sense in a transition. I think most of those around this table would share the idea that investments need to take place in the context of a clear understanding of what a transition means. Of course, firms will have to understand that themselves. Let us take oil exploration. Given that the UK’s production of oil makes little difference to the world price of oil and little difference to our oil security, and that if you explore and you find and it takes several years for stuff to come through, what could be the logic of oil exploration in the context of a transition for the UK?

John Glen MP: I am not the CEO of an oil company so I am not the one who is going to have to make those decisions, but I recognise that there will be some who have a set of investments related to potential projects as well as to the transfer to renewable provision. They may decide that some of those assets need to be developed, given the amount of money that has been invested and the profits that can be generated from that

against the provision of their transition journey to renewables, but it is difficult to make a judgment without looking at case-by-case examples.

What I am trying to say is that, if the Government get into a position where, project by project, they start to impose a blanket ban, that seems pretty out of kilter with the way a market works, the way companies work and the fact that there are a number of options to deal with that transition pathway. It is best left to the market to do that, on the clear understanding that the regulations will be as common as possible across an international framework and will be perceived transparently through a lot of work with NGOs, the third sector, academics and industry representatives in order to be meaningful, so that we get some real pressure on behavioural shift.

Lord Fox: To pick up on the market point you just made, Minister, do you think that the market is clear on what the transition message is, given that there has been a shift in body language from central government? Do you think that the market is operating knowing what the transition message is?

John Glen MP: I do not recognise the body language changing. What I recognise is the Chancellor setting out very clearly at COP in Glasgow the ambition to make us the first net-zero-aligned financial centre, with a clear commitment to developing those transition plans. I co-chair, with Amanda Blanc from Aviva, the working group that supervises about 40 experts who are producing those transition plans and the disclosures that need to underpin them. Later this year, we will make clear what those are; they will be rigorous, based on a whole set of inputs. I hope that, when we have done that, we will be very clear about expectations. That will lead to what people disclose when they are listed across listed companies, and will give a real challenge in terms of the investment decisions I spoke about earlier.

Q274 **Viscount Chandos:** I would suggest that transparency is a necessary but not sufficient condition for a successful transition. The transition plan could be transparently contradictory. Given that the transition to net-zero may not be orderly or predictable, how do you define stranded assets, for instance? What should the Government be doing to make assets stranded or help to ensure that assets are stranded, when it is right that they are stranded?

John Glen MP: I would use the IEA definition from 2019 for stranded assets, which says that, "at some time prior to the end of their economic life", they "are no longer able to earn an economic return ... as a result of changes associated with the transition to a low-carbon economy". That is a risk. It is something that will occur unless there is significant action taken to do that. The Financial Stability Board's roadmap, produced last year, addressing climate-related financial risks, was endorsed by the G20. That sets out recommendations for developing and refining the analytical tools needed to measure the exposures of financial institutions to climate-related transition risks.

With this whole area, there is not a single intervention that one Government can make. I would point to the uncertain nature of climate risks. That roadmap recommends that jurisdictions make use of stress testing, which I mentioned earlier and think we will come on to in more detail, and scenario-based risk analysis to assess the financial system exposures. It puts a lot of emphasis on global alignment around the implementation of comparable firm-level climate disclosures, which will enable financial firms to make those assessments and assess the climate exposures more accurately.

I think that we in the UK have made good progress on that. Just last month, the Bank of England published the outcome of that first climate biennial exploratory scenario test, which aimed to look at the exposures of the largest banks across those three hypothetical scenarios. As I mentioned—actually, I did not mention it but I can do so—in November 2020, we became the first country in the world to commit to the mandatory Task Force on Climate-Related Financial Disclosures across the whole economy. That has now been implemented by regulations across the FCA, BEIS and the DWP.

We are clear about what the risks are, we are clear about the uncertainty around that and we are developing ways of measuring and exposing the risks that exist for our financial institutions, particularly those that are systemically important.

Viscount Chandos: The background is constantly changing. If the IEA was right, in the summer of 2021, as a number of our witnesses have acknowledged, both as a result of action or inaction before the Ukraine war—and, since then, because of it—there is the view on new exploration for all the challenge of the timescale, to which Lord Stern referred.

If there is production that is seen as desirable, particularly in terms of security of supply and being compatible with foreign policy, security policy and so on, can those new projects go ahead in a way that is as likely to meet the net-zero target as if they did not? What action do the Government need to take to achieve that? We have heard suggestions from witnesses about things a bit like scrappage—that is, anything that would reduce the economic life of a field but still produce a good enough return to attract investment.

John Glen MP: I think you are trying to drag me back into the discussion around whether we should ban certain investments or what I think about individual investments and the development of fields that are unproven or proven domestically.

I have to refer you back to the answer I gave. I am trying to say that, in the context of the Ukraine crisis, obviously there has been massive disruption to our supply. We are not in such a vulnerable position, given that we get less than 4% of our gas supply from imports and about 8.5% of our oil from Russia; we are going to stop dependency on any of that by the end of this year. We have to think about energy security—we set that out in the energy security strategy—but I am saying that we must also be very clear about our climate obligations. This is not rowing back from

net-zero 2050; it is saying that this must be accommodated in a way that recognises that we have huge resources in the UK but we also have a responsibility to secure supply for the country.

The Chair: It strikes me from the comments you have made so far that, in the short term, you are essentially giving gas a climate pass for the time being.

John Glen MP: Those are your words, not mine. What I am trying to say is that we need security of supply for the British people.

The Chair: Those words were attributed to the Prime Minister. So, are you saying that you can have a bit of a kink in the road, so to speak, on the way to net-zero?

John Glen MP: What I am saying is that we have a framework that sets out pretty clear and exacting accountabilities for what decisions are made. At a firm level and overall, people will have to account for the decisions made. But we have also made a decision about not relying on imports from Russia.

Viscount Chandos: I understand that you do not want to pick winners but, once the Government have adopted the net-zero target—rightly, in my view—there is an implicit direction of investment. It comes back to squaring the circle, does it not? We need security. Even if it is a marginal supply from domestic sources, it still seems to me that you have to say, “If we are going to meet net-zero, we are also willing to allow new exploration”.

John Glen MP: We have an explicit obligation on net-zero and we have an immediate challenge in terms of energy security. I think your question is: how do we reconcile the two? I am saying that the transparency we insist on, the rigour of the transition plans and the investment in a range of new technologies create the platform for that transition in dependency. I think that what you are asking for—and what I am probably incapable of giving you today—is a profile of that shift, from my viewpoint here in the Treasury. What I can say is that we believe that those transition plans and the mechanism to make people accountable for the decisions they make, within that explicit obligation to net-zero, will drive behavioural shifts.

Lord Livingston of Parkhead: Could I approach the same question slightly differently? You may say that you cannot answer it any more but, from your point of view, do the Government see the shift on UK-produced hydrocarbons being basically an issue of sourcing more hydrocarbons from the UK basin as opposed to using more hydrocarbons, full stop? Is it actually about a sourcing issue rather than a quantum issue in totality?

John Glen MP: Our preference is to use the capacity we have. If that is what we need domestically in the short term, that is our preference, but what we will not relent on are our obligations on net-zero.

Lord Rooker: Briefly on that, energy security was never raised at COP 26. I therefore cannot understand why, given the changed circumstances, there is a

reluctance to accept the fact that energy security has suddenly gone up in terms of priority. The net-zero commitment is firm—I fully support it—but the fact is that energy security was not raised but has now pretty seriously gone up the agenda. I therefore do not have a problem with talking about the consequences of that going up the agenda, bearing in mind that it was not discussed at COP 26.

John Glen MP: Nor do I. I absolutely agree. That is why we have a British energy security strategy setting out how, in the short, medium and long term, we will address the challenges we face. We have an immediate need to move away from dependency on imports from Russia, particularly in oil, and that means a change in our provision. However, we also rely on firms making investment decisions in the context of that overall journey over the next 28 years. What we do not want to do is induce volatility in investment decisions by using what is clearly a crisis in the supply of energy, giving us challenges in the security of our energy supply quite unprecedented in recent times, to lead us to a position where we pull back on what is a global imperative on climate.

Lord Fox: The question that I tried to ask about the change in body language was much better illuminated by Lord Rooker in the shift in energy security. It creates a challenge for industry and investors to understand how they are going to do that, because you seem to be putting the onus on them to decide how they square the energy security issue with the transition issue. Both of those, as you have pointed out, are fixed points, but you seem to be relying on industry to pick the path through that rather than giving guidance. There is a role for government in guiding it a little more on that.

John Glen MP: I do not really accept that. The Government do not run the firms making investment decisions on the continental shelf about our gas and alternative supply. What we do is set the regulatory framework trying to reconcile the short-term pressure, which we hope will be short-term, with the medium to long-term obligation that we have put into law. I recognise that what has happened presents new challenges. That is why we are innovating in policy terms, and we will come on to talk about the infrastructure bank and what we are doing to induce more investment with Solvency II, other changes that we are making in regulations, and deepening our understanding of where the risks lie in the financial system so that we can evolve policy.

When I became a Member of Parliament 12 years ago, there was a whole debate about the tariffs for solar. I remember meeting constituents who said to me, "This is ridiculous. If you reduce this feed-in rate, it will be an outrage and a breach of trust". Of course, the cost of providing that infrastructure has changed, so we adapted the tariff regime to reflect the cost of supply. That is what will happen in the coming years as new technologies become more prevalent and the cost across a range of provision is clearer.

Q275 **Lord Fox:** I shall now ask the question I should have asked, which is about the energy profits levy, so a slight change in gear. Why does the

energy profits levy not include tax relief for investment in renewable energy, focusing as it does on oil and gas?

John Glen MP: We have to accept that the North Sea will be the foundation of our energy security. We have to encourage investment in oil and gas. We expect that the energy profits levy, with the investment allowance, will lead to an increase in investment. That is why it is important that we designed it in a way so that that would take effect. The OBR will take account of this policy in its next forecast. The tax relief for companies undertaking that hydrocarbon infrastructure production in the UK and on the UK continental shelf is available only in relation to expenditure incurred for activity that is charged under the oil and gas ring-fenced corporation tax regime, which is 40% as opposed to 19% at the moment, and we are increasing that to 65%, sunset-claused up to December 2025. We are dealing with the abnormal profits in that sector but also trying to maintain the level of investment that we need in order to maintain that provision within the secure UK source that we also need.

The energy profits levy investment allowance is available to support capital expenditure on decarbonisation of upstream activities, which could include electrification, but we have other measures, such as, as you will know, the R&D tax credit regime and other interventions that support investment in other domains, but this levy is targeted—£5 billion, I think, in the coming year—on that sector. It is also linked to that investment. That is why it does not go beyond that.

Lord Fox: How did you assess the impact of that? Is there an impact assessment and can—will—you publish that so that we can use it in our report?

John Glen MP: I have set out what we expect the revenue to raise. We expect that there will be an overall increase in investment. If there is anything more I can help with on that, I shall reflect and write to the committee.

Lord Fox: I suppose this is a silly question, but how does one assess the normal price these days of oil and gas in terms of baselines?

John Glen MP: I think I will have to pass that on to—

Lord Fox: I was looking at Fayyaz when I asked that.

John Glen MP: This is why I brought him in. That is one for you, my friend.

Fayyaz Muneer: That is a good question. If I could credibly and accurately set the baseline for oil and gas prices globally, I would probably—

Lord Fox: You would not be working for the Treasury.

Fayyaz Muneer: —but it is a real challenge. It is one that takes a lot of analysis and, frankly, a lot of these things are done with backward-looking data. A war in Ukraine, embargoes and sanctions on Russian

energy supply are not part of a lot of that data, so it is genuinely very difficult. I do not really have an answer, but I can explain why it is hard.

John Glen MP: People ask, "What does the Treasury think?" We do reasoned models with assumptions and we produce those; they will not always be to everyone's taste but at least we will have set them out. There is not a perfect way of doing it.

Lord Fox: I am still intrigued as to how oil and gas exploration will solve the energy security issue for the United Kingdom, given the lead time that was alluded to by Lord Stern. It is often decades, never mind a few years, between the first discovery of hydrocarbons and the exploitation, by which time we will be close to transition. When I was talking about an impact assessment, it was the impact of this process and this levy on the energy security issue.

John Glen MP: I will half-invite Fayyaz to come in, and then I want to say something else. I will let him come in shortly.

I did mention that it will encourage decarbonisation investment in the upstream. Again, I cannot prescribe the interpretation of this incentive for investment on the upstream sector as a whole on a firm-by-firm basis and what the absolute impact will be from a carbon point of view, but I can say that we expect it to give an overall increase in investment. Fayyaz, can you add to that?

Fayyaz Muneer: To come back to your question about how far the levy and the investment allowance will make a difference to energy security, you can make a distinction between the very short term, the short term, the medium term and the long term. You are right that the extraction cycles for these things are not in weeks and months but, in the very short term, and this comes back to Lord Rooker's earlier point, energy security was an area that the Government were thinking about before the war in Ukraine and indeed before COP 26. We have had the capacity market in place for some time in terms of encouraging investment in demand response and so on, and that has made a material difference to supply.

In the very short term, it is probably fair to say that the investment allowance will not necessarily bring on more oil and gas flow this winter. In the short and medium term, as the Minister has said, oil and gas, gas in particular, have always been part of the energy mix in the transition pathway out to the late 2020s and 2030. They will still be an important part of the mix, and we will still need supply. The last few months have shown that if you can domesticate some of your supply, that is a worthwhile thing to do.

Lord Stern of Brentford: The Government were thinking about energy security but they came to the wrong conclusions, so they ran down, or were a party to the running down of, our gas storage in the UK, which was simply a mistake. I do not see it as correct to say that we have just thought of it. We did think of it, but we got it wrong. That is a statement, not a question, and you can differ from it if you wish.

I just want to underline what Lord Fox was saying. Are you seriously telling us that encouraging the discovery and exploration of oil now, over these next few years, materially contributes to energy security? It seems to me that it is very hard to make that argument, given the time lags and given that there is a world market for oil in which we are pretty small. Do you want to make that argument? This is not on a firm-by-firm basis; we are talking about the tax system for the oil industry.

John Glen MP: I understand. Let me answer that. Before I became an MP, I worked in consulting in the upstream oil industry, and I totally recognise that the cycles of investment are long. I do not think that this intervention will immediately change the profile of production this year. What is clear is the investment incentive and the fact that, with the new super-deduction relief, there will be a 91p saving on every pound the industry invests, including in decarbonisation in the up stream.

Let us be clear: this is also about the fact that there are extraordinary profits that bear no relationship to the decisions made by the board of a firm and that can deliver £5 billion to help pay for some of the interventions that we have made for the most vulnerable in society. We have never headlined the argument that this was going to transform energy supply overnight. It is incentivised around a range of upstream investments that include decarbonisation as well as whatever is required at a firm level.

Lord Rooker: Just before I go to the question about the levy, is the implication of the extra investment, which you can clearly envisage and which, from a practical point of view, I can certainly see the benefit of, that any by-product of it could well be a serious attack on carbon capture and storage, so we end up getting the oil and the gas carbon-free? I am not saying that would happen, but no one knows what the situation will be in three or four years, and, as you clearly said, we have 28 years to go. So a by-product of that investment could be a serious attempt at carbon capture and storage, which we have not really taken that seriously, have we?

John Glen MP: I think I mentioned some of the tax credits in the broader range of incentives. Again, I would point you at the BEIS Minister, who will be well equipped to talk about the incentives in that domain.

What I am saying here is that we have a set of incentives for investment. The impact of that collective investment on the profile of energy provision in the future is obviously not something that we can be certain about at this point.

Q276 **Lord Rooker:** I come to the second of the questions about the levy. Could you please help us with the criteria being used to judge the "extraordinary profits" on which the 25% surcharge will be levied? Without that, we, and I think industry, are probably somewhat uncertain.

I might as well chuck in the two other questions so that you can deal with

them in one go. First, it would be really helpful for our report if you could list the potential next steps that the Government are considering.

Secondly, to what extent has the Chancellor's statement created an unstable environment for investors in respect of renewables? That is quite separate from the first two questions. As far as you are concerned, has an unstable environment been created for renewables as a result of the statement, or not?

John Glen MP: I think it is pretty clear that there was a narrow focus on upstream actors and firms—I will leave it to Fayyaz to describe how that was determined—to deliver, on a time-limited basis, for the duration of these extraordinary profits, a levy that would deliver the funds for what I just said they will be used for, which is a crucial difference from what was proposed elsewhere, which was an incentive for investment. We are not prescribing exactly where that incentive is to be used, so the impact it will have is difficult to be precise about, but there will be a clear incentive that that levy will be less if more investment can be made. Fayyaz, do you want to comment on the scope of it and any next steps that we are contemplating?

Fayyaz Muneer: I can, but I would rather not. I think we would rather cover this in writing, if that is okay. I am not from the tax side, so I am rather loath to talk about it.

Q277 **The Chair:** I want to move on to the proposal for electricity generators. Let me read you what the chief executive of SSE said about the proposed plan for a windfall tax on electricity generators. He said, "They"—the Government—"used the word 'extraordinary' profits"—to justify the proposal. He went on: "Where are these extraordinary profits? I'm not entirely sure where the windfall is. Given that we have got very well-developed plans to invest lots in"—energy—"networks, lots in renewable generation, it's very clear from the share price reaction that they are affecting investor confidence and that is unhelpful for us".

Let me put it to you, Minister, that you said right at the start in your first answer to me that you wanted to see a lot more investment from the private sector in renewables, and this proposal is absolutely directly affecting that.

John Glen MP: We are urgently assessing the scale of those extraordinary returns to the electricity generation sector. We are assessing the measures that could be taken in response to this exceptional period. The Chancellor was very clear about that, and where these profits accrue will obviously need quite a lot of work. The point you just made, Lord Bridges, about the effects of a statement leading to market behaviours and—

The Chair: It is about investor confidence, Minister, which is what you want to encourage.

John Glen MP: Absolutely, but in a compressed timeframe. When you need to deal with constituents to whom you are accountable in the House

of Commons and who are struggling and in need of support, and there is a time pressure to get that levy out, you have to be pragmatic about what you can and cannot do.

If you just let me finish, I will explain what we are doing. We announced a time-limited tax on those profits, but we also recognised those extraordinary returns in parts of the electricity generation sector. That reflects the record price of gas, which is due to the structure in the UK market and the impact that is having on that price paid for electricity generated in the UK.

In the long term, we think that a degree of reform of the electricity market is essential to achieve stability and predictability in the price. We want to implement those reforms, but we also want to make interventions that recognise where those profits are captured, where they are extraordinary and where we can clearly demonstrate that.

The Chair: I hear all that. None the less, the reaction to this has been very adverse. Let me just quote to you what your colleague Greg Hands told us when he came before us. He said about a windfall tax and the companies you may be taxing: "we need to make sure that not only do they"—that is, the companies—"invest in oil and gas in the North Sea but they invest even more in renewables". Energy UK said: "a windfall tax on generators could delay and raise the cost of investments—at the very time that we need to increase spending to meet the government's own aims".

It just seems incredibly contradictory. You seem to be saying, on the one hand, "We want more renewable investment" and, on the other hand, "Actually, we're going to potentially deter it". Why do you not just say, "We're not going to do it", and everyone can just go on?

John Glen MP: Because they are extraordinary profits that do not bear any relation—

The Chair: Where are the extraordinary profits?

John Glen MP: Can I just answer the question?

The Chair: Yes. Can you just tell us where the extraordinary profits are?

John Glen MP: That is exactly what we are examining: where they are accruing and therefore what the right intervention is. Of course, when you mention the possibility of a further intervention, you create uncertainty, and market actors are bound to refer to what they could see happening with the incentives for not investing. That is why we are looking very carefully at the best way to make that intervention.

I do not think anyone is really disputing the extraordinary profits that exist that do not bear a relationship—

The Chair: They are.

John Glen MP: That is right, and that is why we are doing that analysis. Your quite reasonable point to make is that the degree of uncertainty before we have landed that full intervention is not ideal. But we are in a situation where what is happening in Ukraine is not ideal, and the interventions that we are having to make to support many vulnerable people across society are not where we want to be.

The Chair: Might it not have been better to come up with this detail before you announced the policy, rather than have this uncertainty?

John Glen MP: Again, there is a balance of factors here, is there not, because we were also being told that we needed to act early and quickly to give those who were not able to heat their homes some reassurance about what the Government were going to do. As ever, there was a judgment that the Chancellor had to make.

The Chair: So when will SSE and others get this clarity?

John Glen MP: I cannot tell you that. This is not an area that I am working on, as I tried to set out in my letter to you on 24 May and in my remarks at the start of this session. Fayyaz may want to be drawn on this. He is one of the officials who is working very carefully on it, but given the market sensitivity of it, it is probably unwise to go there.

The Chair: I understand that, but having this uncertainty in an area where we so desperately need this investment is not, you would agree with me, ideal.

John Glen MP: Nothing is ideal when we see what is happening with Putin and Ukraine, but we have to make interventions that balance a whole range of factors. We are very clear that there is more work to be done, and we will be doing it.

Lord Rooker: When will we get the letter, which we have just been promised, that will answer my question about the criteria on which you will judge these extraordinary profits?

John Glen MP: I cannot tell you when you will get the letter. We will write it as soon as we reasonably can in the context of market sensitivities and the points that Lord Bridges has just made.

Q278 **Lord Griffiths of Fforestfach:** I am no expert in this field, but the one thing in our conversation that has really hit me is the sheer uncertainty of the future. We have no idea what will happen in so many different areas. Asking the Treasury to give the kind of forward guidance that some people are asking for seems to me to be asking far too much of a government department in the present situation, given what the Bank of England is trying to do to give it. Therefore, I wholeheartedly welcome the pragmatism of the Treasury in not doing this, because, if it started to, I am sure that it would be proved wrong simply because of the sheer uncertainty. Given that there is such uncertainty, what might you be doing in this situation to help to improve energy efficiency within households?

John Glen MP: We have made quite a few interventions with respect to supporting families. The interventions we made recently give, I think, £300-worth of benefit to the most vulnerable in society. Over the course of this Parliament, we have £6 billion-worth of interventions to help with various energy efficiency measures, such as greater efficiency for homes and buildings. Again, the detail of that would be best expressed by the BEIS Minister responsible.

Fayyaz Muneer: It would definitely be best for BEIS to answer this. Rather than busk, we will come back to that so that you can get the right information.

The Chair: Minister, you may not want to get into this, but it strikes us that there was a willingness and a wish at BEIS to do more on energy efficiency. I remember that the Lords Minister said that he wished that it had been possible to more. Does the Treasury just feel that there is not the necessary value for money in doing more of this kind of investment? I stress “investment”—in retrofitting homes and home efficiency—because obviously that is what we are talking about and what you are interested in. I want to get a sense of your appetite for doing more on this.

John Glen MP: Of course, the decisions over departmental budgets are made by the Chief Secretary and the Chancellor. I envisage that there are some real challenges over the delivery profile of some of these projects and that some of the judgments will be based on informed experience of certain initiatives and how practical it is to partner with local authorities, for example, to deliver some of those projects. But I cannot speak to the detail of specific interventions.

Most Ministers from other government departments would come to a committee like this and say, “We could have done with a bit more money”. That is just an occupational hazard of being in the Treasury, but it is not a conversation that I personally get involved in.

Q279 **Lord Fox:** Given that this kind of work is delivered by private sector contractors, one of the things that we have heard is that the stop-start-stop—or start-stop-start-stop—approach to this has made them very tentative about investing in skills and people to actually deliver this. So do you accept that laying out a long-term plan and having guaranteed funding for it is the only way to deliver any kind of external response, in terms of improving individual energy efficiency, house by house?

John Glen MP: Long-term plans are always best. I note what the Chancellor said in his Mais lecture about the challenge for the productivity of the economy as a whole in investing in capital, ideas and people, looking at how we can be more flexible in how we use the different tools that we already have, and different incentives for investment. This is actually at the core of what he is working on now, as we move towards the Budget in the autumn, and it includes programmes like this, of course.

The problem, as I mentioned in my example of solar panels, is that it is sometimes difficult to be clear about the efficiency of these investments and the Government's investments. You can set a profile of investment that you think will be an incentive. You then see improvements in the delivery of an energy intervention or renewable technology, and the need for that government investment is less clear after a certain amount of change in the provision.

Lord Fox: But I think you would accept that, over the last 10 years, the taps have been turned on and off for at least one cycle, which has left contractors with a "once bitten, twice shy" feeling about gearing up.

John Glen MP: Again, I am happy to look into that, but this is a matter for those who are responsible for delivering the scheme.

Fayyaz Muneer: To answer Lord Griffiths' question, the energy security strategy included some new commitments on energy efficiency: there was £3.9 billion of new funding for decarbonising heat and buildings, which brings existing government spending to a total of £6.6 billion across the lifetime of this Parliament. That will fund the social housing decarbonisation fund for the next three years. The energy company obligation—or ECO, as it is known—has been extended to 2026, from this year, boosting its value from £640 million to £1 billion a year. BEIS estimates that this will help an extra 450,000 families.

Work is also going on to scale up consumer advice and information services to help households to understand how to reduce energy demand effectively; this is partly an infrastructure problem and partly a behaviour problem.

Lord Griffiths of Fforestfach: I have read in the media that entrepreneurs in this field of trying to strengthen home energy have been quite alert to opportunities with the incentives already given; one or two companies are way out in front and are doing good things. So, without detailed planning, the market itself is responding quite well to these things. I do not know the names of the companies and so on, but if we could have some evidence on the response, I would be very grateful. The answer to this does not have to be just government planning.

John Glen MP: I commit to writing on that matter too.

Q280 **Lord Layard:** On the infrastructure bank, to what extent should it be willing to risk losing money in support of new technologies? In other words, what is its role more generally in relation to net-zero? One approach would be to say that we have underinvestment in the net-zero project because of a lack of capital, and therefore the infrastructure bank can provide some of the capital that would not otherwise arrive.

But many people say that the problem is not that but a lack of projects. If it is a lack of projects, infrastructure bank investment will displace some private investment, except in cases where there is a very high level of risk. We want this risk to be undertaken in support of new technology, when we do not know what is going to go well. This is the bank's main

role. What is your conception of its role in relation to net-zero?

John Glen MP: Sure. I believe you had John Flint before you not so long ago, and I certainly met with Peers prior to the Second Reading of the infrastructure bank Bill. I know that he makes himself very available, so hopefully he will have brought some clarity. I see the infrastructure bank as giving us a new mechanism to invest; crowding in private money is very much part of that. There are four principles that I would draw your attention to with respect to its obligations, including regional and local economic growth, addressing and tackling climate change, and investment in infrastructure assets or networks in the new infrastructure.

We expect to see a positive financial return. We want to crowd in private capital over time. So far, I think that six deals, with around 300 million investments, have been done across different parts of the United Kingdom. Obviously, it will be for the bank to make that judgment about what sort of risk profile to adopt, how to view certain technologies and how to maximise the input from private sector partnerships. That is what we want to do. We also want to see better partnership with local authorities. A significant sum of money is earmarked for working with local authorities, which often have a grip on some of the infrastructure projects with potential that has not been realised and invested in previously.

However, I would not say that the infrastructure bank will be a universal solution for every nascent technology. I mentioned, probably unhelpfully and unspecifically, the various sorts of investment that are available from various government grants, such as early-stage R&D. The Government's portfolio of net-zero innovation will provide about £1.5 billion of funding to help commercialise clean technologies.

I can get chapter and verse on those investments from BEIS, or BEIS can provide you with it, but the infrastructure bank is focused primarily on that regional growth and climate change imperative. However, the exact profile of its investments and the calibration of risk will also depend on how it partners with private providers of capital. We expect there to be £22 billion, including £12 billion in lending investment and £4 billion for local authorities. There will be a profile mix of debt and equity based on the projects that it is presented with, the business plans and the return over different timeframes.

We are working closely to help set this up. I think the infrastructure bank will publish its framework this month. If it has not done so already, it is imminent, because I have seen earlier drafts of it. We will also help it to make sure that it has the governance in place and the right profile of skills on its board so that it can, subject to the Houses of Parliament agreeing the underpinning, operate freely and hopefully get more of those 300 million investments across the UK.

The Chair: Given that so many of the technologies that are required to get us to net-zero are, as you say, nascent—some are even in the lab stages—and are therefore extremely risky for many investors, this is where the UK investment

bank really could come in.

John Glen MP: The infrastructure bank.

The Chair: Yes. Can you tell us how comfortable you would be if those investments failed? How comfortable would you be, in years to come, sitting here and saying, “Well, Lord Bridges, we invested in X, but it was part of the necessity for us to invest in nascent technologies to get us to net-zero”? You are saying that you want the bank to return a profit. I am just trying to get a sense of the management of risk here.

John Glen MP: What we are talking about is an overall objective for a profit. However, we are saying that, across that, there will be a profile of risk. Some investments will bear fruit—significant fruit—and some will not. I recognise that that is how markets work. I recognise that, as I have seen with interventions that we have made in other areas over the past three or four years, there is always a criticism after the event that somehow we did not do X or Y. Usually—very often, in fact—that is not well founded. In the crucible of the decisions that you have to make, it is very different.

Q281 **Lord King of Lothbury:** From time to time, the Chancellor writes letters to the Bank of England and regulators. Sometimes they are helpful; sometimes they are less so. The Chancellor wrote to the Bank’s Financial Policy Committee and the FCA, asking them to have regard to energy security. “Have regard to” is a favourite phrase of the Treasury in setting various remits. It is a bit imprecise. Actual regulation, by its nature, ends up being quantitative, with specific capital and liquidity requirements. We have had a good discussion about energy security this afternoon—you have touched on a whole range of issues related to it—but why drag the Bank into the business of energy security in this way?

John Glen MP: I think we can agree that energy is the lifeblood of the global economy. The British energy security strategy is a part of the Government’s wider economic policy. It is really clear that the financial system will play a key role in supporting the UK’s energy security. The financial system and the banks—particularly the largest banks, which, as we know from what happened 14 years ago, can have a profound impact on our lives—are instrumental actors in our national life. I would say that the Chancellor’s letters ensured that that fact was reflected in the recommendations made to the FPC and financial regulators regarding the Government’s economic policy.

I would also observe that those letters supplemented rather than replaced the recommendations issued by the Chancellor in 2021. I often hear central bank representatives say, “This is another layering of obligations”, but the world is a complicated place. What we have seen this year has given us a significant set of new challenges. Oil and gas currently provide three-quarters of our energy; around half of our demand for gas is met through those domestic supplies. To reduce our reliance on imported fossil fuels, UK sources of oil and gas have a critical role, as we have discussed, in both keeping that economy supplied and

supporting the transition to net-zero. The recommendations reflect that the Government are taking that balanced approach. As I tried to articulate earlier, we are committed to accelerating that move to low and zero-carbon technologies while supporting the strong and evolving UK hydrocarbon industry.

At the moment, we are in the context of a change in the way our regulators oversee our banks, in the context of having left the institutional structures of the EU. The PRA and the FCA will have a lot more freedom, but they will also have to be accountable to Parliament and Ministers. That letter reflects the balance of obligations and the centrality of energy to our economy.

Lord King of Lothbury: You spoke eloquently about the importance of energy and the recent changes in the market to the British economy. Taken literally, what you said seemed to suggest that the financial regulators should be trying to influence or nudge investment in a certain direction that would support the strategy, but it is not clear that that should be the role of a regulator as opposed to you in the Treasury providing incentives to direct investment or encourage it to move in one direction rather than another.

John Glen MP: I do not quite see it like that. I see it more as a balanced approach. We want to see that acceleration in investment, but we also need to recognise the imperative to support the economy as it is now. We need the bank to recognise that dual set of pressures.

Lord King of Lothbury: Let me put it a slightly different way. The role of the FPC is to think about the risks to the financial system, because it will have an impact on the economy. Those risks come from a variety of sources, some of which are climate change but there are lots of others. Why would you single out one particular kind of risk and tell the FPC to focus on that—or “have regard to” it—rather than letting it reflect on all the various risks that impact on the stability of the financial system?

John Glen MP: Obviously there is a set of inherited “have regards” and obligations from previous interactions with the Chancellor. As I say, this is a supplementary, additional consideration in the context of the current crisis. I do not see it as an either/or; I see it as an “and” in the round, in the context of numerous and quite tough calibrations and judgments that the Bank has to make.

Lord King of Lothbury: So you would not object if the FPC recommended to the PRA that it slacken off a bit on the capital requirements of banks that were specifically lending towards new technologies in order to support renewable energy?

John Glen MP: I recognise the independence and authority of the PRA and the FPC, so I do not think that is a matter for me to comment on publicly. Whether through the decision-making process there is an opportunity for us to comment on those decisions before they are made is another matter, but we would want to see them in the context in which

they were being discussed. But, to be honest, they operate independently of the Treasury.

Lord King of Lothbury: If they are really independent, why would you want to write them a letter asking them to have regard to something when they themselves are quite capable of assessing whether it impacts on the stability of the banking system?

John Glen MP: Because as an elected politician, in the context of what is happening in this country and the national challenges that we face, it is reasonable to reflect the concern about energy security and supply in a way that is not instructing the Bank but is asking it to take reasonable account of a very significant factor that has changed in our economy.

Q282 **Lord Monks:** In an earlier answer, you mentioned the importance of stress testing by financial institutions, particularly in relation to how they are going to handle the transition from where we are to where we need to be. Just recently, on 24 May, the Bank of England published its first green stress test. It was trying to assess the resilience of the financial system in different scenarios. I shall pick out one conclusion: there could be a drag of between 10% and 15% on profits of financial institutions in the transition. That would not be enough to destabilise the whole system, but obviously it would still be an awful lot of resources tied up. We are interested in the Treasury's view of the exercise that the Bank carried out. Do you accept it? Was it accurate, or was it a first effort?

John Glen MP: Probably a bit of all of those. We have to accept that climate change presents long-term challenges to the economy and our financial system. The Bank has played a leading role globally through the Network for Greening the Financial System. We chair the workstream that has worked with climate scientists and modellers to develop the climate scenarios being used by central banks around the world.

The Bank does a remarkable job in maintaining that leadership, and has done for a long time. I welcome what it has done with the CBES work and the publication by the FPC and the Prudential Regulation Committee. It is developing our understanding of climate-related risks to UK financial stability. In the context of those evolving risks, there is no single point of intervention that measures that in one place at one time. That is why being part of that global conversation is important. I think we can confidently say that it is the most comprehensive climate-scenario assessment that has been delivered by a central bank to date. The Bank has also played a leading role in the international Network for Greening the Financial System.

So I welcome what the Bank is doing, but I would not say that it was a final step; there is more work to be done. It is important that we put it alongside the work that I spoke about in my earlier answers about transition. The results indicated that the costs of transition are likely to be absorbable by UK banks and insurers, and that means that we are well placed to support households and businesses through the transition, if

they take those steps now and into the future. The *Greening Finance Roadmap* that we published last year should also give the sector clarity.

Lord Monks: Is not one conclusion from a possible drag of 10% to 15% due to the cost of transition that capital requirements held by banks would have to be increased, and that the regulators would need to look at that? Is that something the Treasury would have an open mind about?

John Glen MP: I think you are dragging me here into areas that it would be inappropriate for me to focus on. These are judgments made by central bankers and it is right that they do so; it is not something that should enter the political realm. I am aware of what many industry actors say about this issue, and I am aware of the competitive landscape and the different approaches that may or may not take place in other jurisdictions. This is not something for me to comment on, so, respectfully, I will not be commenting further on that.

Q283 **Lord Stern of Brentford:** As I have said before in this group, I offer advice to NatWest and Citibank on climate-related issues. Since April this year, the requirements of the Task Force on Climate-Related Financial Disclosures, the TCFD, have become compulsory. Obviously it imposes data requirements—that is the point. At the same time, this is a new area and some of the data does not exist or may not be very trustworthy, so there is a task of improvement there. What do you think can be done to facilitate the improvement in this data?

John Glen MP: I recognise that we are not in the final state, and I recognise that the balance between quantitative and qualitative measures is important. Others have probably responded to this inquiry saying that what gets measured gets managed, although I think there is a debate over what data is needed.

If I may, I will set out how I see the landscape of data at the moment. We in the department have seen research suggesting that the estimates from data providers on carbon scores are at least 2.4 times less effective in identifying the worst emitters compared to the actual reported data from companies. It is a similar story for identifying the greener companies in the traditionally more emissions-heavy sectors. This need to have clarity—hard data, properly reported—is critical so that investors can have assurance over what they are investing in.

There are two broad categories of reported data that are needed to support the healthy development of green finance: financial and non-financial. The TCFD, which you mentioned, tackles the first category. It looks at what needs to be disclosed in order for firms and investors to identify and manage the impacts that climate would have on their financial performance. That is about reducing the risks and increasing the opportunities from climate change for the business.

We in the UK moved quickly on TCFD. We were the first to commit fully to mandatory disclosures; I mentioned earlier that they have now been fully adopted. Now we are building on the *Greening Finance: A Roadmap*

to Sustainable Investing. That looks at the approach to disclosures and how to mitigate greenwashing to support consumer confidence in this area.

Later—this summer, I hope—we will implement a UK green taxonomy in disclosures—we will consult on that. We are working with the FCA to develop a sustainable investment label. The FCA will publish a consultation on that later this year. We are also considering the role of the ESG data and ratings agencies within the FCA’s regulatory perimeter. I mentioned the transition task force; I think I will be having another meeting to seek progress on that. There is an extensive working group underneath, which has been working on what the appropriate transition disclosures are.

I suppose that I recognise the risk of greenwashing, but that series of actions, which are taken deliberately and through exhaustive work with industry, is designed to mitigate ongoing lack of confidence. Greenwashing is the most significant concern among responders, for example, to the 2021 Schroders investors study.

We in the Treasury have pressed the case—we did this at COP and I do it wherever I go, be that the US, Berlin, Luxembourg or Switzerland—for using international standards. The International Sustainability Standards Board will provide a baseline that builds on the TCFD. The taxonomy will not be randomly conceived by a few of my very clever friends at the Treasury. The Green Technical Advisory Group was set up to underpin UK green taxonomy. So we have a comprehensive plan.

Then, in the Asset Management Taskforce that I have chaired for the last four and half years, we have done work also on stewardship. The FRC’s UK stewardship code 2020 also urges certain obligations on investors and reporting in that domain.

The Chair: I am interested in the point that Lord Monks raised about the results of the climate stress tests and capital requirements. I hear what you saying: that you do not want to comment on the operational decisions of the Bank. You write to it with “have regard” letters, as Lord King was saying. You are therefore not thinking of writing a “have regard” letter about levels of investment in fossil fuels in the near future to ensure that you get more investment in renewables and so on. You have no plans to do anything like that.

John Glen MP: I have no plans.

The Chair: You have no plans to do so—that old catchphrase. I ask only because Positive Money, for example, is consistently pressing for more to be done in this space. It is one of the key NGOs in this area and points to the high levels of financing of fossil fuels among UK lenders. Picking up on what Lord Monks was saying about the results of the stress tests, from the Treasury’s point of view, I said that this disturbed you, but it does not mean that you will need to take action as regards the Bank of England.

John Glen MP: No. The stress test has a certain function regarding exposure to climate risk through different scenarios. It is not the only tool that we have. It is not the only mechanism they have by which to introduce behavioural shifts. That is a much broader topic that is linked to the fundamental stability of a bank. The capital requirements conversation is one that we inherited from the EU directives, and how we evolve in future will be taken with other considerations therein.

Lord Livingston of Parkhead: Before I ask the question that I was about to ask, just taking on the taxonomy point, you raised the consistency of international standards. The UK is home to a number of international businesses. Thinking about the taxonomy, is the balance between, "We have to have it different from the EU as a positive sign of Brexit", and, "Actually, it would be rather good to have things the same, so that companies could test their performance on a more global basis"?

John Glen MP: We were very involved in the formation of the EU standards. Obviously, we have left and now we have to move forward in terms of what we decide to do. We are not trying to be different; we are trying to be effective. We want to attend to global standards and make them as accessible and transparent as possible for business so that, as far as possible, they do not provide duplicatory or additional cost to business. We have a responsibility to do what we think is right, but obviously we have a common heritage. Just because we are doing things ourselves does not mean that we have to do things differently for the sake of it. I take that approach to everything. If you ask me about Solvency II, I will—

Lord Livingston of Parkhead: Thank you for that cue.

John Glen MP: That was unintended.

Q284 **Lord Livingston of Parkhead:** You commented in your speech to the ABI that in your 50-odd months at the Treasury, you had been asked about Solvency II every week.

John Glen MP: That is just by No. 10.

Lord Livingston of Parkhead: We know that there is a consultation, which closes in July. Given how often you are asked this, what is the timescale for coming up with some conclusion on Solvency II changes?

John Glen MP: As you know, the Solvency II framework is the EU framework for our insurance companies. We have a different profile here with our annuities-based profile of obligations. We are looking very carefully at that. I published a Treasury-led document on 28 April, which will be open for about three months. It seeks to look at the assumptions behind the matching adjustment. We have made it clear, as I did in my speech to the ABI, what we are going to do on the risk margin, reducing it by 60% to 70%. What that will do is in the interaction of the potential changes to the matching adjustments with the risk margin.

I am in deep conversations with the industry and the PRA over what we should do on that. Obviously, we will wait for the outcome of the consultation and then take that forward. There is the potential there for a significant sum of additional money—several tens of billions that can be invested—and insurance companies assure me that they have projects that they are ready to invest in.

Lord Livingston of Parkhead: Some £90 billion might be available.

John Glen MP: There has been a range of figures. I am not going to get into what the number is, because it depends on where we end up with it. But many insurance companies are committed to that additional investment, which of course we welcome for the economy as a whole. But we also have to make sure that we do that with clarity and that what is driving this is not taking more risk but recognising that, in the context of the global obligations of our insurers, this is a reasonable change that can be justified. I am committed to delivering that reform. The Prime Minister has set out very clearly his aspirations for it. It is my job to implement those, and I am committed to doing that.

In terms of the timeframe, I am in the hands of the business managers over when the financial services and markets Bill will come to Parliament. I do not know when that will be. I hope it will be very soon, and obviously then we will have to go through the various stages, et cetera. Once the legislation gives us the power, subsequent to Royal Assent and a short PRA consultation, we will then use a statutory instrument to deliver it. But, frankly, I think the outcome of the consultation will set the direction of the travel and give industry clarity on where we are going.

Lord Livingston of Parkhead: Is it intended that, although pension schemes are not directly affected by Solvency II—but do invest in insurance companies and have some of the risk management of them—you will look with the Pensions Regulator at whether they should also be released to invest more of their capital in long-term infrastructure?

John Glen MP: That is desirable. Again, you are tempting me into Guy Opperman's domain. Guy can very much speak for himself. I think he becomes the longest-serving Pensions Minister this week. We work very closely together on some of the challenges that exist, such as small DC pots not investing for the long term, the incentives around investing for the long term, and the opportunity cost of not investing in more innovative ways. There is a whole series of interventions that we have sought to make there in terms of fee structure and transparency.

Lord Livingston of Parkhead: I am thinking about DB schemes and the pensions regulation that goes with that.

John Glen MP: That is a matter for Guy. To be fair, I do not want to risk contradicting him by just going off the cuff.

Lord Livingston of Parkhead: I shall ask a slightly different question, then. As you look around the world—you may say, "I have not looked around the world"—are there certain countries, such as Canada and

Australia, which you might say are doing it better on using financial capital to invest in long-term projects in a way that our system and maybe the EU system have not achieved?

John Glen MP: There are examples around the world of where things are done differently. We have made a lot of progress—we have a thriving venture capital sector in the UK—but we do not tend to have the same appetite for risk when it comes to the institutional pension funds and insurance funds that make the sort of investments that happen in other jurisdictions. I do not think there is one single jurisdiction that we would seek to copy, but there are behaviours that we would wish to induce more in the City, and it is a combined effort across government to try to bring that about. What we have done with the long-term asset fund, working with the Bank and the FCA to create a new structure for long-term investment, is something that we very much hope asset managers will take up, and we hope that we will see funds launched imminently.

Q285 Viscount Chandos: There is evidence to suggest that the finance for carbon-intensive industries is moving away from the regulated banking industry to other unregulated or less-regulated providers. Should the Government be concerned about that? If so, what should they and the regulators respectively be doing?

John Glen MP: We as a Government have set out very clearly what our vision is for greening the financial system—meaning that investment decisions take climate into account—and that vision is for the public sector, regulated sectors and private markets as well. We have set out the expectation that all firms in the UK pension investment sectors will act as responsible stewards of their capital. We do not dictate those investment decisions, as I have tried to make plain throughout our conversation today, but we have made a number of interventions that I think are relevant here.

The UK Stewardship Code, which I mentioned, sets out the stewardship and reporting standards for asset managers and the service providers that support them: that they consider information provided through TCFD and, in time, the sustainability disclosure requirements regime when allocating that capital, and then—this is something that I have pushed for a lot—that they join the Glasgow Financial Alliance for Net-zero organisation and then the Net-zero Asset Managers initiative or the Net-zero Asset Owner Alliance. I recognise that there is always the risk of new actors coming in and not behaving consistently with those, but we are trying to normalise a set of behaviours and disclosures that make it difficult to hide decision-making from the clarity that that transparency gives and the way that that creates inherent accountability.

Q286 Viscount Chandos: It looks as if the level of regulation in this area that is applied to the banking system, for instance, is higher than the more informal, lighter-touch regulation that may apply to institutional investors that, say, would provide private credit. So will the level of regulation in the banking sector not inevitably drive the funding of carbon-intensive industries into the private credit sector, which is less susceptible to

government influence, the governor's eyebrows or whatever?

John Glen MP: What we want is a transformation of expectations across the whole economy. We have set out plans to introduce sustainability disclosure requirements that cover the real economy, and that includes moving towards, as I mentioned earlier, the mandatory transition plans for firms in order to ensure that all firms have a credible path to net-zero. But we want to take those forward in a proportionate way. We are increasing transparency and strengthening overall the informed allocation of capital. Those transition plans, and what disclosures are expected around them, will be a very important part of that, and we will announce them later this year. We cannot tell firms what to invest in, but we can set expectations and give them obligations on disclosures that are as transparent, testable and globally consistent as possible.

Viscount Chandos: That is a theme in your answers.

John Glen MP: Good, I am glad I am consistent.

Viscount Chandos: You cannot, or do not want to, direct firms investment by investment, but on the other hand the whole point of setting regulation and having guidelines or codes is to influence behaviour.

John Glen MP: By setting codes, by setting out roadmaps, by working with global standard setters and by leading the way, as our central bank does in global conversations, we are not prescribing investment decisions. Hopefully, we are being responsible in saying, "Look, this economy needs to change the basis for how it operates". There are some who would wish to pick out specific investment decisions that we could make to accelerate and find the quick win that would take us there quickly. I recognise that, and you would expect that in our political system we would have those discussions. But what we are doing is responsible and consistent with the best of global practice. We are consulting across society, from NGOs to academics and industry, in order to get this right. I recognise that some will not like that. At times, asymmetries may creep in, and we will look at everything we can do to make that as clear and transparent as possible.

Q287 **Lord Fox:** On the consumer side and green consumer financing, are you happy with the innovation and delivery, and the speed of that delivery, that the financial sector is coming up with in offering green financial products?

John Glen MP: There is always more that can be done. My colleague the Exchequer Secretary recently had a round table with mortgage providers. There is a massive appetite; as I mentioned, 70% of the public say they want their own investments to avoid harm and achieve good. We have over 40 green mortgage products on the market, and I think that will grow.

The Government have provided innovation funding to support the development of some of the new pilots through the Green Home Finance Innovation Fund while the £20 million Green Home Finance Accelerator

competition, will launch later this year. In the green finance strategy in 2019, we engaged with professional bodies to drive green finance competences across the City; I remember the launch of a green finance education charter to build out the skill sets required across the financial services ecosystem in London. We also have a call for evidence on an update to the green finance strategy that will build on those steps from three years ago.

Lord Fox: It sounds as if you are pretty satisfied with the direction and speed of travel at the moment.

John Glen MP: We are never fully satisfied; there is always more to do. I was trying to set out some of the things that we have done already, but there is more to be done. One of the challenges with green mortgages, for example, is that I do not want to be in a situation where an apparent obligation to move forward with greening the mortgage book in a particular institution will lead to people being unable to obtain mortgages because the pace of the delivery of other ameliorative efficiency interventions is not aligned with it. These issues are obviously very important, which is why across government we have conversations about how to do this stuff.

Lord Fox: But in terms of people knowing what they are getting, in certifying what a green product is, are you comfortable that people are actually getting the financial product they think they are getting—"buyer beware", so to speak?

John Glen MP: I think we are moving to greater clarity all the time. A lack of clarity is unacceptable for consumers increasingly voting with the way they invest. If they do not have that clarity, it will be a challenge to secure that investment.

The Chair: To what extent do you think the lack of lots of products in the financial sector for the retail and the retail offer is linked to a lack of clarity on the wider public policy framework, as some have said? I am thinking again here about things like retrofitting, EVs et cetera. Is the problem that we are grappling with here not that the financial sector is looking for clarity from government but that we do not have it at the moment, or do you not recognise that criticism? People have said that to us, but I will not quote them to you.

John Glen MP: We are on a journey. We have issued £18 billion of green gilts, and this is attributed to the framework that we have set out. We have issued the green premium bonds for public consumption, obviously—and, as you said, we have made significant investments in particular initiatives and incentives. For some, the overall coherence and volume of that will never be enough, because they think that virtually every penny that we spend as a Government should be on greening the economy. Some people write to me as a constituency MP to say that.

But I hope that we are giving clarity about expectations. The £6.6 billion that Fayyaz mentioned in his answer to Lord Griffiths is a significant

investment. Sometimes there are challenges in delivering and rolling out those programmes in partnership with firms on the ground, but, again, that is a matter for other colleagues in government.

Q288 Lord Griffiths of Fforestfach: A number of witnesses have told us that the best way to increase investment would be if the Treasury introduced an explicit carbon tax. What is your response to that?

John Glen MP: This is clearly an incredibly difficult area. We are in a global context in relation to the definitions of carbon pricing. Carbon pricing is one of the most efficient tools to promote decarbonisation, and it will play a key role in us getting to that net-zero goal in 2050. As a Government, we are committed to maintaining an ambitious carbon price to ensure that polluters continue to pay for their emissions.

We have two main carbon pricing policies: the carbon price support and the UK emissions trading scheme. The carbon price support places on electricity generation a carbon price that is paid in addition to the ETS—it is currently equivalent to £18 per tonne of CO₂. The CPS rate has contributed to a significant shift in the economics of investment incentives in renewable energy sources, compared to coal, for domestic power generation.

In January 2021, coming out of the institutional frame of the EU, we launched the emissions trading scheme to replace our membership of the EU ETS. This covers emissions from power generation, energy-intensive industries and some aviation. My understanding is that the UK ETS authority is currently consulting on the development of the UK ETS, and this would include an emissions cap, consistent with net-zero by 2024, on expansion to more sectors of the economy, including domestic maritime, and on the future of free allowances.

Forgive me for reading that out; I am not intimately familiar with this area. I am aware of the work that is going on with voluntary carbon markets; this morning, I met the chief executive of ICE, who is projecting and setting up new mechanisms for trading.

There are challenges in getting consistent definitions, and we are looking at how registries work and how we can expand this. But in the context of the obligations that we have made people live with, we see an imperative to change behaviours. We now need efficient tradeable markets for some of those obligations, but you are probably now exhausting my knowledge base in this area.

Lord Griffiths of Fforestfach: In a piecemeal Lego manner, we have effectively been building up a piecemeal carbon tax, but with a very British flavour to it, as opposed to something that other countries might introduce.

John Glen MP: That is probably a reasonable characterisation of it. There has been not a big bang but an evolution, with increasing clarity in the use of this effective tool. There are different models throughout the world and in different regions of some countries, and there is no universal

solution yet.

Q289 **The Chair:** I would like to put one final question to you—

John Glen MP: A googly?

The Chair: Never. Jason Bordoff, the dean of Columbia University's climate school, gave some very interesting evidence to us. For example, he said: "Governments ... are subsidising energy costs, rolling back fuel taxes, all the price signals you would want to encourage conservation and substitutes, dealing with the immediate crisis of the moment and calling on producers to produce more oil and gas as quickly as possible ... it will be more difficult, not less, to put in place the measures that we need to provide a stable and orderly pathway to a clean energy transition ... I am worried that we are moving along a path where the energy transition will be more disorderly, not less, and more jagged and less smooth". Hearing everything that you have said today, do you see a real risk of a disorderly transition?

John Glen MP: My job is to do everything I can to create maximum order and smoothness in the transition.

The Chair: What about the level of the risk at the moment?

John Glen MP: I am in the business not of creating headlines for this committee but of delivering on the Government's agenda in an orderly fashion. I want an orderly transition, with clarity for industry. I recognise that some of these challenges are tough and that the transition journey is not smooth, given the asset profile that some companies have. I take your point about the uncertainty that is induced when government does not always give absolute clarity when the industry wants it. But we do not live in a perfect world, and this year we have seen an extraordinary set of circumstances after an extraordinary two years.

The Chair: Understood. Professor Bordoff said that, in a trade-off, energy security trumps climate change. Do you agree with that? What are your thoughts on it?

John Glen MP: We have steadfastly held to our climate change obligations; it is in law to get to net-zero by 2050. But we have responsibly addressed the changes that need to happen and the need to give the British public certainty about our energy security. That is what a responsible Government do. This obviously poses some searching questions, which you have shared with me this afternoon, but I would not want to choose between those two, because they are both obligations of this Government.

Lord Stern of Brentford: For clarity, I believe that Jason Bordoff's statement was empirical rather than prescriptive. Thinking about putting those two together, would you agree that, if the volatility and insecurity come from markets for fossil fuels, a key part of action on energy security would be to move harder and faster away from those fossil fuels?

John Glen MP: We need to undertake a transition, but I will not prescribe a firm level. I have set the framework—

Lord Stern of Brentford: I am not talking about a firm level.

John Glen MP: You are trying to get me to say something specific about the calibration of the speed of change. I will not do that, because it inevitably has implications for firms. I have been really clear about what we are doing in government and what I expect to happen over the coming years.

Lord Stern of Brentford: It is not a calibration but a directional question. When you think about energy security and its source, would it not make sense to think of moving still faster in that direction? I am not asking you to quantify it.

John Glen MP: It depends on what you are moving towards and how effective that would be in addressing our energy security and supply challenges. Of course we need to move quickly, but we need to do so in an informed way that also gives stability and security of energy supply.

The Chair: Thank you for your very comprehensive answers. We have covered a lot of ground—

John Glen MP: Most of it was not in my area, but I did my best.

The Chair: You have done extremely well answering questions not in your area. I thank both of you for your time.