Written evidence submitted by Barclays

About Barclays

Barclays is a transatlantic consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in our two home markets of the UK and the US. With over 325 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Barclays welcomes the Treasury Select Committee's relaunched inquiry into the decarbonisation of the UK economy and green finance and its request for additional written evidence on how and whether the UK's response to coronavirus should take the Government's net zero carbon emissions by 2050 target into account. Barclays also responded to the initial inquiry in July 2019, and continues to advocate for the key green finance related policy recommendations as set out in our earlier submission. We also support the industry submission provided by UK Finance.

Introduction – Barclays as a Net Zero Bank

Since the initial TSC inquiry launched in July last year, Barclays has significantly strengthened its climate change commitments and targets. We believe that Barclays should take a leading role in tackling climate change and help accelerate the transition to a low-carbon economy.

Specifically, Barclays' ambition is to become a net zero bank by 2050, across all of our direct and indirect emissions (Scopes 1, 2 and 3), and we are committed to align all of our financing activities with the goals of the Paris Agreement. We are one of the very first banks to make such a commitment, across both lending and financing, and across all sectors. We will start with our provision of financing to the energy and power sectors, because energy production and use is the largest source of greenhouse gas (GHG) emissions, and we will extend this to our entire portfolio over time.

As well as committing to play our part in limiting global warming, we're significantly increasing our existing targets for green financing, investing in green innovation, and partnering with the Blue Marine Foundation to help protect and sustain the largest carbon sink on Earth: the ocean.

Our goal, ultimately, is to help advance the rest of the financial community, as well as help our clients, to transition to a low-carbon economy and to achieve similar net zero goals. We are therefore committed to a transparent approach as we continue to develop the metrics and tools that are needed to measure tangible progress towards our net zero ambition.

Barclays fully supports the UK Government's ambition to become a net zero economy by 2050 and believes the recovery efforts post COVID-19 should take these goals into account. As the shift towards a low-carbon future intensifies, Barclays welcomes the opportunity to collaborate with the Government, Parliament and the wider policy making environment in order to help shape and progress this important goal. We fully recognise the potential for green finance to represent a flourishing industry for the UK, and we are dedicated to supporting that objective to the best of our ability.

Barclays' Response

The supplementary call for evidence poses five inter-related questions:

1. Should the Treasury's support package to business distinguish between companies based on how much they pollute?
2. Should the Treasury be directly funding Green infrastructure as part of its Coronavirus spending package?
3. Are there any green related policies that the Treasury should change or commence due to the Coronavirus in order to facilitate the transition to meeting Net Zero?
4. In which ways will the new economy post-Coronavirus allow the Government to change the way it finances meeting the Net Zero Target?
5. Are there outcomes from the Coronavirus that will enable the Treasury and HMRC to meet the Net Zero target more easily?

Overall, Barclays believes that government support used to stimulate a recovery from the COVID-19 downturn should be designed to have the double impact of stimulating economic growth, while also creating jobs in sectors that have a carbon reducing impact and that help to mitigate the transition risks and physical risks from climate change. The climate crisis is similar to the pandemic crisis, but is happening more slowly and has graver consequences if unchecked. Spending now to help avoid a temperature increase above 1.5 or 2 degrees Celsius will help to prevent future market failures as climate change progresses and worsens.

There are many ideas already put out in the public domain (e.g. Oxford University's 'Building Back Better' report) on the form of government support that should take place. Good examples include spending on the energy efficiency of buildings; subsidies for retrofits for improved insulation and domestic energy storage systems; policies to further stimulate the growth in renewable assets (a sector which tends to come with higher volumes of job creation); investments in grid modernisation, energy storage and Carbon Capture and Storage technologies; and natural capital investments for ecosystem resilience (which creates greater stability in the economy in the long-run). It is also essential to engage and work with the 'brownest' sectors in society in order to ensure we have a 'just transition,' where the staff that is most vulnerable to job losses due to the transition to a net zero economy are able to embark on re-training programmes and can be redeployed to other sectors.

Clearly, there are a number of tools at the Government's disposal to incentivise net zero business investment. These include tax breaks, grants and other fiscal measures. We also believe the Government should think about ways in which it can harness the power of finance in businesses' investment decisions to have a multiplier effect beyond the scope of government spending alone.

There are already a number of green products available in the marketplace that are contributing to the net zero goal, including 'use of proceeds' loans which are relatively easy to identify (e.g. for Wind, Solar etc.). However, more needs to be done in the corporate space, where an appropriate incentive structure is required to encourage small, medium and large corporates to select projects that will advance net zero (e.g. opting for electric vehicles or sustainable supply chains, or focusing on the reduction of emissions).

These types of investment projects tend to require bank finance, and there are already simple steps the Government can take to encourage banks to provide this type of lending. For example, via the British Business Bank, the Government already has a number of schemes in place designed to stimulate wholesale lending post COVID-19, e.g. the ENABLE guarantee, CBILS and CLBILS. With relatively simple tweaks, these schemes can be adapted to focus on net zero blended finance solutions. As a significant number of businesses focus on

bridging their short-term needs through the COVID-19 pandemic, now is an ideal time for a focused, clear and green COVID-19 recovery program to marry up with the closing of the CLBILS/CBILS window in September.

From a credit risk perspective, regulated financial services firms cannot offer better margins or terms on a product/investment unless they can justify it based on the risk profile of the company, project or asset. Therefore (as referenced above), to incentivise lending/investment into target sectors for the transition to a net zero economy, the Government should step in to provide measures that help with the credit enhancement of these projects. These can take the form of Contract for Difference schemes (e.g. for wind energy), first or second loss guarantee schemes (e.g. for electric vehicles), or an overall standardisation of infrastructure (e.g. for electric vehicle charging points). In particular, we welcome the extension of the CFD scheme to onshore wind and solar in 2021 – this is a great opportunity to help banks deploy capital again, and could be a great mechanism for relatively short-cycle green energy investment post COVID-19.

It is also clear that wider technological solutions will be required to meet climate targets, most notably carbon capture and utility-sized storage. However, banks are generally not in a position to support via debt capital in view of technology failure/premature obsolescence and unproven revenue models. There are steps the Government could take to provide support here, e.g. supporting new renewable energy technologies, negative emission technologies and storage/supply. The launch of recent funds, including the Industrial Energy Transformation Fund and Clean Growth Fund, is a great first step.

Finally, the energy industry is still not 'subsidy free,' notwithstanding significant progress made to address cost, technology and product lifecycle. However, unsubsidised projects (and infrastructure projects more generally) require a very large upfront cost to be repaid from uncertain future long-term revenues that can be subject to substantial fluctuation. Any government support that reduces some of the uncertainty around future revenue streams for green infrastructure projects would be welcome, particularly given the recent power price volatility caused by the COVID-19 pandemic.

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