Written evidence submitted by Positive Money

Positive Money welcomes the opportunity to respond to the Treasury Committee's call for additional evidence for its Decarbonisation and Green Finance inquiry. This evidence builds on our original submission to the inquiry.[1]

We are a non-profit research and campaigning organisation working towards reforming the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

Our submission makes the following key points:

- Public financial support for the private sector should be contingent on companies agreeing to environmental and social conditions.
- 'Greening' the Bank of England remains a key step in facilitating the transition to a Net Zero economy.
- The Government should take a more active role in directly funding the infrastructure required to meet its Net Zero target alongside a green jobs guarantee, taking advantage of conditions for monetary financing.

1. Should the Treasury's support package to business distinguish between companies based on how much they pollute?

1.1. Polluting business models which are incompatible with the government's Net Zero target must not be supported with public money. The Treasury has an opportunity to align business with the government's climate goals through conditions on the public funding it is providing. Companies which refuse to make decarbonisation commitments should not receive such support. If these changes are not put in place now, the inevitable transition will only be more disorderly, and the impact on businesses and jobs much greater.

1.2. The Treasury's support via the Bank of England administered Covid Corporate Financing Facility (CCFF) has been disproportionately skewed towards polluting companies. A Positive Money sectoral analysis in June 2020 calculated that 56% of CCFF funding was going towards high-carbon sectors, including oil and gas, aviation and chemical companies. Approximately 7bn trees would need to be planted to sequester the carbon emitted in just one year by firms using the CCFF - a feat which would require covering an area three times the size of the UK with trees capable of carbon storage. Further, only around a fifth of these companies have disclosed accurate statistics for carbon emissions, energy, water and waste.[2]

[1] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/decarbonisation-and-green-financethe-economic-opportunity/written/104089.html

1.3. The Bank of England has rejected calls for funding to be contingent on climate impact on the basis that the CCFF is first and foremost a scheme to protect jobs.[3] However it is precisely because of a lack of conditions to the CCFF that companies have been cutting jobs despite receiving funding through the scheme, while even paying out dividends to shareholders.[4] Around 40% of companies using the CCFF have been making job losses, totalling tens of thousands of UK based jobs.[5]

1.4. On 2 July the government announced that its £30m emergency loan to Celsa Steel (around a 10th of the size of the average CCFF loan) would come with conditions to "ensure public money is used to aid wider government policies to further benefit the UK. These conditions include commitments to protect jobs, climate change and net zero targets, improved corporate governance, such as restraints on executive pay and bonuses, and tax obligations."[6] Alongside the July 'mini-Budget' it was announced that all companies receiving government support "need to agree to appropriate conditions, including those relating to tax, supplier payment terms, climate change and corporate governance."[7] However as of yet no such conditions apply to firms which are able to access support from the Bank of England through the CCFF.

1.5. It is unjustifiable that companies which aren't eligible for the CCFF scheme on the basis of size or financial health are forced to accept conditions for public bailouts, while larger corporations are able to access no-strings-attached funding directly from the central bank. This could have worrying implications for market concentration and power, as larger firms may be given a competitive advantage by virtue of being unaffected by conditions which would apply to smaller firms seeking public financial support. In order to mitigate these inequalities, all Treasury and Bank of England support for private companies must be contingent on agreement to environmental and social conditions. Namely, these conditions could include the presentation of credible Net Zero plans in line with the government's emissions targets, disclosure of climate risk as recommended by the Task Force on Climate-related Financial Disclosures, alongside protections against job losses.[8] Finally, sustainability conditions on bailouts should not exclusively address climate impact, but also ecological impact. For example, chemicals giants BASF and Bayer have received £1bn and £600mn respectively via the CCFF.

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[2] https://positivemoney.org/publications/ccff/
[3] https://www.bankofengland.co.uk/news/2020/july/statement-on-banks-commitment-to-combatting-climate-change
[4] https://www.vice.com/en_us/article/m7jxvn/corporations-receiving-bailout-billions-have-laid-off-staff-and-paid-investors
[5] https://positivemoney.org/publications/ccff/
[6] https://www.gov.uk/government/news/government-agrees-support-package-to-uk-steel-company
[7] https://www.gov.uk/government/publications/a-plan-for-jobs-documents/a-plan-for-jobs-2020

[8] https://positivemoney.org/publications/ccff/

These companies dominate the pesticides industry and bear considerable responsibility for the collapse in insect populations that are crucial for the functioning of natural ecosystems.[9] Conditions should also require credible commitments to minimise such negative ecological impacts.

1.6. For particularly environmentally harmful companies, the government should consider taking equity in exchange for bailouts. Majority equity stakes in particular would allow the government to have significant influence in delivering a worker-led zero carbon transition in strategically important companies. In the most extreme cases, where business models are fundamentally incompatible with Paris Agreement goals, as is the case with oil and gas companies, the government should consider full-scale nationalisations in order to manage a just decline of these companies' unsustainable operations.[10]

1.7. Finally, the Committee should reflect on whether conditions attached to bailouts should also be progressively extended across the UK economy, especially in sectors that are crucial for achieving a zero carbon economy. While it's particularly important to ensure public funds are not used to enable environmentally destructive economic activity, regulation should not be limited to those companies receiving government support if being applied universally would be more appropriate and effective. Prior to the pandemic mandatory climate risk disclosure for UK companies was already being rolled out, and robust arguments had been made in favour of the nationalisation of extractive industries.[11] The justification for these policies existed independent of the involvement of public money.

2. Should the Treasury be directly funding Green infrastructure as part of its Coronavirus spending package?

2.1. The scale of action required to decarbonise Britain in line with commitments made under the Paris Agreement demands that the Treasury plays a leading role in directly funding the infrastructure needed for a green transition. Prior to the pandemic, the government was already not on track to meet its Paris Agreement commitments. The Committee on Climate Change's (CCC) 2019 progress report stated that the government's actions to date fell "well short of those required for the net-zero target".[12] As stated in our original evidence, while private finance can and should play a role, such a deep, broad and rapid transformation will have to be led by active and interventionist public finance, not least because many of the required investments must be made for their social, rather than monetary, returns.[13]

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[9] http://www.foeeurope.org/sites/default/files/biodiversity/2020/insect_atlas.pdf
[10] https://neweconomics.org/2020/04/bailouts-the-new-normal
[11] https://www.ft.com/content/de915fb4-5f9e-11ea-b0ab-339c2307bcd4
[12] https://www.theccc.org.uk/wp-content/uploads/2019/07/CCC-2019-Progress-in-reducing-UK-emissions.pdf
[13] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/decarbonisation-and-green-financethe-economic-opportunity/written/104089.html

2.2. Public investment in infrastructure can be combined with a green jobs guarantee, which would help mitigate rising levels of unemployment resulting from the Covid crisis. Such a guarantee would offer public employment - including training where necessary - to anyone willing and able to work. The programme would focus on providing jobs necessary in building the infrastructure for a Net Zero economy, such as retrofitting of the UK's housing stock, tree planting and nature restoration, and renewable energy projects. Universal basic services such as healthcare, education, and social care should also be considered 'green' jobs as they effectively meet human needs often with relatively little negative environmental impact.

2.3. The economic benefits and fiscal feasibility of a job guarantee programme have been outlined extensively by economists such as Pavlina Tcherneva.[14] The scheme would act as an 'automatic' macroeconomic stabiliser, as it would increase government spending into the economy during downturns (when spending is necessary) as people get laid off by the private sector, and would decrease spending when the private sector recovers and starts re-absorbing some of the workforce. In the context of recovering from the Covid crisis, a green jobs guarantee offers the dual benefits of bringing down unemployment and keeping to the government's pledge of 'building back better' towards a fairer, greener and more resilient economy.[15]

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?

3.1. 'Greening' the Bank of England remains a key step in facilitating the transition to a Net Zero economy by ensuring financial flows are aligned with the government's climate targets. As Britain's central bank, the Bank of England is currently overseeing a financial system which is significantly out of step with the UK's legally binding commitments under the Paris Agreement. As former Bank of England governor Mark Carney told the Treasury Committee in October 2019, the global financial system may be funding temperature rises of more than 4C, more than double the 1.5C aimed for in the Paris Agreement.[16] Indeed, the Bank of England's own asset purchases are currently aligned with a 3.5C increase in temperatures by the end of the century, which the Bank has defended as simply mirroring the market, which the MSCI Reference Portfolio suggests is funding 3.7C warming.[17]

[14] http://pavlina-tcherneva.net/the-case-for-a-job-guarantee/

[15] https://www.edie.net/news/9/Boris-Johnson-confirms-new-COP26-date--urges-nation-to-focus-on-green-recoveries/

[16] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/bank-of-england-financial-stability-reports/oral/106363.html

[17] https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2020/climate-related-financial-disclosure-report-2019-20.pdf?la=en&hash=5DA959C54540287A2E90C823807E089055E6721B

3.2. When asked about a joint letter on climate coordinated by Positive Money, the governor of the Bank of England Andrew Bailey told the Committee in March that he would take forward efforts to align the Bank's asset purchases with the government's Net Zero target "a priority'.[18] However, the central bank appears to have since reneged on such commitments, publishing in April an updated list of corporate bonds eligible for purchase under new rounds of QE which still included fossil fuel companies whose business models are fundamentally incompatible with the government's emission targets.[19]

3.3. The Treasury should compel the Bank of England to lead by example and ensure its balance sheet is aligned with efforts to keep global temperature rises below 1.5C. It must start by excluding bonds issued by companies involved in the extraction of fossil fuels from the list of eligible assets under its corporate bond purchase scheme (commonly referred to as 'corporate QE'). Furthermore, consideration should also be given to whether bonds issued by other companies whose business models are incompatible with the aims of the Paris Agreement should also be excluded from the Bank's asset purchases.

3.4. The Treasury must work with the Bank of England to ensure that it has all of the tools and authority necessary to mitigate climate risk in order to fulfil its duty as a prudent financial regulator, making updates to the central bank's mandate to this effect where necessary. Other tools should include forms of 'green credit guidance', which refers to measures aimed at shifting investment away from fossil fuels and towards greener projects. This could include the central bank using macroprudential policy to increase the amount of capital lenders need to hold against high-carbon loans to accurately reflect the risk. Going further, the Bank of England could follow the lead of other central banks in considering preferential interest rates for green investment or mandatory quotas on green lending. Other credit guidance strategies such as targeted refinancing operations and changes to collateral requirements can also play an important role.[20]

4. In which ways will the new economy post-Coronavirus allow the Government to change the way it finances meeting the Net Zero Target?

4.1. The Government should take advantage of conditions for monetary financing in order to fulfil the scale of public investment required to meet its Net Zero Target. The Bank of England's use of quantitative easing (QE) since March 2020 has demonstrated the central bank's ability and willingness to ensure that the Treasury is able to finance huge increases in public spending, and that the interest cost of such borrowing is affordable.[21]

[18] https://positivemoney.org/2020/03/andrew-bailey-announces-crucial-step-towards-climate-friendly-bank-of-england/
[19] https://www.theguardian.com/business/2020/apr/16/bank-of-england-failing-climate-with-covid-19-stimulus-programme-oil-firms-debt-bond-governor
[20] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/decarbonisation-and-green-financethe-economic-opportunity/written/104089.html

4.2. The Bank of England has also offered to expand the government's Ways & Means 'overdraft' facility with the central bank.[22] The Treasury should take advantage of this as a means of direct monetary financing to fund spending on decarbonisation, as it may avoid some of the undesired consequences of more 'indirect' forms of monetary financing such as QE.[23]

4.3. If necessary, the Treasury should also make changes to the Bank of England's mandate and toolkit to enable it to make full use of its power to support the government's efforts to meet emissions targets, through so-called 'green QE'.[24] This would involve the BoE buying zero-interest bearing, perpetual bonds from the Treasury to finance government deficit spending on decarbonisation.

August 2020

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[21] https://committees.parliament.uk/writtenevidence/7925/html/
[22] https://www.ft.com/content/664c575b-0f54-44e5-ab78-2fd30ef213cb
[23] https://committees.parliament.uk/writtenevidence/7925/html/
[24] https://positivemoney.org/greenbankofengland/