"To what extent does the Government's approach to trade reflects its net zero ambitions."

1. In order for the UK to reach its net zero ambitions it is imperative that this is reflected in how and what we trade and how we support UK businesses in doing so. At present, the Government is looking to reduce their portfolio of support for greenhouse gas emissions and encouraging UK businesses to transition to low carbon businesses opportunities. However, across our global economy companies are at differing stages in their climate transition. This may be due to in part to varying levels of research, development and/or access to clean technologies. If we drive down carbonisation in the UK economy in isolation risks not driving the intended change to global emissions by, simply transferring some of these emissions to developing economies who are less regulated and/or committed to those sustainable goals. The UK has reduced territorial emissions and demonstrated fast renewable growth. However, the UK should be ambitious and lead through action with a 'net zero' emissions consumption target. To do so, we must begin to consistently assess and track output using measures targeted to reduce consumption emissions alongside a strategy assessing UK territorial emissions.

2. The underlying challenges for UK businesses, whether they are (i) want-to-be exporters, experienced exporters or (ii) domestically focused are not solely defined by access to finance. Other significant barriers include, but are not limited to knowledge gaps and logistical challenges, complexity and uncertainty created through regulatory and legal aspects. With this in mind, when considering the role carbon border adjustment mechanisms may play, having (a) a simple design and operation of these, (b) early visibility and (c) a sufficient transition period are vital.

What opportunities are there for the Government to innovate to create more opportunities for "green"goods and services to export, to decarbonise and green supply chains?

3. The Government has outlined a commitment to provide international leadership by working closely with like-minded export credit agencies and relevant financial institutions[1], although the measures of success for this commitment are unclear. Alongside presenting the UK export credit agency as a climate thought leader, there is also an opportunity for competitive advantage. Competitive financing options through lenders and targeted and appropriate support from UKEF could equip UK companies with knowledge to support their own carbon transition, whilst also enabling them to support, inform and encourage their own trading partners. This can be reinforced through simple, standardised and effectively calibrated metrics and policy tools to promote transition to 'net zero'. By advocating for UK businesses to encourage and promote climate considerations within their supply chain, we will begin to see a global cultural shift. UK businesses will then build a reputation for supporting and providing additional capability globally with climate transition.

4. We have already seen DIT and UKEF begin to incorporate climate and wider environmental and social considerations into their policies and activities, although this has not always been at the same pace as the wider economy. To provide clarity to UK businesses, the implementation of such policies needs to be consistent across Government and undertaken in a way that is simple for UK companies to navigate and evidence compliance. Recognising the need for the pace of change and the breadth of considerations, a piecemeal implementation risks protracted distraction from supporting UK businesses in the near term and increases the challenge of implementation and embedding.

[1]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf

To what extent have the Department for International Trade and UK Export Finance changed their working practices in order to bring together the Government's environment and trade policies?

5. In 2020 UKEF put in place a £2bn direct lending facility dedicated to financing clean growth projects, with the aim of supporting opportunities to the UK supply chain. This included the launch of the General Export Facility, Export Development Guarantee and Transition Export Development Guarantee[2]. Furthermore, UK Freeports support UK businesses to take an active role in addressing the climate challenge given the UK Government see the Freeports as an opportunity to contribute to the wider decarbonisation agenda and 'net zero' ambition. The majority of UK Freeports are intending to expand supply chains relating to offshore wind. Also, the support of construction of sustainable and low carbon buildings and infrastructure as part of establishing the UK Freeport including the adoption of Electric Vehicles. A proliferation of support schemes and fragmentation across multiple specific sectors and initiatives risks creating a confusing landscape for UK companies and challenge of propositions that struggle to reach viable scale. It also does not address the information barriers UK businesses experience in Trade more generally and especially in transitioning to green. We need a co-ordinated, well-structured framework which makes it coherent and accessible to give UK businesses the support they need in contributing to the Government's Net Zero ambitions.

What might be the impacts of measures introduced by the UK's trading partners designed to reduce reliance on carbon-intensive fossil fuels – for example carbon border adjustment mechanisms – on UK trade?

6. ***Our Recommendation***: The Government explores, along with other international trading partners, a carbon border tax adjustment system that reflects the differential in carbon taxes around sectoral carbon pricing compliance schemes and, where compliance schemes don't exist, links to an environmentally-credible voluntary carbon market.

7. ***Benefits***: A level playing field for UK producers and exporters will provide confidence to businesses and facilitate the flow of finance for investment. It will also encourage innovation in the UK and internationally and reduce UK consumption based emissions.

8. ***Issues***: The issue of creating a level playing field is challenging. To date much of the UK's (and other OECD countries') has come from shifting emissions production to emerging market economies. The UK and EU lead on carbon pricing for their compliance markets but others are being set up with the price of carbon and coverage increasing although many carbon pricing schemes are well below the social cost of carbon.

9. As the net zero transition accelerates, it is important for the UK to consider the reduction of consumption based emissions from imports and enable UK businesses to innovate for low carbon solutions. Creating a carbon border tax adjustment system would ensure that high carbon imports do not have a significant advantage over lower carbon UK (or other low carbon economy) production. Whilst not the only factor in mobilising finance for UK businesses to support growth, a well-designed, robust, long-term scheme would build policy certainty.

[2]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019141/UKEF_Climate_Change_Strategy_2021.pdf

10. We recognise the challenges associated with setting up a carbon border tax adjustment scheme that promotes trade and collaboration and avoids protectionism. We think this is an important piece of work to do in collaboration with other trading partners to support UK growth and accelerate the transition to net zero.

11. Finally, the outcomes the Government are looking to drive need to be clear and consistent to UK businesses, with a focus on the output of the Government's initiatives in supporting the UK's 'net zero' goals. It is key to drive green transition initiatives but simultaneously progress needs to be measured encouraging standardisation across industries and wider supply chains. This is to prevent potential transition risk, which could result from the process of adjustment towards a lower-carbon economy. If the benchmark we hold UK businesses to is materially above others, we risk creating a commercial disadvantage in amplifying inconsistency across different jurisdictions, while also diminishing the ability to measure transition to net zero itself and challenging the effectiveness of such measures. NatWest is actively participating in industry wide initiatives which look at bringing common benchmarks and denominators when measuring sustainability more broadly. A great example here is the Coriolis consortium which looks at UN sustainability goals and the common denominator for 'rating'/'scoring' all individual trade transactions. It is in early development but it sees all trade banks working together as they see how important transactional scrutiny is - and not one that purely applies to counterparties.

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