Written evidence submitted by Green Alliance

What is the role of finance, investors and business in tackling climate change?

- Role of finance and investors: The finance sector is in a unique position to incentivise the transition through only agreeing to lend to, invest in and insure businesses that manage their climate and nature risks and impacts. Access to reliable flows of low-cost capital at scale for low carbon, renewable and circular economy projects will be essential if the UK's climate change commitments are to be met. Investors can help to divert that capital to those sustainable projects. Investment into sustainable practises is currently dwarfed by capital flowing into fossil fuels and other unsustainable sectors and practices, so green finance and investors play a key role in diverting capital away from fossil fuels and into a clean energy system over the next decade.
- Role of business: Business have a role in acting to mitigate climate risk in their business activities and operations, to reduce their vulnerability to climate shocks (including to the likelihood of the cost of producing emissions rising in the future). Businesses can also tackle climate change through look for opportunities in a low carbon world. This might include changing products to being more environmental friendly, (for example, producing more efficient appliances or electric vehicles), improving sourcing so it is less environmentally damaging (e.g., using renewable power for processes), or by restructuring business models to offer products services systems rather than products, and so they reduce demand for energy and resources.

What can the UK Government do to drive action from those sectors;

There are many ways that Government can drive action in the financial sector. For example:

- Implementing the Taskforce on Climate Related Financial Disclosures' recommendations in the national corporate governance and reporting framework by implementing the appropriate framework of legalisation and regulation to drive investors towards sustainable practise. This might include, for example, enshrining in legislation the expectation for all listed companies and asset owners to disclose recommendations of the Taskforce on Climate Related Financial Disclosures.
- Ensuring that government finance and procurement leads the way in sustainable financial practice. This might include, for example, ensuring that public sector finance is "greened" and climate risk is incorporated into the whole of government accounts; and ensuring that the costs of inaction on climate change is incorporated into public sector investment appraisals.
- Raising Government investment and capital raising in low carbon, sustainable and circular infrastructure, industries and technologies. This might include, for example; putting in place a national capital raising plan to support the UK's plans for net-zero emissions and climate resilience; and enhancing finance for sustainable infrastructure including introducing a new UK infrastructure bank to improve delivery of infrastructure finance[1].
- Use the tax system to ensure the most attractive industries to invest in are those that are fit for the future and use less energy. This could be through increasing taxes on fossil fuels (particularly appropriate given the exceptionally low oil prices currently) or on polluting activities.

[1] https://www.e3g.org/library/spend-and-spend-wisely

- Introduce ambitious environmental policies and regulations to provide market signals across all sectors of the economy and drive long term investment in environmentally friendly solutions.
- Introduce a mandatory due diligence obligation on companies in the UK that address environmental impacts in their supply chains, and to ensure that similar principles are applied to the finance industry.

How can the UK Government continue to drive green finance whilst it tackles COVID-19 and the impact on our economy and society?

Many of the actions above can still take place even whilst we are tackling COVID-19. The pandemic has demonstrated how important it is to have an economy resilient to environmental and external shocks, and so moving to put in place regulation, legislation and relevant sustainable practice into government procedures is more essential than ever.

Government can also use any economic recovery package after the COVID-19 pandemic to provide investment and capital raising for low carbon infrastructure, industries and technologies as covered in point 3 above. This drives green finance by signalling future direction of government policy support an regulations. While the nature of government's public policy and spending agenda following the crisis remains uncertain, infrastructure investment is expected to underpin any recovery pathway, given the government's plans to publish a national infrastructure strategy and the comprehensive spending review due later this year. Infrastructure investment is likely to be seen as a key route to supporting the recovery, as it would provide a strong boost to short term demand, support employment and spending across the economy, and raise private sector expectations, which will help crowd in additional private sector investment.

To ensure the UK post-COVID establishes a new normal that shores up the benefits of less but active travel, advanced telecommunications, improved air quality and access to green spaces, the government could look to drive stimulus and investment in sustainable infrastructure and industries required to meet the Paris agreement. This includes areas such as:

- buildings (improving energy efficiency, supporting roll-out of low carbon heat and promoting zero carbon new homes)
- transport (enhancing public transport networks, increasing active travel networks, increasing coverage of EV charging infrastructure and supporting increased EV manufacturing capacity and uptake)
- renewables (building out the offshore wind capacity promised in the Conservative manifesto, and supporting increased deployment of onshore wind and solar)
- nature restoration and enhancement (expanding tree planting programmes and nature recovery networks)
- Resource efficiency and reuse (support for new systems and business models to drive a circular economy)
- new infrastructure for deep decarbonisation (CCUS and hydrogen)

Government can also support industries through procurement: for example, the automotive sector could be supported, for example, through public procurement of electric vehicles for its fleets.

Finally, government can ensure corporate bailouts for sectors like aviation, fossil fuel, energy and automotive sectors are subject to environmental obligations aimed at accelerating their transition towards net zero trajectories. This could also be through public equity stakes rather grants or loans, which would allow stronger direction of decarbonisation, particularly in business that require demand reduction to meet emissions cuts (i.e., aviation).

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