

PRI RESPONSE TO THE LABOUR PARTY CONSULTATION ON GREEN RECOVERY

ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 3,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US \$90 trillion in assets under management. 463 of these signatories, representing \$9 trillion, are based in the United Kingdom.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

SUMMARY OF THE PRI'S POSITION

The PRI welcomes the opportunity to contribute to the Labour Party's plans around a green recovery from COVID-19. It is crucial that dealing with the economic implications of COVID-19 is used as an opportunity to put the UK on track to meet its climate commitments, and that the transition to a net-zero economy does not falter in the face of the current crisis or the politics of recovery.

There are four priority sectors which must be included in a green recovery programme to unlock both public and private investment, delivering a high economic multiplier while reducing emissions.

- **Transport:** accelerating the shift from traditional to electric vehicles through intermediate sales targets, subsidies and investing in charging infrastructure.
- **Power:** boosting low-carbon power generation with higher ambition 2030 targets while redesigning the electricity market for flexibility.

- **Land use:** setting up a market mechanism to leverage private investment for afforestation while respecting biodiversity requirements.
- **Energy efficiency:** requiring a low carbon standard for new homes while investing in a major retrofit programme across the country.

Further detail on these areas and the role for investors in supporting progress can be found in the PRI's briefing *How government and investors can deliver net zero in the UK*.¹

DETAILED SUBMISSION

1. What sectors do you believe are the priorities for investment from government, for a green recovery programme to build a stronger, more resilient future economy? How can this investment reduce regional inequalities as well as address the climate crisis and environmental degradation? And what science and technologies do we need to invest in?

There are four priority sectors which must be included in a green recovery programme to unlock both public and private investment: transport, power, land use and energy efficiency.

With the exception of power, each of these sectors is market by a lack of progress in decarbonising to date, and current government policies and targets are in all cases insufficient or incomplete. Yet in each sector there are clear, near-term actions which can be taken today to get the UK on track to meet its climate change commitments.

Recent analysis on the economics of a green recovery published by Oxford University identifies policy interventions these areas as having both a high economic multiplier and a high GHG mitigation impact.² Many of these measures will stimulate economies at the local level while delivering various co-benefits such as reducing health and social inequality. The technology underpinning these sectoral changes has mostly moved beyond the speculative stage to the point where it can attract funding from mainstream sources.

Further information on the priority measures for each sector is set out below.

(i) Transport

Consumers who wish to purchase an electric vehicle (EV) should be supported in doing so. Demand-side incentives should be designed to ensure (at least) price parity between electric and traditional vehicles, while investment should continue in the national charging infrastructure.

Road transportation is among the highest emitting sectors in the UK, contributing 25% of the country's total. Greenhouse gas emissions from this sector have fallen just 2% since 1990. Some trends are in

¹ <https://www.unpri.org/sustainable-markets/briefings-and-consultations#net-zero>

² <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>

fact moving in the wrong direction – as the result of a shift towards larger vehicles the average car sold in 2017 and 2018 was less carbon-efficient than in the previous year.

The COVID-19 crisis has introduced a number of additional considerations for UK transport policy. A short-term trend with potential long-term consequences is that people are relying less on public transport in favour of other forms of transport, including cars. In addition, while price parity between EVs and traditional vehicles was projected by the mid-2020s³, a prolongation of the oil price slump precipitated by COVID-19 could delay this by a few years.

The government's Road to Zero strategy should be amended to include intermediate EV sales penetration targets – for example, ¼ of new car sales to be zero emissions by 2025 – to ensure the smooth development of the EV sector.

Such targets should be used to determine what demand-side incentives to use to accelerate EV uptake. A combination of grants and subsidies for EVs, including continued support via the Plug-in Car Grant and Zero Road Tax, as well as taxes for traditional vehicles and fuel will be necessary to ensure consumers are incentivised to opt for EVs as soon as possible.

This must be accompanied with investment in charging infrastructure through a regional lens. Charging and refuelling infrastructure will require over £1bn in investment per year to 2030. While most will be privately funded, public funding will be needed for remote and sparsely populated regions. Public support via schemes such as the Electric Vehicle Homecharge scheme and the On-Street Residential Chargepoint scheme for local authorities should continue, and be scaled up for remote regions.

(ii) Power

Low carbon power generation targets should significantly increased for the next decade to accelerate decarbonisation while delivering a green jobs boost across the country.

Power generation has been an area of success for the UK - In 2017, 52% of electricity was supplied from low-carbon sources, up from 23% in 1990.⁴ The UK leads the world in offshore wind generation, while until recently onshore wind and solar PV were hampered by their exclusion from the Contracts for Difference schemes.

Low-carbon capacity must be significantly increased. The 2030 government target for low-carbon power generation should be increased from 57% to 75-85%, with prioritisation given to cost-competitive forms of power generation. This would necessitate expanding the envelop for Contracts for Difference auctions to attain annual deployment targets of 1GW for onshore wind and 4GW for solar PV.

³ <https://www.theccc.org.uk/publication/net-zero-the-uks-contribution-to-stopping-global-warming/>

⁴ See note 2.

Spending on renewable power generation is suited to the present moment as it generates a larger number of jobs over the short-term but requires less labour for operation and maintenance, freeing up labour as the economy returns to capacity.⁵

(iii) *Land use*

Greater afforestation will be required for the UK to meet its climate commitments, yet even current targets which fall short of the ambition required are not being met. A greater role must be given to the private sector via a market mechanism for afforestation.

The Committee on Climate Change estimates that around 22% of land devoted to agriculture needs to support alternative uses, including afforestation, bioenergy production and habitat restoration in order to reach the net zero target by 2050.⁶ The UK is one of the least wooded countries in Europe, with only 13% tree cover, compared with an average of 42% in Europe, 32% in Germany and 31% in France. The 2020 Budget pledged to plant 30,000 hectares of trees over the next 5 years. However, the government missed its previous commitment, to plant 11 million trees by 2020, by around 70%.

Afforestation of at least 30,000 hectares per year to 2050 is required to meet the UK's net zero commitments, potentially up to 50,000 hectares per year in a high ambition scenario. The government should leverage private investment through the creation of an Emissions Trading Scheme or Contracts for Difference-style market mechanism which would guarantee a fixed payment at the start of the contract. These measures could increase forest cover from 13% to 17% of UK land.

This is another area where government spending today could yield instant positive results – spending on natural capital projects such as afforestation is fast-acting because worker training requirements are low, many projects have minimal planning and procurement requirements, and most facets of the work meet social distancing norms.⁷

For both government and private sector-led tree planting and management, however, enshrining respect for the “right tree in the right place” principle in policy design is a prerequisite. There is a need for effective oversight to ensure biodiversity and to create opportunities for other forms of landscape-based sequestration.

(iv) *Energy efficiency*

Investment in a green retrofit programme nationwide would drive decarbonisation of a significant source of emissions while saving occupiers money and stimulating local economies. This should be supplemented with a zero-carbon standard for new buildings from 2025.

⁵ <https://ukerc.ac.uk/publications/low-carbon-jobs-the-evidence-for-net-job-creation-from-policy-support-for-energy-efficiency-and-renewable-energy/>

⁶ <https://www.theccc.org.uk/publication/land-use-policies-for-a-net-zero-uk/>

⁷ <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>

Energy use in homes accounts for about 14% of UK greenhouse gas emissions. The UK cannot meet its target for net zero emissions by 2050 without near-complete decarbonisation of the UK housing stock. These emissions need to fall by at least 24% by 2030 from 1990 levels but are currently off-track. In 2017, annual temperature-adjusted emissions from buildings rose by around 1% relative to the previous year.

A package of policies is needed to decarbonise the existing building stock, which should include (i) large-scale government subsidisation programmes for specific technologies (e.g. a one-off payment for heat pump installations) and (ii) gradual phased-in ban of gas boilers. A major green retrofit programme could generate jobs nationwide and incentivise the acquisition of skills that will be necessary for the future economy.

In addition to this, the government's Future Homes Standard should require that all new buildings from 2025 onwards be (i) disconnected from the gas grid; (ii) use zero carbon heating (e.g. heat pumps or other); and (iii) follow EPC A standards of energy efficiency.

5. Given the regional and area-based impacts of this crisis, what role can a green recovery play in mitigating these impacts? What are the lessons of past environmental interventions in terms of local and regional impacts?

The measures proposed above could be focused on regions that have been particularly negatively impacted by COVID-19-related affects, as well as those that have been subject to long-term economic decline.

For example, while significant investment nationwide will be required for improving energy efficiency standards in existing buildings, initial retrofit programmes could be targeted at regions most in need of economic stimulus. Similarly, superior incentives could be offered to encourage low-carbon power generation projects to be located in these regions. Such measures could create well-paying and long-term employment and lead to an improvement in long-term economic prospects.

7. How can measures you are proposing in this recovery and renewal period improve quality of life—for example around walking, cycling and public transport, and improving access to nature? What habitats are you especially concerned about and want to see more support for and focus on?

The proposed measures could improve air quality and the availability of recreational spaces.

Air pollution caused between 28,000 and 36,000 premature deaths per year, can damage children's lung development and has been linked to lung cancer, Alzheimer's a number of other illnesses. It also tends to be concentrated in less affluent neighbourhoods, exacerbating inequality.

Accelerating the shift to electric vehicles and incentivising tree-planting across the country are essential measures to reduce air pollution and its effects. Aside from the economic incentives set out above, expanding urban areas where only electric vehicles are permitted could further limit air pollution while encouraging greater uptake of electric vehicles.

The COVID-19 lockdown further highlights the importance of urban green space, which has declined in area and quality in recent decades. Urban tree-planting can ensure city-dwellers have access to green recreational spaces without the need to travel.

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