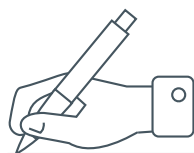


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## Ecofin Editorial:

# Is the UK living up to its climate ambitions post COP26?

## From the desk of Ecofin's Sustainability Strategist



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Last week, the 77th U.N. General Assembly brought world leaders together in New York to discuss pressing climate issues ahead of COP27. COP26 President Alok Sharma participated as part of the UK delegation together with new Prime Minister Liz Truss; the delegation represents a strong reminder that those nations who made collective commitments to the Glasgow Climate Pact must focus on delivery and implementation of their promises. Last November the UK hosted COP26, since then, the world has faced several continued global crises including unprecedented extreme weather events and disruptions of energy markets. Within this context, what tangible progress has the UK made towards its stated climate ambitions and leadership?

### Paris Agreement Progress

#### ***A first mover in Net Zero***

The UK was a leader among the G20 countries with its Net Zero ambitions and was the first to implement legally binding emissions targets. The UK's Nationally Determined Contribution is striking; only a handful of countries have emissions targets truly in line with the Paris Agreement's long-term goals.<sup>1</sup> Nationally Determined Contributions are climate commitments set by countries in line with the Paris Agreement's ambitions.<sup>2</sup>

#### ***Is there trouble in Net Zero paradise?***

While the UK's ambitions are certainly impressive, we have yet to see substantial progress on implementation towards these commitments. In mid-July, the UK's High Court ruled the country's Net Zero Strategy as a failure with respect to the Climate Change Act of 2008. The strategy accounted for only 95% of emissions reductions within the UK's June 2021 targeted "carbon budget," with a 5% unexplained shortfall. Furthermore, it neglected to provide detailed quantitative information for individual initiatives within emissions reductions targets. The government will need to provide Parliament with a response addressing these matters by March 2023.<sup>3,4</sup> Similarly, a recent progress report on emissions reduction published by the Climate Change Committee, an independent statutory body acting as advisor on climate change initiatives, states that the United Kingdom will not deliver on its Net Zero promises within current frameworks.

Additional challenges have been brought on by the UK's currently complex and uncertain geopolitical landscape. The war in Ukraine has driven energy security concerns and intensified inflation, which together have substantially magnified the country's energy crisis to unprecedented levels. The UK has also experienced severe climate-related events demonstrated by an unparalleled heatwave, drought, and sewage troubles. Politically and culturally, the country faces even more uncertainty regarding the new Prime Minister, Liz Truss, and the loss of the late Queen Elizabeth II. Amidst this compounded general market uncertainty, it will be vital for the country to address and fulfill its Net Zero commitments.

The strategy will require a robust explanation for its unaccounted emissions coupled with clear and transparent supporting policies for the actual delivery of its emissions reduction targets. The UK's response to the High Court will be a turning point in determining if the UK really is a climate trailblazer.



### ***But it isn't all grey skies for the UK***

The aforementioned Climate Change Committee report also lauds multiple programmes including the UK's movement on green finance; such ambitions include a plan for a net-zero-aligned financial centre coupled with various transition plans.<sup>1,5</sup> Correspondingly, in June, the country received two awards from the Climate Bonds Initiative touting the UK as a global leader in green finance.<sup>6</sup>

### **The UK's Messy Political Landscape**

The recent resignation of the UK's Prime Minister, Boris Johnson, may have extenuating consequences on the country's broader climate ambitions. While Johnson's stance on climate policy varied widely, by the end of his tenure, he became somewhat of a climate advocate. In September, Conservative MP and former Environment Secretary, Liz Truss, has replaced Johnson as the UK's next Prime Minister. All eyes are on Truss as she enters Downing Street during a massive UK energy crisis.

On climate ambitions, Truss is a mixed bag. She backs fracking and aims to remove green levies, while contrarily, claims to support Net Zero plans.<sup>7</sup> Truss will likely need to appeal to the general public's strong sentiment in support of the UK's Net Zero Strategy.<sup>8</sup>

### ***How Truss aims to combat the energy crisis***

On September 8, 2022, Truss delivered an initial speech on the UK's energy crisis. In summary, the speech addressed how the UK government would subsidise families and businesses, and how it would tackle the root causes of the energy crisis. Truss announced a New Energy Price Guarantee to help tame inflation and improve growth. This guarantee would temporarily remove green levies, and households would pay no more than £2500 per year for the next two years. Businesses would be initially supported in a comparable manner with an "equivalent guarantee" for 6 months. Truss stressed that companies should endeavour to enhance energy efficiency and direct energy generation.<sup>6</sup>

In terms of intervention funding, Truss clarified it would not be via windfall taxes. The costs of this intervention will be covered in three ways:<sup>6</sup>

1. Increasing Supply: Truss will negotiate long-term energy contracts and touts an acceleration of "all" domestic energy, including oil and gas. Specifically to renewables, the UK will increase deployment of clean and renewable technologies. Further, both renewable and nuclear generators will migrate to "Contracts for Difference" to remove the tie between electricity prices and gas.
2. Economic Growth: Truss's declaration will enhance economic growth and is predicted to tame inflation by up to 5%.
3. Enhancing liquidity: In collaboration with the Bank of England, Truss has announced an up to £40B liquidity scheme.

Moving forward, Truss is conducting two reviews, one focused on regulatory structures that will concentrate on supply and affordability, and the latter on Net Zero commitments. The latter will be addressed in a "pro-business and pro-growth" manner and mentions gas as part of the Net Zero transition. Natural gas still represents a major source of energy in the UK; in 2020, ~ 41% of total energy supply came from natural gas, according to IEA data. Truss will also utilise fracking to increase gas supply and will launch an initiative called The Great British Nuclear, which hopes to source up to 25% of electricity generation with nuclear by 2050. The new Prime Minister is seemingly determined to eliminate UK reliance on global energy markets and "malign" actors and aims to make the UK a "net energy exporter by 2040."<sup>6</sup>

Further details on the UK's renewable ambitions came out in late September via The Growth Plan 2022. The plan will promote various initiatives such as onshore wind opportunities, the cancellation of corporate tax increases,



and an expedition of infrastructure projects “as fast as possible.”<sup>6,9</sup>

## **Sustainable Finance in the UK**

### ***Natural gas and the UK's green taxonomy***

Various financial market participants have composed two letters to Truss surrounding their concerns regarding the UK's climate ambitions. The first letter led by IIGCC, PRI and UKSIF, pushes for the exclusion of natural gas from the UK's green taxonomy. The letter claims the inclusion of natural gas would discredit the taxonomy, harm the UK's global position within sustainable finance, and provide misleading signals to investors. It acknowledges natural gas as a bridging energy source for the transition but believes it should not be considered green.

The signatories make a strong claim that the exclusion of gas will not harm gas-related funding within capital markets. Finally, the letter warns that it would compromise the achievement of UK decarbonisation targets and would create a potential carbon deficit.<sup>10</sup>

### ***Businesses push for climate policies***

The second letter, written by leading UK businesses, takes a broader look at the UK's sustainable finance plans. The writers urge Truss to outline a vigorous Net Zero delivery plan and highlight the need for nature protection and restoration. The letter also underlines the importance and benefits of policy prioritisation to accelerate the clean energy transition. Collectively, these initiatives will help enhance UK resilience, economic growth, and job opportunities.<sup>11</sup>

## **Conclusions**

Despite the challenges brought on by current geopolitical complexities, it will be vital to ensure climate considerations are not pushed to the back burner of contemplation. COP27 will play a key role in reiterating the necessary prioritisation of climate ambitions. Actual implementation via robust policies will be crucial, and COP27 will help reinforce these initiatives by continuing COP26's momentum.

The UK should supplement further details for its climate strategy's execution plans. While renewable costs increasingly decline, those sources will prove to be the most cost-effective alternative to fossil fuels for a faster energy transition journey. The UK shall continue to focus on renewables ramp up and energy efficiency maneuverers as key pillars of climate mitigation policy, energy independence, and resilience against energy shocks. We hope to continue to see the UK's global leadership around Net Zero efforts to limit the global temperature rise and tackle climate challenges.

<sup>1</sup>theccc.org.uk

<sup>2</sup>UN.org

<sup>3</sup>Friends of the Earth Limited - High Court of Justice

<sup>4</sup>Sustainable Views

<sup>5</sup>Responsible Investor

<sup>6</sup>Gov.uk

<sup>7</sup>Yahoo!News

<sup>8</sup>Politico

<sup>9</sup>JP Morgan

<sup>10</sup>Contrary to the original purpose of addressing greenwashing issues, the signatories strongly believe the gas inclusion would dilute the UK's sustainable finance's credibility and contribute to more greenwashing.

<sup>11</sup>Corporate Leaders Group

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