

# PRI BRIEFING

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## UK NET ZERO REVIEW

March 2023

## ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has now over 5,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles, representing US \$121 trillion in assets under management.

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.

## ABOUT THIS BRIEFING

The recently published [Net Zero Review](#) presents a welcome reminder of the urgency of policy action to achieve the net zero transition in the UK. The transition to a net zero economy is rightly captured as a major **pro-business and pro-investment opportunity**, with each recommendation underpinned by maximising economic investment, competitiveness, and job creation. The correlation between economic growth and climate objectives is a strong feature of the Review, which highlights the **need for an urgent shift of UK policies towards net zero**. The PRI response to the Call for Evidence for the Net Zero Review can be found [here](#).

The Review also emphasises the net zero rationale through the cost of delaying action and missed opportunities. The PRI, the Institutional Investors Group on Climate Change (IIGCC), and the UK Sustainable Investment and Finance Association (UKSIF), along with a number of CEOs of investment companies, recently wrote a [letter](#) to the UK government highlighting the urgency of action to uphold the net zero ambition. This letter outlines that **the starting point must be policies that transform the real economy**, prioritising sectors whose transition will contribute most to the UK's economic, social and climate goals and sending the right policy signals to investors. This needs to be mirrored by the implementation of the UK's updated Green Finance Strategy and concrete policies to act on the COP26 commitment for the UK to become the world's first net zero aligned financial centre.

Finally, as highlighted in the recent publication from the PRI, Generation Foundation and UNEP FI [A Legal Framework for Impact UK: Integrating sustainability goals across the investment industry](#), the UK government should **do more to mainstream responsible investment** and thus help deliver on the net zero objective. Our analysis shows that many UK investors remain hesitant to change their established practices and pursue sustainability impact goals, even when this is required to achieve financial objective, and that the UK legal framework limits investors' ability to pursue sustainability impact objectives as an ultimate end, rather than in support of financial objectives.

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# SUMMARY OF PRI INPUTS

The PRI recommends that policymakers support ambitious commitments and take decisive action to deliver a net zero economy by 2050. Scaling up clean energy solutions today will pave the way towards a more affordable, stable, and resilient energy system in the UK. These measures, in securing a net zero energy system, are the most efficient ways to deliver energy security and affordability. The UK government should gear a policy focus towards energy efficiency measures, power sector decarbonisation, and renewables.

To achieve the UK's net zero commitments, the PRI have provided a number of inputs<sup>1</sup> to drive the net zero ambition, including the following main priorities:

- **Whole of economy policy framework:** The transition to a zero carbon, sustainable economy should be recognised as a central policy goal. To support this integrated whole-of-government approach, the UK Government should set out a clear delivery plan for the transition of the real economy and financial services, including with credible sectoral roadmaps underpinned by the near-term policies, actions and milestones needed to shift financial flows towards net zero.<sup>2</sup> The Financial Conduct Authority's (FCA) Sustainability Disclosure Requirements and investment labels framework must equally be supported by ambitious action and policy steers from UK Government to establish a sustainable financial system in the UK.<sup>3</sup>
- **Clear climate policies:** The UK government needs to progress at pace on the implementation of robust climate policies. It is only by significantly scaling up investment from the private sector into climate solutions and a shift in capital allocation that the necessary progress will be made. But to do so, investors need supportive, stable and clear policies from Government now. Policies that enable a fair transition to a low-carbon economy will help to ensure that livelihoods are protected, and social and economic benefits reaped by communities.<sup>4</sup>
- **Supportive financial policies:** As our Legal Framework for Impact work has found, policy reforms are essential to facilitate investing for sustainability impact and to overcome barriers to action. The UK sustainable finance regulatory framework is focused on disclosures – a good starting point for directing capital towards shared societal goals. However, policy makers also need to address the extent to which investors are contributing to the achievement of those goals in practice. To do so, policy makers and regulators need to develop a clear concept of “sustainability impact” – as opposed to “sustainability risk” – and operate on the basis of that.<sup>5</sup>

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<sup>1</sup> See the PRI [Policy webpage](#) for all of our publications to date

<sup>2</sup> Key recommendation in the PRI's [response](#) to the Call for Evidence, as part of Chris Skidmore's independent Net Zero Review. The PRI is conducting further work on the topic of whole-of-government approach to the transition, and we remain available to discuss our ongoing findings.

<sup>3</sup> PRI [response](#) to the FCA's Sustainability Disclosure Requirements and investment labels consultation.

<sup>4</sup> Joint [letter](#) from PRI, IIGCC, and UKSIF: CEOs of leading investor groups call on new government to uphold net zero ambition

<sup>5</sup> Our original flagship report [A Legal Framework for Impact](#) (2021) is a joint effort by PRI, UNEP-FI and the Generation Foundation, and Freshfields Bruckhaus Deringer. It contains analysis of laws around the world and demonstrates that

# NET ZERO REVIEW ANALYSIS

The recommendations can be grouped into the themes of backing business, backing local action, delivering energy efficient homes, and using infrastructure to unlock net zero. The table below maps the Net Zero Review recommendations to PRI's existing advice.

Amongst the main policy recommendations feature:

- the need to **scale up the deployment of onshore wind and boost solar energy**;
- **resolving uncertainty** surrounding regulation for emerging net zero technologies; and
- policy incentives for **investment in decarbonisation**.

Key theme	Net Zero Review recommendations	PRI recommendations	Extent of alignment
<b>Reducing energy demand</b>	<p>The Review recognises:</p> <ul style="list-style-type: none"> <li>■ the role of nuclear to help meet rising energy demand, improvements to existing buildings to reduce energy demand, leveraging digital technologies;</li> <li>■ a Legislating for Future Homes Standards, and a 10-year mission to make heat pumps widespread through the Heat Pump Investment Accelerator; and</li> <li>■ the value of bringing forward the date of new and replacement gas boiler phase out and legislating for 2033, reforming EPC ratings for a clearer more accessible Net Zero Performance Certificate, standardised approach to ecolabelling on products, and a Net Zero Homes Standard.</li> </ul>	<p>The PRI suggests prioritising actions to reduce energy demand, such as tackling building and heat sector demand, boost energy efficiency, and accelerate policy progress in the UK Heat and Buildings Strategy.</p> <p>The UK government should pursue the UK housing energy efficiency, which should consist of a Future Homes Standard, phased-in ban of gas boilers, introduce a sustainable housing label.</p>	<b>Strongly aligned.</b> The Government must now move forward rapidly to implement plans to reduce energy demand, ensuring that these recommendations become concrete and timely policy measures.
<b>A roadmap to net zero</b>	The Review includes a recommendation to set clear roadmaps to provide certainty for	The UK Government should set out a clear delivery plan for the transition of the real economy and	<b>Aligned.</b> However, we encourage the roadmaps to extend

investors should feel empowered to set impact goals and measure their progress against them. In 2022, we released [A Legal Framework for Impact UK: Integrating sustainability goals across the investment industry](#). This UK-specific paper explores how UK policy makers could mainstream responsible investment, helping the country achieve its climate and other sustainability goals.

	investment and R&D (for solar, onshore wind, nuclear projects only), and provide long-term certainty for major priorities.	financial services, with credible sectoral roadmaps underpinned by the near-term policies, short and medium-term actions and milestones needed to shift financial flows towards net zero, as well as how these steps will be financed.	beyond solar, onshore wind and nuclear projects.
<b>International leadership on net zero</b>	<p>The report recommends a strategic review of UK's international climate leadership and introduce environmental and climate protections in future free trade agreements, removing barriers to environmental goods and services.</p> <p>The report also suggests reviewing how the UK can become the most competitive financial centre for green and transition listings, capital raising and project financing.</p>	<p>It is vital to ensure that the momentum to address the global climate emergency is not lost, cement the legacy of UK leadership at COP26.</p> <p>The UK Government should take concrete action to <b>support the UK's ambition to become the first global net zero aligned financial centre.</b></p>	<b>Somewhat aligned.</b> Lacking sufficient detail to provide a necessary action plan.
<b>Powering net zero</b>	<p>The Review recognises the role of infrastructure to unlock net zero – including developing a cross-sectoral infrastructure strategy by 2025 to support the building and adaptation for new green energy sources such as hydrogen to support the green economy, CCS, and small modular reactors, reforming planning to develop solar and onshore wind.</p> <p>It also recognises the role of infrastructure as the key to unlock net zero. It recommends a re-think of energy infrastructure through implementation of the British Energy Security Strategy, a cross-sectoral infrastructure strategy, and reforming approaches to planning.</p>	<p>We highlight the importance of investable business models in key zero-carbon technologies, which should include full use of auctions for wind and solar, the maintaining of incentives for take up in electricity vehicles and the development of new market mechanisms in heating, CCS, hydrogen, and small modular reactors.</p> <p>We suggest that the British Energy Security Strategy be integrated with national development and policy planning</p>	<b>Strongly aligned.</b>

<p><b>Decar-bonisation</b></p>	<p>The Review signposts incentives for investment in decarbonisation, backing business to go green. HM Treasury must review by the end of this year how policy incentivises investment in decarbonisation, including via the tax system and capital allowances.</p>	<p>The UK government should pursue decarbonisation at pace. We recommend accelerating measures needed for the energy transition, acknowledging that new fossil fuel infrastructure build in the UK goes against net zero objectives, and phase-out plans for all UK support for coal, oil, and gas projects.</p> <p>In addition, emissions from heating UK housing are a key obstacle to pursuing decarbonisation. The UK government should introduce regulation to require new buildings to use zero carbon heating and follow highest standards of energy efficiency, while decarbonising existing stock.</p>	<p><b>Aligned.</b> However, more granular detail on incentives for investment in decarbonisation is required.</p>
<p><b>Levelling Up</b></p>	<p>The Levelling Up agenda is mentioned as a reference only, and the review does not contain further recommendations on ensuring a fair and equitable transition in the UK.</p>	<p>Investors are increasingly assessing the social impacts and sensitivities of their transition plans through both sectoral and geographical specifics. Such assessment includes material dependencies and impacts on workers, suppliers, communities, and consumers. Therefore, the just transition must be integrated within transition planning, which can be facilitated by the UK Government delivering levelling up in coordination with the net zero agenda.</p>	<p><b>Not aligned.</b> The PRI supports a fair and equitable transition, and we encourage the UK Government to consider the opportunity of net zero to redistribute economic activity through attracting investment and skilled jobs.</p>
<p><b>Investor duties</b></p>	<p>Fiduciary duty or sustainability goals are not mentioned.</p>	<p>The UK Government should <b>clarify when sustainability goals must or can be considered as part of investor fiduciary duties.</b></p>	<p><b>Not aligned.</b> The UK Government should consider the policy recommendations set out in A Legal Framework for</p>

			Impact UK: Integrating sustainability goals across the investment industry.
<b>Taxonomy</b>	<p>The Review urges government to consider the appropriateness of a transition taxonomy that is simple and proportionate; and work with international partners to ensure the UK approach is interoperable and harmonised with others' approaches.</p>	<p>A green taxonomy in the UK will help <b>provide the certainty investors need</b> to assess the underlying sustainability of their portfolios for clients and enable capital to flow towards activities that accelerate progress towards the UK's climate goals. A robust, science-based taxonomy, supported by mandatory disclosures, will be critical to <b>combat 'greenwashing' risks</b> for consumers while <b>supporting clean growth opportunities</b>. It is also critical to ensure that the <b>UK Taxonomy is best in class and compatible with other taxonomies being developed</b>.</p> <p>A <b>transition taxonomy</b> can allow certain economic activities that have a role to play in the energy transition. However, the PRI recommends that the <b>scope of green activities be defined</b>, where only activities that are already sustainable are in the green category, and reconsider those that are on the pathway to net zero. The taxonomy should be implemented as part of a broader transition finance strategy, including sectoral transition pathways and frameworks for developing and disclosing transition plans.</p> <p>Finally, there should be <b>greater integration between transition</b></p>	<p><b>Somewhat aligned.</b></p> <p>We recommend that the UK Government to continue without delay the development of a green taxonomy that supports the UK's net zero objectives, and to anchor the taxonomy in regulation with mandatory disclosures.</p>



		<p><b>planning and a science-based sustainable taxonomy</b>, which will best support the comparability of transition plans and facilitate the necessary whole of government approach for a successful transition to a net-zero, sustainable economy.</p>	
<p><b>ISSB-alignment</b></p>	<p>The Review calls for incentivising financial disclosures by endorsing implementing the International Sustainability Standards Board (ISSB) standards as soon as possible.</p>	<p>The PRI and a number of financial markets participants<sup>6</sup> have been advocating for <b>globally comparable, consistent and high-quality corporate sustainability disclosure</b> to provide markets with the sustainability disclosures on climate and other sustainability-related risks and opportunities, and information required to better support growth opportunities and drive the transition to net-zero.<sup>7</sup> The UK Government should <b>incorporate future IFRS Sustainability Reporting Standards aligned entity-level reporting standards</b> to provide appropriate standards against which to measure disclosures.</p>	<p><b>Strongly aligned.</b></p>

<sup>6</sup> See the [joint statement](#) from the PRI and sixty-five investors, companies and professional accounting firms from across the world calling for major standard-setting efforts to more closely align and support a global baseline for reporting sustainability-related information

<sup>7</sup> This PRI [statement](#) highlights our support for the efforts by the IFRS Foundation and IOSCO to develop a globally shared baseline for reporting on sustainability-related financial information, encourages continued work towards this objective and calls for interoperability between the future IFRS Sustainability Disclosure Standards and jurisdictional initiatives.