Institute of Directors
116 Pall Mall
London
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27/10/2022

Dear Mr Skidmore,

Net Zero Review: Call for Evidence

The IoD is an independent, non-party political organisation representing 20,000 company directors, senior business leaders, and entrepreneurs, typically running small to medium sized businesses in all parts of the UK. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.

We welcome the opportunity to respond to the Net Zero Review Call for Evidence. Please find below our response to the specific questions laid out in the consultation. As a Business Representative Organisation, we are responding with our best understanding of how the issues laid out in the Call for Evidence would be viewed by our members.

Summary of the IoD's view

A transition to a zero-carbon economy is essential for long-term economic growth and stability, thus any rolling back of the net zero by 2050 target would not be in the interests of business. The interests of the business community will be best served by a managed transition marked by effective government leadership on, and commitment to, net zero. Business is on board with the necessity of the transition and is looking for guidance and leadership from government as to how to achieve it efficiently and effectively.

Long-term planning and leadership from government are crucial to realising the potential economic gains from the transition to net zero, and we would encourage government to work in close partnership with business representative organisations to ensure that businesses of all sizes receive the support they need to not only become net zero in their operations but reap the economic benefits and opportunities of doing so.

Answers to individual questions

How does net zero enable us to meet our economic growth target of 2.5% a year?

The UK's net zero by 2050 target represents an opportunity to achieve high-quality economic growth that will make UK business more resilient in the long-term. Net zero and economic growth are not only mutually compatible, but the former is a necessity for the UK's long-term competitiveness.

A survey of IoD members in October 2022 found that only 27% of business leaders believe that the transition to net zero will not increase economic growth, with 38% believing it will increase economic growth and 30% abstaining (Annexe: Figure 1). The relatively large number of abstentions was likely due to a belief that the transition will benefit some sectors of the economy but hold others back, a view with which two thirds (67%) of business leaders agreed (Annexe: Figure 2). Importantly, only 19% of business leaders stated that the transition makes it harder for their businesses to succeed (Annexe: Figure 4)

Decarbonisation presents a growth opportunity for business. Low-carbon energy generation in itself is a sector with considerable growth potential, linked to wider B2B growth opportunities that exist in producing goods and services to feed the green capex revolution, for example professional, scientific, information, communication and financial services. These sectors are prime providers of inputs into capital projects such as building offshore windfarms, reinforcing grid infrastructure, designing more carbon-efficient buildings, and greening transport systems. Information technology is another area of future green growth; creating the digital systems to monitor and operate tomorrow's low-carbon infrastructure could generate revenues of £120 billion for UK-based businesses in the period up to 2030[1]. Furthermore, financial services will play a significant role in the growing market for green bonds.

Businesses involved in enabling others in the value chain – suppliers and customers – to reduce their emissions will also see significant growth opportunities as greenhouse gas prices and regulations mature and consumer attitudes shift.

There is further growth opportunity in the development of a circular economy, as demonstrated by Decathlon's Second Life Marketplace and IKEA's commitment to ensure all products can be reused, refurbished, remanufactured, and eventually recycled by 2030. There is a growing demand for innovation in designing and manufacturing products and services which use recycled products and are in themselves recyclable. Demand for such products is growing and should be further encouraged, not by mandating such consumer behaviour but by making the underlying processes easier to take place.

In addition to representing a growth opportunity, the transition to net zero is an opportunity to improve business' resilience and reduce operating costs. Businesses who had previously invested in onsite renewable energy infrastructure and energy efficiency measures, for instance, are now considerably less exposed to fluctuations in international energy markets. Companies can also reduce operating costs by decreasing their own emissions, an opportunity which particularly applies to businesses in agriculture, oil and gas production, mining, energy and water utilities, manufacturing and transport.

[1] Allas, T., Bowcott, H. Hamilton, A. and Simmons, V. (2021). *Opportunities for UK businesses in the net-zero transition*. London: McKinsey and Company.

A vibrant UK innovation system and an intellectual property bank for decarbonisation, supported by significant investment in R&D, will be crucial to achieving patents and IP in this space and realising these growth opportunities. The importance of InnovateUK in supporting early phase green technologies to scale up, and international collaborative partnerships such as Horizon 2020, to support the transition to net zero are critical.

What challenges and obstacles have you identified to decarbonisation?

A survey of IoD members in November 2021 (Annexe: Figure 6) found that lack of practical feasibility — for example, due to existing tenancy agreements or technology systems — was the most commonly cited (42%) barrier to decarbonisation of business activities, followed by upfront or ongoing costs (37%), lack of knowledge around how to make progress (25%) and lack of access to external finance or grants to support net zero actions (24%).

Wider economic pressures — both on business in terms of many being in survival mode and not having the ability to invest in the steps needed to decarbonise, and on consumers in terms of the cost-of-living crisis reducing spending power and thus potentially demand for sustainable goods — represent a further challenge to decarbonisation. More focus on the demand side to increase confidence and stimulate demand from consumers and businesses in green products and services is needed to grow the sector to the scale needed to meet the UK's net zero commitment.

What more could government do to support businesses, consumers and other actors to decarbonise?

A clear, long-term plan, vision, and strategic direction from government are crucial in supporting businesses to decarbonise. Businesses are unlikely to make major investment or strategy decisions to decarbonise where the policy environment relating to net zero is turbulent due to stop-start market interventions and sudden regulatory tweaks, and risk is perceived to be high. A long-term plan that extends beyond any one government and is underpinned by joined-up policy across government is needed to establish consistency and predictability and enable a managed transition. The absence of clear government direction risks creating a rational inertia whereby both businesses and consumers delay decisions on transitioning to net zero until the carrots, sticks, and standards of policy become clearer.[2]

There is a gap in government policy to meet our national climate change target of net zero by 2050, namely a lack of effective incentives for smaller businesses to play their part to decarbonise our economy. To support all businesses to put net zero at the heart of business planning, government should[3]:

1. Define a clear goal that every business should achieve net zero in its operations.
2. Establish a clear business case for action by introducing, with several years' notice, a lower corporation tax rate for organisations that have achieved net zero compared to those that have not. While short-term policies such as funding schemes can be effective in forwarding

[2] Ahern, J., Casallas, A., Bassetto, J. and Salazar, A. *Mind the Delivery Gap: achieving net zero through finance and policy*. London: Bankers for Net Zero.
[3] Ussher, K. and Hall-Chen, A. (2022). *The Green Incentive: how to put net zero at the heart of business planning.* London: Institute of Directors.

particular elements on the transition to net zero, they alone will not support the necessary large-scale transition.

3. Develop a methodology for carbon footprint accounting that goes with the grain of the existing approach for the declaration of company profits. Limited companies should be required to keep records of, and report on, their carbon footprint.

4. Undertake its own assessment of the suitability of support available for companies, particularly SMEs, to become net zero in their operations. Government should work with business representative organisations to build awareness and understanding through tools and advice on SME decarbonation.

Given the scale of the ask of business, this clear policy direction should be supported by a public awareness campaign, with co-ordination across government and targeted messages for businesses. Such messaging should reflect the importance of energy efficiency measures in both meeting the UK's net zero commitments and in increasing businesses' resilience to fluctuating energy prices. Reducing energy consumption by improving energy efficiency through improving building requirements and investment in existing building stock would represent a business opportunity for SMEs, make businesses and households more resilient, and aid in meeting the UK's net zero commitments, and should consequently be a policy focus for government.

Progress on achieving net zero is impossible without widespread production of, and access to, the data needed to calculate Scope 1, 2, and 3 emissions. Government should support businesses to access the data they need to easily calculate their own emissions and to access data on emissions in their supply chains. For example, 6 in 10 (58%) business leaders agreed that landlords should be required to provide organisations with information about the carbon footprint of the premises they lease (Annexe: Figure 7). Where reporting requirements are going to be necessary to meeting the UK's net zero commitment, the policy focus should be on setting out a timeline well in advance of their introduction, the production of a clear framework, as well as the removal of barriers to measurement of Scope 1 emissions in the meantime to make the requirement as simple as possible for business.

A key task for UK policy makers and regulators is to define a widely accepted framework of corporate disclosure and accounting in respect of carbon emissions. This is the foundation for any system of corporate decision-making and accountability that will result in the achievement of net zero. Different reporting and accounting frameworks will be needed for companies of different sizes. However, in respect of larger companies, the Government should work closely with international bodies such as the International Sustainability Standards Board and the European Financial Reporting Advisory Group to help define an internationally consistent reporting approach and build on the existing requirement for listed companies to report on the basis of the TCFD reporting framework. There is also a need for UK regulators to improve the transparency and consistency of ESG ratings and indices in respect of their assessment of companies' climate change impact.

Improved director education is a key prerequisite for progress to be made. Currently, many board members and senior leaders lack the expertise and experience to properly oversee the transition to net zero. Government could play an important role in highlighting this issue, and providing incentives for boards to upskill themselves, particularly in small and medium-sized companies.

How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?

The first priority of business in the current climate is the reduction of energy costs, something which can only be achieved by rapidly and permanently reducing the UK's exposure to volatile international energy markets. Key to achieving this is the diversification of low carbon energy supply and demand management through energy efficiency measures, both of which will contribute significantly to achieving both energy security and net zero. Indeed, achieving either without a diversification of low carbon energy supply is unrealistic.

The declining cost of renewable energy production in recent years, combined with extreme volatility in international energy markets, is such that removing barriers to their deployment should be central to the government's energy security plans.

Government's focus should therefore be on rapidly scaling up renewable energy production and investment in grid-scale storage, alongside investment in baseload-generating low-carbon forms of power such as nuclear fission. Coupling such development with energy market reform is crucial, and as such we welcome the government's review into Britain's electricity market design. The current model of universal energy pricing is increasingly untenable; there is a clear imperative to prevent volatile gas prices setting the price of electricity produced by much cheaper renewables.

What export opportunities does the transition to net zero present for the UK economy or UK businesses?

Global mobilisation towards net zero is such that significant export opportunities exist for countries at the forefront of green technologies. At present the UK is considered a leader in this space; if this reputation and brand is sustained and supported by effective government policy, the UK can position itself as a key exporter in this space.

The UK's strong academic and R&D sectors can be leveraged to export green technologies to the world. The UK's geography makes it an ideal location to pioneer technologies relating to, for example, wind, tidal, and solar power, and the expertise around these technologies will in themselves be an opportunity for exports. Manufacturing of green technologies for export — for example through repurposing of existing production lines and modular manufacturing — is also possible but will require the alleviation of current difficulties in importing goods needed for manufacturing processes. Furthermore, the UK's world-leading research on nuclear fusion technologies has the potential to make the UK a leading player in the commercialisation of fusion energy. There are also significant export opportunities relating to green finance, particularly around leveraging private finance to fund sustainable development in emerging markets. Emerging markets also represent prime locations for the UK to offer its own services and technologies relating to supporting the transition to net zero while such technologies are nascent in those markets.

In addition to being best placed to support the UK's brand as a global leader in this space, the government should make green trade a central pillar of Free Trade Agreements. Furthermore, additional digital trade and digital economy agreements would engender more opportunities for UK green exports in the digital, technology, and service industries.

For clean power industry: what barriers to entry have you found in deploying new plant and technologies?

The ability of the clean power industry to access the green skills it needs is a substantial barrier to growth in the sector and deployment of new plant and technologies. Many of the skills required by the industry are not new or unique to the sector — such as project management, design, and roofing — but require some degree of upskilling, and the disparity between the demand and available supply of such skills is such that the sector cannot meet the record levels of demand precipitated by the energy crisis, and poaching of talent is commonplace. These issues are compounded by the fact that much of the transferable knowledge and experience from the oil and gas industries are located in the northeast of England, whereas the demand for those skills in the clean power industry will be concentrated in windier, sunnier parts of the country. The existing skills system — from the content of skills programmes to the compensation provided to give experienced employees time off work to train others — therefore needs reform to ensure that companies can access the green skills they need to grow.

The main barriers to creating a policy environment that effectively promotes business investment in shortage skills areas, such as green skills, are deadweight loss and recently trained employees being poached by competitors. Government can tackle both these barriers by creating a fully independent Shortage Occupations Agency with a statutory remit to systematically advise on current and future skills shortages areas for the UK economy, and then using the tax system to incentivise business training to address skills requirements identified by this Shortage Occupations Agency, for example by allowing expensing at over 100% for training in these areas only.

The limited availability of equipment presents another challenge for the clean power industry in deploying new plant and technologies. Supply chain issues brought about by Brexit, COVID-19, and Russia's invasion of Ukraine are such that clean power businesses are having to compromise the quality of designs and are less able to optimise solutions according to clients' needs.

We hope you have found these comments useful. We would be happy to arrange focus groups of IoD members to discuss how best to achieve net zero in a pro-business and pro-growth way.

If you require further information about our views, please do not hesitate to contact us.

With kind regards,

A Hall-Chen

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Annexe

Figure 1
Everything considered, the transition to net zero will increase economic growth.
Total responses: 592 (October 2022)

Strongly agree	11%
Agree	27%
Neither agree nor disagree	30%
Disagree	19%
Strongly disagree	8%
Don't know	4%

Figure 2
Some parts of the economy will benefit from the transition to net zero but others will be held back.
Total responses: 592 (October 2022)

Strongly agree	11%
Agree	67%
Neither agree nor disagree	12%
Disagree	6%
Strongly disagree	3%
Don't know	2%

Figure 3
The transition to net zero provides growth opportunities for my business.
Total responses: 592 (October 2022)

Strongly agree	11%
Agree	22%
Neither agree nor disagree	35%
Disagree	17%
Strongly disagree	11%
Don't know	3%

Figure 4
The transition to net zero makes it harder for my business to succeed.
Total responses: 592 (October 2022)

Strongly agree	6%
Agree	13%
Neither agree nor disagree	33%
Disagree	28%
Strongly disagree	18%
Don't know	3%

Figure 5

It is important to reach net zero regardless of the economic cost.
Total responses: 592 (October 2022)

Strongly agree	20%
Agree	30%
Neither agree nor disagree	14%
Disagree	19%
Strongly disagree	16%
Don't know	1%

Figure 6
What would you say are the biggest obstacles faced by your organisation in reducing its carbon footprint? Please select all that apply
Total responses: 580 (November 2021)

Upfront or ongoing costs	37%
Lack of practical feasibility e.g. due to existing tenancy agreements or technology systems	42%
Lack of access to external finance or grants to support net zero actions	24%
Unwillingness to prioritise decarbonisation	7%
Lack of a clear business case	20%
Lack of knowledge around how to make progress	25%
N/A	14%
Other (please specify)	11%

Figure 7
Should the government require landlords to provide organisations with information about the carbon footprint of the premises they lease?
609 responses, December 2021

Yes	58%
No	30%
Don’t know	12%