

A Just Transition to Net Zero

THE 'FAIRNESS PRINCIPLES'

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Overview

This report seeks to set out a framework upon which a shared understanding of the way in which government and business can best work together to support our transition to a carbon neutral economy can be taken forward, via a set of core **principles of fairness**.

In this report, we put forward 5 core principles of fairness:

1. Fairness of Ambition

- * Government's climate change policies must be aligned to the latest scientific evidence and demonstrate **ambition that matches the reality of the challenge**, both in its timescales and its extent

2. Fairness of Accountability

- * Government, alongside Regulators, should provide **coherent and accountable governance** and ensure that climate change policies are coordinated

3. Fairness of Delivery

- * Government should, where possible, support and empower businesses to find their own ways to net-zero, acknowledging that a one-size-fits-all approach to policy delivery may not work in all cases and that **a diverse set of business-led solutions will be needed**

4. Fairness of Opportunity

- * Government must **provide a level playing field, ensuring businesses of all sizes, in all sectors, can contribute** to a net-zero economy, through their innovations, investments, and markets

5. Fairness of Cost

- * Government climate change **policies must be affordable and achievable**. Government must ensure that the **cost of transition to net-zero are distributed equitably** among businesses, workers, and consumers, based on their environmental impact, ability to pay, ability to adapt and potential for gain

UK business groups reaffirm the private sector's commitment to reducing emissions to net-zero by 2050, via a 'just transition' to protect lives and livelihoods of current and future generations. We ask government to support a 'just transition' to net-zero so that businesses and workers alike can play an effective role in the shift to a carbon neutral economy.

Collectively, we are calling for a 'principles-led' approach to be taken by the Government when developing net-zero aligned policy. We believe that a principles-led approach can provide a robust policy framework which allows the UK to maintain its current domestic and global ambitions, whilst being accountable, credible, and fair. The principles we set out here are intended to act as a 'fairness test' for policy makers in planning and designing regulatory and policy frameworks, and in prioritising investment.

The coronavirus pandemic poses economic challenges for Government and business alike; however, we have seen remarkable dedication and appetite within sectors to keep momentum on reducing emissions on a net-zero trajectory. It is possible for the UK to recover and build back a more sustainable, resilient, and equitable economy. To get there, a close working relationship between Government and business will be vital as we work to deliver our net-zero agenda and international commitments over the coming decade.

With new dates set for COP26, we support the UK Government, in partnership with the Scottish Government in their efforts to ensure that progress made to date to tackle climate change is maintained and to deliver a unified, ambitious COP summit.

To ensure businesses of all sizes and sectors can play their part in supporting the UK's net-zero transition and building back a more sustainable and resilient economy - and provide an example to other nations looking to embark on the same journey - we ask that decision-makers consider these principles in planning and designing regulatory and policy frameworks, and in prioritising investment.

This document is intended to help guide the work of the Cabinet Committee on Climate Change. It will also be of interest to business owners, investors, MPs, Select Committees, and civil servants, LEAs and Local Authorities.

Business Pledge

UK businesses of all sizes are committed to playing a vital role in tackling climate change and delivering a low-carbon economy. This will require a mix of individual and collective action over the next decade in particular¹. It will also require the private sector, public sector, and Government to work in partnership to bring forward the strategic low-carbon infrastructure and technology needed to reach our 2050 goals. To remain competitive, many businesses will need to invest in low-carbon technologies, practices, and solutions, while also taking responsibility for their wider investment decisions and supply chains. We recognise that some smaller businesses will need targeted support to ensure they are able to assess and reduce their own carbon footprint.² We have identified several actions businesses should take.

We commit to encouraging key actions from our own members and beyond.

Large businesses should:

- Gain a clearer picture of their businesses carbon footprint and introduce company-level targets, using science-based metrics measuring emissions from office buildings to travel. Businesses should seek to measure and report on their own emissions³ by using readily available metrics⁴, and indeed their indirect emissions too where possible. Targets and annual measurements should be published alongside growth analysis and further still, within Annual Reports.
- Undertake resilience and adaptation planning to gain a holistic picture of the financial risk climate change poses to their business, such as consideration of the physical impacts of climate change (i.e. extreme flooding or over heating) and the knock-on financial risk posed (i.e. employees unable to get to work, inability to deliver on business objectives, or ensure workforce health and safety). For some businesses, this may include measuring risk against ‘climate disclosures’ developed by a taskforce in the financial services sector (TCFD)⁵.

Small and medium-sized businesses should:

- Take action outlined in [FSBs 10Ps](#) on key ‘positive’ steps that all small businesses can take to reduce their carbon footprint and move towards net zero emissions.

All businesses should:

- Engage, educate and encourage employees on how they can “do their bit” at work and at home to help tackle climate change (i.e. internal discussions, awareness raising activities, or providing education on where pensions are invested)⁶.

¹ CBI report, November 2019 “The 2020s: A decade of delivery”

² FSB report, July 2017 “The Price of Power: Energising small business in the next UK carbon plan”

³ Often referred to as ‘scope 1 emissions’

⁴ From the [1.5C aligned Science Based Targets](#) and [business guidance on this](#), to the ambitious [RE100/EV100 indicators](#), amongst others.

⁵ Task Force on Climate-related Financial Disclosures <https://www.fsb-tcf.org/>

⁶ To help incentivise behaviour change, FSB, CBI, BITC have developed toolkits on how to engage employees in taking action on climate change, and the Make My Money Matter campaign provides useful resources and advice on how to engage colleagues and raise conversations on tricky subjects like pensions.

Background

Climate change is a global health and economic crisis which has raised existential questions. Governments must work together on viable, long-term mitigation and adaptation measures which protect society and the environment and grow a sustainable and resilient economy. This will require a coordinated, whole systems and whole society approach between governments and businesses within and across national borders to bring forward investment in new business models, technologies, infrastructure, products, and services which contribute to the delivery of a true low-carbon economy.

The UK has played a vital role in global efforts to mitigate the impacts of climate change as the first country to legislate for a climate-related law (Climate Change Act, 2008) dictating the UK's long-term strategy to reduce territorial emissions. Many Governments are now taking similar measures. The UK also played an important role in developing the Kyoto Protocol and the Paris Agreement, and in shaping the UN Sustainable Development Goals to agree long-term targets across climate change, education, poverty and more⁷.

In 2019 the UK went further, legislating for an increase in ambition to reduce greenhouse gas emissions to near zero by 2050 – the first developed economy to do so. Alongside signalling its preparedness to play its role to mitigate its own impacts on climate change, and reiterating a commitment to take a lead in global efforts, domestic legally binding targets (e.g. 'carbon budgets') have provided the UK with a secure trajectory upon which businesses can begin to feel certainty in their low-carbon investments. This also creates a solid foundation to build a global competitive advantage.

Businesses which do not embrace a low-carbon future will be under pressure from investors, customers, potential recruits, and future legislation to take action, and will likely become uncompetitive if no action is taken, resulting in negative outcomes for business owners and employees. The UK's net-zero target presents wide-ranging opportunities for citizens and businesses alike, from bringing forward low-carbon technologies, new green jobs, infrastructure and services, re-skilling and up-skilling workforces, to utilising data and innovation to drive forward sustainable best practice across sectors from construction to retail to create a thriving improved low-carbon economy.

The Environment Bill also brings a welcome level of ambition for the UK, setting a new and ambitious domestic framework for environmental governance. It demonstrates the critical role of government and business in delivering on our long-term climate-related objectives. The government cannot act alone to reach net-zero emissions, and similarly, the private sector cannot work without the government to bring forward the necessary investment in the wide-ranging solutions we need.

This paper details a principles-led approach to policy formation which we, representatives of the business community, believe the UK government should take in setting net-zero aligned policy to reach our climate targets.

COVID-19 and climate change

The coronavirus pandemic, and necessary containment measures, have inflicted massive disruption to the global economy, supply chains, governments, businesses, communities, and not least individuals. The pandemic has impacted UK citizens in myriad ways - from how we work and live at home, to how we interact with one another. It has also highlighted our dependence on a sustainable environment and ecosystems. Action is needed to help avoid, mitigate and become more resilient to the effects of similar future catastrophes. This lesson also applies to the ongoing climate crisis.

The UK, like other nations, is beginning to chart a path to economic recovery. While there is uncertainty on what a recovery looks like, it is expected to bring a lasting paradigm shift in ways of working and travel habits. **As nations**

⁷ The SDGs have provided an interconnectedness between globally significant issues and have leveraged significant progress via holistic approaches to local level action, something which will be important as we recover from the COVID-19 pandemic.

develop and refine their recovery strategies, governments must recognise the need to build sustainability into the new economy as it recovers and restarts. Such efforts must ensure we build a fairer and more equal economy, with the cost of recovery and sustainability being proportionate. We believe that by responding to and recovering from COVID-19, we can set ourselves on a trajectory to tackling climate change which strengthens our resilience, not only as an economy but as one society.

Fairness Principles for a 'Just Transition' towards net-zero emissions

The UK Business Group Alliance for Net Zero is comprised of the UK's largest business representative bodies in addition to representation from the NGO community. Working with the Alliance, CBI, FSB and MakeUK have identified a principles-led approach based on fairness which we believe should guide the Government in setting any and all net-zero aligned policies (across all departments and Regulators). As already stated, we have also considered the role the private sector should play in supporting the government's policy making, as well as getting itself on a credible low-carbon trajectory.

To empower businesses of all sizes, and their employees across all sectors, to take advantage of a green recovery, we ask Government to follow a set of core fairness principles outlined below. This framework seeks to promote accountability and coherence from decision makers who must prioritise the UK's low-carbon agenda alongside economic growth and enabling action to be taken internationally, nationally, and locally within the UK. This includes encouraging close working between central government and local/regional bodies, and Devolved Administrations. Further consideration of changes of powers may be necessary to ensure long term climate targets can be met beyond government terms.

Through the recent Environment Bill, Government has shown great ambition and received broad support from the business community. However, whilst the Bill provides a solid governance framework for action, further detail is needed on how it will be delivered; the roles and responsibilities of those involved; and who is accountable for overall delivery and success. We believe a principles-led approach will be key to answering some of these questions and delivering against this type of policy/legislation. Alongside a focus on job creation, appropriate policy and fiscal mechanisms at national level are needed to deliver our net-zero ambition. These must be based on evidence and mutually agreed principles.

1. Fairness of Ambition

Government's climate change policies must be aligned to the latest scientific evidence and demonstrate ambition that matches the reality of the challenge, both in its timescales and its extent. Policies introduced by all government departments must contribute to our net-zero target. Policies must also be fair to future generations, as well as those of today.

The UK's climate trajectory must be consistent with the latest science. Government should seek to provide business with early clarity on what the transition path needs to be within known scientific tolerance, via roadmaps with clear milestones for businesses. Policies from any government department must be ambitious enough, that they align to the most up-to-date scientific analysis, such as that coming from the Intergovernmental Panel on Climate Change (IPCC)⁸. This approach would show true climate action leadership from the UK and would enable fellow OECD countries to follow suit.

Globally, it is estimated that the current warming trajectory leads us closer to 3.2 degrees Celsius⁹, even if countries meet their current climate-targets, and whilst the UK only amounts to around 1% of global emissions, there is a need to improve where we can, and encourage others to follow suit. In order to improve the UK's trajectory and enact the government's own approach of going 'further, faster' decisions must be based on a trajectory closer to 1.5°C across areas such as targeted R&D, grants, auctions, market mechanisms, taxation, and planning law.

The business community has already shown strong support for the UK's net-zero target. In May 2020, 884 companies had set science-based targets, including 98 companies with headquarters in the UK and 456 companies with operations in the UK¹⁰. A letter¹¹ was also sent in 2019 from over 150 businesses to HMT outlining reasoning as to why businesses see merit in increasing climate change ambition. This centred around the myriad opportunities for businesses and the economy to bring forward increased levels of inward investment.

In delivering policy ambition against the latest science, in all policy decisions moving forward, we believe the government has a role in ensuring globally recognised analysis from IPCC for example, and domestically from the UK Committee of Climate Change (CCC) must filter into all policy decisions, no matter the government department.

To support this principle, we ask government to:

- Align all policy decisions, across government departments to the latest science and advice, and in doing so lead the world in its ambitions to marry government policy with 1.5 °C global warming.
- Use the cross-government Cabinet Sub-Committee on Climate Change, led by the Prime Minister to instruct all government departments to adhere to the UK's legally binding net-zero target in their own individual decision-making fora.
- Use the Committee on Climate Change Progress Report to measure annual success and ensure the UK's legally binding Carbon Budgets are met.

⁸ IPCC <https://www.ipcc.ch/>

⁹ UN Emissions Report (Nov 2019) <https://news.un.org/en/story/2019/11/1052171>

¹⁰ Based on data Aldersgate Group has gathered

¹¹ CLG Business Leadership for a climate neutral economy <https://www.corporateleadersgroup.com/reports-evidence-and-insights/news-items/businesses-urge-2050-legislation>

2. Fairness of Accountability

Government, alongside Regulators should provide coherent and accountable governance and ensure that climate change policies are coordinated. This includes continuously clarifying the roles of central, local, devolved and arms-length decision makers, and co-ordinating the work of departments, Regulators and agencies so that their business plans, priorities, policies and objectives complement, rather than contradict, one another and ultimately contribute to the delivery of a net-zero economy.

The ‘fairness of accountability’ principle calls for a renewed sense of joint working across government departments, as well as between central and local government and between the government and Regulators. Despite climate change being a pan-sector issue, silos persist in the approach to the delivery of climate-related policy across government departments, with HMT, BEIS, Defra, DfT, and MHCLG and any future relevant departments working in this space (OLEV being a notable exception here), but with DCMS, DfE, DfT and DfH having a clear role to play too. In turn, the Regulators (Ofgem, Ofwat, Ofcom) are bound by statutory roles and responsibilities which were introduced decades ago and are not necessarily aligned to current economic or social conditions, and certainly not our climate ambitions. For example, Ofgem does not have any statutory obligation to take climate change (and our net-zero target) into consideration across its decision making, including that of ‘minded to’ decisions which are consulted upon.

The UN Sustainable Development Goals (SDGs) are a good framework which reflects success when intricate, cross-government issues, once scaled-up have a clear role for all in delivery and success.

The Environment Bill marks an important step towards creating overarching environmental governance architecture. However, further information on how it will be aligned to delivery mechanisms and how it will be delivered in practice is needed. The Government must provide clarity on exactly who is accountable for the targets to be set under the Environment Bill, and how interim targets are to interact with these wider targets. As the UK’s net-zero target is a long-term ambition, it is also key for the Government to take accountability for maintaining the respect of decisions and actions taken under one government beyond its term and across successive governments until the target is achieved – in essence, climate change must not become a political issue where progress is stunted at the turn of a new Parliament.

To support this principle, we ask government to:

- Ensure the transition to a low-carbon economy is governed appropriately, acknowledging that some solutions are best developed at a local level, with businesses and workers, enabling participation from all government departments, in a simplified and coherent manner aligned to delivery mechanisms.
- Set out plans at local (encouraging regional cooperation), national (coordinating between departments, Regulators and Devolved Administrations) and international (showing global leadership) level ensuring accountabilities are clear and concise. This includes ensuring domestic environmental governance architecture is supported by and aligned to, effective delivery mechanisms.
- Ensure immediately that the legal responsibilities of the Regulators include the need to prioritise decision making that aligns to our long-term net-zero target and does not dampen prospective investment into the UK.
- Ensure that the legislation and related guidance maintains the Government’s accountability beyond its term, and across successive governments until the net-zero target is achieved.

3. Fairness of Delivery

Government should, where possible, support and empower businesses to find their own ways to reduce emissions in line with our net-zero target, acknowledging that a one-size-fits-all approach to policy delivery may not work in all cases and that a diverse set of business-led solutions will be needed. Government should provide confidence and certainty around its long-term policy objectives, setting out expectations, timescales and pathways for change, but also allowing for flexibility and market-led solutions come forward where viable.

If the ‘fairness of ambition and accountability’ principles focus on the *who and what*, the fairness of delivery principle focuses on the *how*. The UK government must acknowledge that a one-size-fits-all approach to policy does not work and will not facilitate the decarbonisation needed to reach net-zero emissions by or before 2050. The Government must understand that a uniform policy decision for one sector may not be suitable for the different industries within the same sector and may be even more likely to hinder a whole sector compared to another, often with unintended consequences. In order to advance informed holistic policy decisions and minimise unintended consequences, coherence across central and local government and between the government and Regulators will be critical to the success of meeting our long-term climate targets.

A strategic delivery framework to implement net-zero should aim to benefit all sectors and businesses. This framework should include cross-government endorsement of a set of sector roadmaps which identify the real-world changes needed to deliver on this target and to capture the economic benefits, supported by effective and stable policy frameworks to attract the necessary private investment. This should encompass sectors from heavy industry and transport to education and health. This framework must also be informed by the needs of small businesses as a key part of the UK economy which is particularly critical given the burden coronavirus has placed on small businesses.

To support this principle, we ask government to:

- Pull together to advance holistic, credible, and long-term policy-making and avoid unintended consequences across sectors which is backed by robust delivery plans¹².
- Deliver policy which is informed by a granular understanding of the impact on different sectors, including different business size and types. Policy will then be consistent and long-term, as well as responsive to the changing circumstances of our economics and societies.
- Recognise individual industry pathways to net-zero, thereby ensuring policy is business-centric and proportionate, outcome focused and technology neutral where solutions have yet to come forward, to enable businesses to innovate and find the best solutions for their sectors.

¹² This may involve considerations around a national Just Transition for the UK (or regional Just Transition Commissions) bringing together employers, workers, and government representatives, whilst coordinating with the Devolved Administration Just Transition bodies.

4. Fairness of Opportunity

Government must provide a level playing field, ensuring businesses of all sizes, in all sectors, can contribute to a net-zero economy, through their innovations, investments, and markets. These opportunities must be shared throughout all levels of supply chains, so that the burden of net-zero responsibility is not simply pushed on to one set of businesses, or one sector. Importantly, Government policy must not exclude or preclude smaller or less-able contributors.

The ‘fairness of opportunity’ principle emphasises the need to ensure opportunities presented by the transition to a net-zero economy are utilised and made accessible to all, via a just transition. There is huge potential for the private sector, including small business, to drive entrepreneurial solutions for the future; however, to plan, invest and collaborate, businesses will need confidence in the direction of travel. A long-term vision of how to achieve net-zero can help create a fair level playing field for business and help harness the flow of private capital to drive investment in low-carbon technologies.

This should be underpinned by policy frameworks offering long-term certainty. These are crucial for unlocking access to capital and attracting investment required to fund research and development in nascent technologies that can one day deliver on low carbon ambitions and in turn improve productivity.

Supply chains must also be protected in the transition as they play a fundamental role in delivering low-carbon infrastructure and technology needed to achieve emissions reduction (and offset). In addition, in a post-COVID-19 world, linking domestic supply chains globally with expertise will be a necessary pillar of our global recovery, where the UK can engage in existing and new markets from renewables and storage to carbon capture and hydrogen. Small businesses should be supported to access green growth opportunities, including through supply chains.

This principle of fairness also concerns the need to ensure employment and re/up-skilling opportunities exist and are accessible both to the existing workforce and to new entrants. This must involve ensuring new UK R&D funding translates into capacity building and investment in green skills and apprenticeships to help build a shared understanding of new essential green skills and provide access to targeted innovation funding aligned to net-zero innovative solutions.

To support this principle, we ask government to:

- Create an enabling environment for business action by ensuring supply chain opportunities for low-carbon solutions as well as support for new markets and investments and access to skilled labour exists to allow innovation to flourish. This includes incentivising the right areas at the right times, so it is simpler, quicker, and cheaper to be environmentally friendly.
- Recognise and capitalise on the export potential which accompanies low-carbon growth, including that of technology and infrastructure expertise and knowledge which the UK can share with other countries looking towards achieving a net-zero future. This should be in addition to ensuring climate change becomes a central pillar of future trade deals.
- Develop a national skills strategy where net-zero is integrated at all levels of the education system aligned to local industrial strategies. This is needed to ensure the availability of a suitably skilled workforce across the country to take up the employment opportunities of the low-carbon economy.
- Take a strategic approach to direct low-carbon investment into regions in need of more opportunities with transferrable skill sets. This will require identifying parts of the low-carbon economy where the UK is particularly well placed to grow its supply chains, and in which geographic areas could be well positioned to host these supply chain and employment opportunities.

5. Fairness of Costs

Government climate change policies must be affordable and achievable. Decision makers must ensure that the cost of transition to net-zero are distributed equitably among businesses, workers and consumers, based on their environmental impact, ability to pay, ability to adapt and potential for gain.

The ‘fairness of costs’ principle reiterates the need for a credible, fair and robust approach to the distribution of the costs associated with delivering net-zero emissions. This links directly in with HMT’s net-zero review of costs due in Spring 2021. Ultimately, we must be confident that rules will be enforced ensuring no one can profit from degrading the environment and warming climate.

Government should ensure that hard to decarbonise sectors get the necessary financial support needed to decarbonise, whilst being able to invest into new or nascent technologies (e.g. heavy industry and fuel switching), support for training the young generation and reskilling and retraining of the existing workforce as well as supportive policy frameworks that ensure the competitiveness of firms whilst they decarbonise. This will include ensuring there is demand for low-carbon products and services.

Given these sectors, like others, provide overall economic benefit to the country as a whole, we need to ensure they can thrive, now and in the future. Targeted public investment will be needed to support vulnerable households in areas such as energy efficiency, low-carbon heat roll out and transition to electric vehicles. As well as ensuring that the costs associated with transition to net-zero are proportionate, Government should provide small businesses with enough time to adjust as well as sufficient clarity about the adjustment time to support reallocation of investment and resources.

In addition, Government must ensure that environmental costs are accounted for appropriately in all departmental decisions. For example, cost-benefit analyses (and risk assessments) are carried out as part of infrastructure project delivery processes to ensure the correct values are attributed to potential environmental impacts. The government must ensure cost-benefit analysis is carried out on each policy and fiscal decision aligned to net-zero, so that our environment is protected (including air quality).

To support this principle, we ask government to:

- Ensure that costs associated with reaching our long-term targets are shared fairly across the economy and society. This includes the degree to which policy costs are loaded onto customer or supply chain bills. This may involve targeted support at those parts of society and business which will struggle most with the transition to a low-carbon economy.
- Ensure supply chains are protected both in terms of distribution of costs, competition and are provided with extra support, where necessary via policy and fiscal incentives.
- Ensure policy decision making pulls in the same direction as fiscal decision making at annual events such as the Budget to ensure consistency in approach and administrative simplicity for firms.
- Ensure small businesses are provided with enough time to adjust as well as sufficient clarity about the adjustment time to support reallocation of investment and resources where needed.