A Green Recovery: aligning economic recovery with climate policy in the UK

Dods Monitoring take a look at what a green recovery in the UK would look like and how the Government might finance it.

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Overview

The term 'green recovery' has gained increasing traction as the economic fallout from Covid-19 has become apparent. As the economy entered a slump, there were increasing pressures from campaigners, think tanks, Whitehall and now even royalty (Prince Charles) for the Government to prioritise low carbon solutions in the UK's economic recovery.

The urgency of climate change has not disappeared in light of Covid-19, so what should the Government's next steps be in the UK's recovery? How should the Treasury balance economic growth while ensuring pollution isn't locked in for decades to come? This brief will provide an overview of how the energy sector, the environment, transportation and the financial sector could potentially play a role in the UK's recovery, and what type of policy would ensure the twin benefits of stimulating economies and accelerating clean energy transitions.

But what is a 'green recovery'? The phrase refers to a fiscal stimulus focusing on transforming the economy, rather than simply restarting it. In this sense, the Covid-19 crisis is an opportunity to move beyond GDP in its true form as a measure for a thriving economy and accelerate low carbon options. This comes as increasing analysis begins to highlight the inextricable link between addressing the climate and nature emergency and tackling economic and social injustice.

Pressure has mounted as the lockdown and changes to everyday life under Covid-19 has shown that carbon emission reduction is possible through a change in behaviours. The Financial Times quoted figures from Sia Partners, a French consultancy specialising in energy, that stated EU lockdown measures has prompted a 57 per cent decline in daily carbon emissions. Similarly, the UK had seen an 80 per cent decrease in transport use. Naturally, these changes to lifestyle are temporary and are simultaneously an effect of a falling economy, thus are not necessarily sustainable long-term.

However, many are arguing that the pandemic has highlighted how policy makers at the local and the national level can implement plans to keep certain positive aspects of 'lockdown life' ongoing in the return to social normality. These include active travel, prioritising our natural environment, and ensuring new investments to boost the economy are filtered into green projects.

Pressure isn't just coming from those in the political or environmental sphere, as just last week over 200 top UK firms and investors signed a letter to the Government supporting investment in line with climate goals. The signatories to the letter include Lloyds Bank, Asda, Siemens and Sky, while proposals in the letter were put forward by the likes of Mitsubishi, Signify and Yorkshire Water. These proposals are echoed by the Environmental Justice Commission in their report, Faster, further, fairer: Putting people at the heart of tackling the climate and nature emergency. The report, published in conjunction with IPPR, self-proclaims to provide an articulate vision for a renewed economy and a clear pathway of action of how to get there, through a rapid and fair transition which puts people at its heart. Specifically, it discusses how these actions should be implemented for the post pandemic recovery.

A true green recovery spans across nearly all sectors of Government, such as finance, industry and the built environment, and incorporates legally binding targets such as Net Zero Carbon by 2050 and meeting the UN's Sustainable Development Goal (SDG) number 7 by 2030. It would require full commitment from the Government and significant cross-departmental and transnational governance to be successful.

Net Zero Industry & Workforce

Since the Government amended the 2008 Climate Change Act last year, all eyes have been on the newly legislated net zero carbon target by 2050. Naturally, the impact of Covid-19 has led to emerging conversions surrounding recovery policy that won't impede this target. Alok Sharma, Secretary of State for Business, Energy and Industrial Strategy has stated that: "Although coronavirus is the most immediate threat facing our planet, climate change remains the biggest threat, so there is still plenty of work to be done."

Frameworks for a green recovery

Economic recovery and the creation of jobs are significantly interrelated. The Committee on Climate Change recently sent a letter to the Prime Minister, urging him to take green action, suggesting a move toward net-zero emissions would "help rebuild the UK with a stronger economy and increased resilience". The Committee's letter argued that the expansion of "investments in low-carbon and climate-resilient infrastructure" and "supporting reskilling, retraining and research for a net-zero, well-adapted economy" would bring immediate benefits to climate and economic resilience.

The Environmental Justice Committee later suggested in their report, Faster, further, fairer: Putting people at the heart of tackling the climate and nature emergency, that the Government should support sustainable industries and create high-skill, high-wage jobs. This could be achieved through scrapping the subsidises for sectors of the economy that have a high carbon footprint and replacing them with significant investment in innovation and new technologies to spur decarbonisation. Similarly, the Commission recommended the introduction of an education and skills programme for a zero-carbon economy. This reflects calls from Britain's industries, as the nuclear and oil and gas sector claim that the relevant skills could be lost with future generations.

Labour have similarly recently launched their consultation on a Green Recovery. Ed Miliband, shadow secretary of state for business, energy and industrial strategy and shadow Chancellor, Anneliese Dodds have rallied businesses, workers, unions and others to contribute to how a green recovery could happen. The consultation outlines the opposition's priorities to 'build back better', including a 'zero carbon army' to kickstart energy insulation, zero emission vehicles, afforestation and sustainable city redesign. The responses will help to shape the oppositions' proposals to the Government.

Skills shortages

The calls to green action are not simply through a climate lens, with forecasts from the Resolution Foundation suggesting that more than 600,000 young people could be unemployed due to the Coronavirus. The Energy and Utilities Skills Partnership this week launched the 2020-2025 Workforce Renewal & Skills Strategy which outlines proposed priorities for a green recovery. 227,000 jobs could collective be created by a) tackling the skills shortage through collaborative partnerships across the UK and national government departments b) investment in industries that are of strong economic importance to the UK economy c) a stable skills and employment policy environment; and, d) continuing dialogue and evaluation of policy and practise with employers.

Much of the extension of green jobs nationally would fall under the Government's Industrial Strategy. As we look ahead to the Chancellor's stimulus package, the Financial Times reported that the Prime Minister stated young people should be "guaranteed an apprenticeship", alongside ensuring investment in green technology. This bodes well for those lobbying a green recovery.

Government action

The Government's narrative has consistently agreed with the voices of those previously mentioned. COP26 President and Business Secretary Alok Sharma has been keen to reiterate that a green transition remains at the heart of Government. Sharma recently co-launched the 'Race to Zero' campaign with the UNFCCC. The campaign is not specific to a green recovery, but many of the themes interrelate. The campaign mobilises a coalition of leading net zero initiatives, representing 449 cities, 21 regions, 992 businesses, 38 of the biggest investors, and 505 universities. These 'real economy' actors join 120 countries in the largest ever alliance committed to achieving net zero carbon emissions by 2050 at the latest. Collectively these actors now cover nearly 25 per cent global CO_2 emissions and over 50 per cent GDP. Whilst this campaign is the sort of effort necessary for transnational commitment to a green global economy, its success in fuelling momentum for a decarbonized economy will most likely not be measured until COP26, now taking place in November 2021. This could dispute any relevance of it to a post-Covid economy.

Furthermore, whilst Johnson's cabinet echoes calls for a green recovery, issues arise when you match the Government's speed in reaching their net zero commitments with the scale of jobs that are potentially necessary post-Covid. So far, only one of six industrial clusters in the UK has been funded to transition to low carbon by 2030 (net zero by 2040). This leaves the remaining five without such investment and subsequently, less job opportunities. Not only does this affect the Government's 'levelling up' agenda, but many also argue it is not sufficiently ambitious and will delay hitting a zero-carbon target.

The Transition

Other issues arise when we look at the sectors already established that need to be successfully transitioned to greener practise. The oil and gas sector are at heart of this debate. The Conservative's 2019 Manifesto pledged for an oil and gas sector deal, which Energy and Clean Growth Minister Kwasi Kwarteng said in a February 2020 debate on the UK's Oil & Gas Industry would hopefully be launched in the next five years, despite it originally being promised by the previous administration. The deal is vital to supporting an industry that employs nearly 300,000 people in the UK through their decarbonisation efforts. This specifically refers to the creation and implementation of carbon, capture, utilisation and storage (CCUS) across oil and gas infrastructure, and the shift to more environmental forms of gas. All of this requires large scale investment and is now vital to avoid job losses in less climate friendly industries and subsequently, a loss of GDP.

Questions also arise as to how many 'new jobs' would actually be created, rather than simply repurposing jobs in already established sectors. The recent report by Vivid Economics and the WWF suggested the UK could unlock up to £90bn in annual benefits by spurring a green recovery from the coronavirus pandemic by focusing on the net-zero transition – but how much could be lost if this is not simultaneous to an oil and gas sector deal and if the jobs created simply pouch from other industries? The calls for a skill-based education overhaul have never been more necessary than in the ambition for a green recovery.

The Environment

Any green recovery is intersectional, and the environment is another crucial component. It occupies a unique position as it is both impacted by the effects of climate change, but also has the ability to mitigate the impacts of the crisis.

The Environment Bill is currently making its way through parliament, which aims to improve the natural environment, and in the March Budget, the government announced a £640m Nature for Climate Fund for nature restoration. Whilst we await the finer details of this scheme, the current pandemic has brought into focus how much the environment underpins modern life. It is essentially our life support machine, impacting upon health and wellbeing, the food that we consume, and the wealth of our nation. However, the urgency at which governments around the globe have recognised the need to protect and restore it has been slow burning.

Alongside the current pandemic, we are faced with a nature crisis caused by human actions. The serious decline in biodiversity and nature has been widely documented: there has been a decline in species, the degradation of soil and an increase in plastic waste amongst other impacts. A report by the Intergovernmental Science-Policy platform on Biodiversity and Ecosystem Services (IPBES) documented that as many as one million species are at risk of extinction and rising global temperatures will continue to impact ecosystems and genetics. The same IBPES report notes that current negative trends in biodiversity and ecosystems will undermine progress towards 80 per cent of the assessed targets of the Sustainable Development Goals related to poverty, hunger, health, water, cities, climate, oceans and land. In the UK, invasive species - those that have moved outside of their natural range and negatively affect native biodiversity, ecosystem services and public health, through predation, competition or by transmitting disease - also pose a threat to ecosystems, and the UK Parliament's Environmental Audit Committee estimates that they cost Britain's economy £1.8bn a year. Therefore, the loss of biodiversity and ecosystems is not only an environmental issue. As we enter the UN's Decade on Ecosystem Restoration, we are presented with an opportunity to bring about transformation.

Agricultural reform

The agricultural sector has been particularly susceptible to the effects of the pandemic, with change in consumer demand resulting in a loss of markets overnight for some. The sector, whilst being at acute risk from the effects of climate change, accounts for around a tenth of UK greenhouse gas (GHG) emissions. But farmers are well placed to play a part in a green recovery, as they manage 71 percent of the British countryside, and the climate is vital to their business. The Agriculture Bill, which has begun its passage through the House of Lords, will replace the Common Agricultural Policy, moving from the old system of paying farmers and landowners for owning land to paying them for environmental services and benefits. Alongside providing food for the nation, farming's environmental delivery can include encouraging wildlife, benefitting soil for carbon capture, protecting rivers and drinking water from pollution, and mitigating climate change. As Craig Bennett, CEO of the Wildlife Trusts, has asserted "you can't have food security without nature being in good shape."

Crucially, the pandemic has also highlighted the fragility of food supply. A provision added to the current version of the Agriculture Bill that requires the Secretary of State to report back on food security at least every five years, seems more important than ever in this context.

Nature-based solutions

Nature-based solutions involve working with and enhancing nature, and can increase the size of natural carbon stores, along with cooling cities and livestock in rural areas, reducing flooding, as well as mitigating air pollution. But they should not be used as a substitute for cutting greenhouse gas emissions, and therefore must be implemented as part of a wider programme for recovery. Woodland also provides habitats for biodiversity and better protection and management of existing woodland is required, along with ambitious tree-planting schemes. Tree planting received a great deal of attention during the general election with parties committing to tree-planting programmes of varying degrees. However, it is key to note that different trees have different purposes and needs and caution must be taken when choosing what to plant where.

Confor welcomed the inclusion of tree-planting as necessary urgent action in the six key points recommended by the CCC, to ensure a resilient recovery for the whole of the UK that helps the fight against climate change, and they emphasise that most forestry activity and opportunities for tree planting are in areas with high unemployment likely to be hard-hit by the economic effects of coronavirus. The government has introduced schemes to encourage tree planting, having stated that they will consult on their English Tree Strategy, but concerns have been raised that launching it during the current crisis will mean it won't get the scrutiny and focus that it needs. However, with tree planting, there are a number of factors to consider including climate change and pests, and it has been asserted that mixed woodland and diversity of species would be most resilient.

Another mechanism for supporting unique plants and wildlife, along with storing carbon, are peatlands. However, due to erosion, drainage and inappropriate management, they are releasing carbon back into the atmosphere. Greenpeace, amongst others, have called on the government to implement a peatland strategy that focuses on its restoration, which could also support job creation.

Green spaces

The current pandemic has highlighted the importance of nature and green spaces for our mental health and wellbeing, and these places have been a major source of respite for many. The UN's policy brief entitled COVID-19 and the Need for Action on Mental Health highlights the risk of a global mental health crisis, asserting that research into past pandemics has illustrated the negative impact of these types of outbreaks on people's mental health. The brief also reports that the global economy loses more than US$2trn per year due to depression and anxiety, with depression affecting 264m people around the globe, therefore good mental health is crucial to a global response to, and recoveries from, coronavirus. Regular connection with nature has been found to have benefits for mental health and wellbeing, having been linked to decreased stress hormones, reduced depression and fatigue, and high levels of physical activity. As the importance of green spaces to mental health is widely acknowledged, nature-based prescriptions could feed into public health systems and play and increasing role in improving wellbeing post-coronavirus. So, in any recovery, ensuring that communities are resilient is fundamental, and green spaces must be restored so that they can continue to provide this benefit.

Restoring green spaces doesn't just offer benefits to mental health and wellbeing, but it also offers an economic benefit that could help the economy recover. As noted in Greenpeace's manifesto for a green recovery, Defra has estimated that if everybody had access to green space, there could be savings to the health system of around £2.1bn per year. Restoring nature and green spaces would offer a boost to the economy through job creation, but it would also bring in revenue from wildlife tourism, particularly in rural areas.

Circular economy

Another area that would offer economic opportunities whilst conserving resources and the environment would be to put a circular economy at the core of economic recovery, through transforming the way goods and materials are made, used and disposed of. The London Waste and Recycling Board notes only "8.6 percent of the 100bn tonnes of raw natural materials which entered the global economy were reused last year, but circular strategies could reduce global CO2 emissions by 40 percent". Due to coronavirus, some strides made towards a circular economy have been reversed through the reintroduction of single use plastics and the breakdown of recycling services and markets. But there is still a chance to protect gains made prior to the crisis, and a need to bridge circular economy and climate policy. This would require looking at how the finance sector can help to accelerate a circular economy, foster innovation and invest in sustainable business, whilst also encouraging behaviour change of individuals to adopt climate-friendly behaviours and creating demand for circular products and services.

Oceans

The ocean is one of the world's largest carbon sinks, as well as providing energy efficiency and food, and transporting trade amongst other uses, and its protection from pollution and global warming needs to be factored into any recovery to ensure that it can continue to play its essential role. Some are calling for the Fisheries Bill to introduce a system to allocate fishing quota on the basis of environmental protection and creation of jobs, which would also boost coastal economies. On World Oceans Day, the UK Government recently published the findings of an independent review which calls for the introduction of Highly Protected Marine Areas in English waters. It is argued that these Areas would not only enable recovery of the marine ecosystem, but that there are also potential social and economic benefits including increased tourism and recreational activities.

The future is nature

There are real fears that nature will be side-lined in favour of pure economic growth as we emerge from this global pandemic, but if we look at nature as part of the solution, there could be a multitude of winners. The upcoming Dasgupta Review seeks to show that our economies are inextricably linked with nature, and this combined with recent research by the RSPB, which found overwhelming public support for nature to be embedded within recovery plans, adds to the already deafening calls from across society to place the environment at the heart of achieving economic prosperity.

The Community

Since lockdown and social distancing measures were implemented, transport usage has seen a steep fall across all forms. Proportionally, public transport usage declined most significantly, and at its lowest point, rail and bus usage was down 95 per cent to that of an equivalent day outside of lockdown. Despite Government messaging, road traffic has seen more sustained usage, and has consistently remained at around 20 per cent of what it could be expected to be on an equivalent day. Whilst this makes sense for social distancing purposes, it presents the Government with the challenge of addressing its lack of infrastructure to facilitate zero carbon mobility, particularly outside of London, whilst public transport use is limited.

Nation-wide transport infrastructure

In response, the Department for Transport (DfT) quickly established a two-pronged approach: first, it would ensure that public transport was available for essential workers across the country; second, it would provide the funding that would realise cycling and walking as genuine alternatives to both driving and using public transport.

Devolved authorities have been essential in delivering both strategies. On public transport, the DfT offered new investment for local bus services and light rail across the country via the combined authorities, when those who could not work from home began to return to work in May. Whilst this was welcomed broadly by regional mayors across England, the Mayor of London Sadiq Khan was met with a more complex arrangement when negotiating additional funding to support Transport for London. The deal, which will see fares increase in January, has encouragingly seen the creation of car-free zones across wide expanses of central London through a new Streetspace initiative. Similarly, the Mayor has sought to capitalise on the improved air quality caused by lockdown through the deal, with the congestion charge, Low Emission Zone, and Ultra-Low Emission Zone re-introduced.

Further evidencing the need for devolution in implementing a green recovery is the active travel fund, which was allocated to combined authorities in May and is worth £225 million. The primary focus of the fund is to create new cycle lanes and re-allocate road space to encourage the pedestrianization of urban centres across the country. These measures have two explicit objectives: enabling social distancing and encouraging cycling and walking. Funding is being delivered to authorities in two tranches: the first 25 per cent is earmarked for immediate use to develop pop-up solutions to address disruption from the pandemic; the second tranche of the fun is to be put toward the creation of longer-term projects. For example, the West Midlands Combined Authority will put the fund towards its extensive recovery plan, WM2041, which builds on existing commitments to make the West Midlands Carbon Neutral by 2041. Moreover, in May, the Government fast-tracked statutory guidance that ordered councils to re-allocate road space. Clearly then, the Department has recognised that lockdown provides a unique opportunity to capitalise on demand for an alternative.

Change at an individual level

The DfT's plan also seeks to change the habits of individuals via local authorities, through the inclusion of a ring-fenced £25 million for people to get their bikes repaired, which will be delivered as £50 vouchers for up to half a million people. Further to this, the plan tackles the habits of individuals through proposals that target commuters specifically, with ambitions to improve cycling facilities at railway stations in a bid to divert commuters away from using their cars at all when travelling to work once lockdown measures are lifted in full.

The Devolution White Paper, which was confirmed in the Queen's speech last year, is yet to be published. The Paper will afford local authorities increased control over how investment is spent, allowing them to decide independently which sectors to invest in. With this impending control to come, local authorities will be empowered to carry out more tailored action and be able to deliver on their own local climate policies, which tend to be far more ambitious than national decarbonisation policy. With increased local control, authorities will be able to cultivate greener communities through their own initiatives, such as energy-efficient buildings and increased green spaces. Change on a smaller, local scale will also allow individuals to buy into long-term change through nudges toward greener habits such as recycling, choosing sustainable energy sources, and increased active travel.

Financing a Green Recovery

A fiscal stimulus

As the crisis proves to be more than a temporary dip, consensus is forming around the argument that many of the jobs pre-Covid-19 will no longer exist after the crisis despite the Job Retention Scheme. For instance, this week, Torsten Bell, the chief executive of the think tank Resolution Foundation, warned that it could take seven years for employment levels to fully recover from the coronavirus crisis. This indicates that economy will not simply resume at previous capacity having been maintained via Government business finance and income support schemes. Instead, the recovery will need a fiscal stimulus, including most likely filling the cracks of income support, encouraging new job creation and capital spending. According to Nick Robins, LSE's Grantham Institute, the stimulus package should be timely and targeted, have a high economic and social impact, and lead to next phase of economic development, which is largely considered to be a decarbonised economy.

How to pay for it

One of the challenges to injecting a significant fiscal stimulus is the cost. The Government has already spent £133 bn to tackle the coronavirus crisis, with the debt to GDP running at the highest level in 57 years. Moreover, with the economy having grounded to a halt reducing the expected revenues, the question of sustainably financing the stimulus is at the forefront.

Borrowing

The main route of financing a stimulus is raising finance on the private financial markets, i.e. selling government bonds. To lock in its commitment to a green recovery, the UK Government could launch its first green bonds, which are specifically designed to support climate-related and environmental projects. The Government would then need to declare the environmental benefits, manage the proceeds separately, report annually, and remain open for external audits and third-party certification.

This is arguably the perfect time for the Government to sell green bonds: a) there is already significant appetite among investors from pension funds to insurance groups for investments b) UK buyers are top buyers of green bonds c) green gilts are arguably a cheaper option d) calls for a green recovery have come from across the business sectors and e) green bonds are likely to mobilise private finance for green investments. The recent calls from the International Monetary Fund and Mark Carney, the PM's finance advisor on COP 26 to make Task Force on Climate-related Financial Disclosures (TCFD) compulsory for financial services are likely to have put even more pressure on investors and managers to make their portfolios carbon neutral.

Although selling green bonds as opposed to standard ones is not a necessary requirement to having a green recovery, doing so would send the message that this is the defining feature of the Government's recovery. More importantly, the Government would allow itself to be held accountable by investors on the green character of its spending and bind its own hands with regards to any bailouts and subsidies it may offer with the funds raised through those bonds.

Taxation

Another option for financing a green stimulus, at least partially, is increasing taxation or introducing a carbon tax. This route is often unpopular to voters or/and businesses and is tricky to balance with the negative effect it could have on consumer spending and business investment.

Despite the challenges it presents, it has been argued that it is crucial to couple green investment and subsidies with disincentives to developing and sustaining high intensity activities, such as taxes on emissions. For instance, looking back at the mistakes of the 2008-10 stimulus packages, Michael Jacobs, former special adviser to Gordon Brown, said that the green measures were not accompanied by environmental regulation and carbon taxation which would have sustained those improvements made through the stimulus packages. Moreover, failing to introduce a carbon tax could result in a recovery in the demand for oil, boosted by its low prices.

Taxation cont…

The UK Government has already put forward plans to replace the EU ETS Emissions Trading System with a UK wide Emissions Trading System (ETS) – a system which sets a cap on greenhouse emissions depending on the sector with companies who use more than their allowance having to pay fines. However, the provisional minimum price proposed is £15 per tonne of carbon dioxide. Grantham Institute argued last year that the price should start at £50 (with a range of £40–100) (tCO2) in 2020, rising to £160 (£125–300) by 2050 in order to reach Net Zero. This suggests the Government should go much further. With the pressure of high public debt, one of the concerns with the recovery strategy is that the Government may change direction and opt for austerity once again. In so doing it is likely to hinder the recovery in a stop- start manner, which is what arguably happened after the 2008 financial crisis. A carbon tax could help counter the tendency of cutting spending due to its potential of raising much revenue.

Bank of England

Another route of raising funding for a fiscal injection is for the Bank of England to take up some of the public debt. The Bank could then either sell the debt back in the market at a later time, or keep it on its balance sheet – which is called monetary financing. The latter option has become more acceptable with this crisis, where more economists accept this is unlikely to lead to hyper-inflation due to the current circumstance around business uncertainty and low consumer confidence.

Private Finance

A green recovery does not need/ should not be fully finance via public spending. Private finance can have an important role if incentivised in this direction. For instance, implementing the EU's taxonomy would be help the financial sector to contribute to decarbonisation more effectively. The forthcoming EU rules offer a framework to classify investment products in different shades of green (from climate change mitigation to adaptation) in order to encourage the shift of capital towards a sustainable and inclusive growth and reach the net zero by 2050.

However, the UK appears disinterested in doing so. The FT reported that, in a letter to the EU Scrutiny Committee, John Glen, the Economic Secretary to the Treasury, said the Government reserve judgement on whether to implement the EU taxonomy.

Looking ahead

From early indications, the Government appears to favour a fiscal stimulus, if an interventionist strategy is to be understood in the Keynesian sense. "In dealing with the fallout of coronavirus, we will be as activist and interventionist as we have been during the lockdown," the prime minister said last week. Encouragingly, the Government's stakeholder roundtables launched this week have the stated aim of supporting a "green and resilient recovery". It remains to be seen if the stimulus measures expected either this summer or at the Budget would indeed take the shape of a green recovery.

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