



**POLITICAL  
INTELLIGENCE**

# Obstacles to Net Zero

Economic and Financial

## Introduction

World leaders have not done enough to deliver on their [Glasgow Climate Pact](#) commitments. That was the frank assessment of Alok Sharma, the UK's COP26 President, at an event in May to mark six months since almost 200 nations signed the agreement at the UN Climate Change Conference. He acknowledged the world had changed since he had fought back tears and apologised after a late amendment on coal was added to the COP26 deal. War has returned to Europe, inflation is spiking, debt is mounting, energy prices are rising, and people are struggling to feed their families as the world continues to deal with the shock of the Covid pandemic, he said. "[But frankly we need to up the pace](#)," he added. When countries meet in November at COP27 in Sharm El-Sheikh in Egypt, they must show a global audience, "that though the world has changed, our resolve has not."

Hosting COP26 helped spur the UK government to try and lead by example on climate change policy. The government's [Net Zero Strategy](#)—published just before the UN conference—set out the UK's ambition to reach net zero emissions by 2050. Since then, the focus has inevitably shifted to how the climate targets will be met. "It is easy for the government to have the rhetoric and goals of achieving net zero, yet this cannot be done without making hard choices," Lord John Krebs, Professor of Zoology at Oxford University and an active participant in the Environment Act passing through the House of Lords, told Dods Political Intelligence.

To shed light on the challenges the government faces in delivering its climate change policy, Dods Political Intelligence has produced four short reports, each exploring a key obstacle to net zero: economic and financial, regulatory, technological, and social. The final report also includes a case study of how these challenges are playing out in the drive to green the NHS, the world's first national health service to commit to reaching net zero.

This first report in the Obstacles to Net Zero series examines some of the key economic and financial challenges to reaching net zero, including working out who should foot the bill for the significant changes required, the government's efforts to raise green finance, and building a green workforce.

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## Who should pay for net zero?

Arguably one of the biggest obstacles for policymakers globally who have set their nations on a path to achieve net zero emissions is how to pay for it. Tackling climate change in the UK will require a transformation of the industrial base, as well as every home and building across the country. It will require changes to the vehicles we drive, the lifestyles we lead and perhaps even the food we eat, as well as investment in the development of new and initially expensive low carbon technologies. This will be costly for the state, households, and businesses, with the Climate Change Committee (CCC)—the UK’s independent adviser on climate change—estimating that decarbonising household heating alone will cost around £250bn and require energy efficiency upgrades in some 19m homes across the UK.

For the government, this fundamental economic question boils down to a mix of “carrots” to encourage action, such as grants and subsidies for the uptake of expensive green technologies, and “sticks” to make some choices less attractive and raise funds, such as green levies or prohibiting polluting activities such as the ban on the sale of new petrol and diesel vehicle from 2030. Within this mix is a complex and shifting debate about fairness, which has been complicated further in recent months by the cost-of-living crisis and soaring energy prices. The rise in oil and gas prices, fuelled by an explosion of pent-up demand following the Covid lockdowns and shortages exacerbated by the war in Ukraine, have proved a double-edged sword by making fossil fuel extraction more lucrative but also boosting the drive to develop more environmentally friendly and sustainable energy sources. In the longer term, changes to various commercial operations and behaviours as a result of efforts to combat climate change, such as reducing North Sea oil and gas production and increased use of electric vehicles, are expected to have significant implications for fiscal revenues and wider economic policy.

Government ministers have so far done little to generate public debate about the costs involved in achieving net zero or agreed how much of the burden should be shouldered by households. [Media reports](#) suggest that while Number 10 under Prime Minister Boris Johnson pushed for an expansion of support schemes such as the Energy Company Obligation, which would have given an additional £200m per year to help improve the energy efficiency of homes and cut fuel poverty, the Treasury did not implement those proposals. Reports indicate that while Johnson was also keen to include a target to phase-out of new gas boilers from 2035 in the October 2021 [Heat and Buildings Strategy](#)—which sets out the government’s plans for decarbonising homes and buildings—the then Chancellor of the Exchequer Rishi Sunak and many Conservative backbenchers were reluctant over fears that it would place a large financial burden on poorer households. Despite the importance of climate policy choices and their significant implications, the subject was conspicuous by its absence in the early stages of the race to become the new Conservative party leader and prime minister.

The government has faced criticism from environmental campaigners and others for not having a clear strategy for messaging and public engagement on net zero. The Institute for Government [published a report](#) in September 2021 that urged the government to engage citizens on climate policies such as the design of new taxes, subsidies and changes to our diet and lifestyles. It warned that there was limited expertise on public engagement and little co-ordination of activities across departments.

To help fund the transition to more environmentally friendly options, the government has carried out two auctions to sell a total of £16bn of so-called Green Gilts, bonds designed to raise

money to pay for projects like zero-emission buses, offshore wind, and projects to decarbonise homes. The government said the £10bn raised in the first auction in September 2021 was the largest inaugural green issuance by any sovereign, while its second sale--of 32-year bonds maturing in mid-2053--in October was 12 times oversubscribed. They have also followed up by issuing what it said is the world's first standalone retail Green Savings Bonds from the National Savings & Investments (NS&I) in February. However, the Financial Times [reported](#) that some investors have questioned the attractiveness of the bonds' fixed rate of 1.3 percent over their three-year term, while others said it was not clear what the money raised would be spent on.

The government has emphasised the role of businesses and the financial sector in driving net zero, but it faces a challenge to ensure that its investments are transparent, and lead to widely shared benefits to ensure no groups are left behind. Businesses are now required to publish a carbon reduction plan to win major government contracts and more than one third of FTSE100 companies have now signed up to the UN Race to Zero campaign, pledging to end their contribution to climate change. However, the drive for companies to present themselves as being environmentally friendly has led to a rise in "greenwashing", whereby firms falsely convey their products or practices to be more environmentally friendly than they really are in order to make them more attractive. In a 2021 [study by asset management company Schroders](#), greenwashing was the concern most frequently cited by investors, with 60 percent raising it as a challenge.

Environmental campaigners have also noted that the UK lacks a comprehensive carbon price or emissions trading scheme, which means a range of industries are not bearing the full or proportionate cost of their emissions. The concept of a carbon price/emission trading scheme is consistent with the polluter pays principle--one of five environmental principles set out in the [Environment Act 2021](#)--that emitters should bear the costs of their emissions according to the price of carbon they produce. While the UK does operate an emission trading scheme that covers certain large sectors, such as energy production, aviation and other energy intensive industries, this only covers [28 percent of emissions](#) in Scotland.

Crucially, experts warn that the cost of achieving net zero is likely to increase the longer it takes for policymakers to put strong policies into action. In an October 2021 [report on the climate-related measures in the Budget and Spending Review](#), the Office for Budget Responsibility said that according to its "early action scenario" ending the UK's contribution to climate change could add 21 percent of GDP to national debt by 2050, around £470bn in today's terms. "We also concluded that acting early could halve the net fiscal cost of getting to net zero by 2050 compared to acting late," it said. If left completely unchecked, the impact of the climate crisis [could cause](#) public debt to spiral by 289 percent of GDP by the end of the century. Experts have argued that the quicker the government can fuel the net zero transition, the sooner the UK and its companies can benefit from first-mover advantage in climate-related economic and business opportunities.



## Building a green workforce

Net zero will not be achieved unless nations can develop the skilled workforce that is able to deliver it. In many countries, the UK included, that is expected to require a significant effort by the public and private sector to train thousands of workers to take on new so-called green jobs that are vital to tackling climate change, from engineers to instal and service heat pumps to nuclear power station staff. Research by the [Place-Based Climate Action Network-a group which aims to help translate climate policy into action on the ground](#)-suggests that one in five UK jobs will require skills that may experience demand growth or reduction in the UK's transition to a net zero economy by 2050.

The government set an ambition for two million green jobs by 2030, up from around 400,000 jobs in low carbon businesses and their supply chains at the start of the decade. It has said it expects the policies in the [government's Ten Point Plan for a Green Industrial Revolution](#) to support up to 90,000 highly-skilled green UK jobs within the current parliament, and directly support up to 250,000 public sector jobs by 2030. As part of the Ten Point Plan, the government launched the [Green Jobs Taskforce](#), made up of members from industry, trade unions, the skills sector, to help set the direction toward a high-skill, low-carbon economy.

Its [final report](#), published in July 2021 contained three key recommendations for the government: publish detail on how to promote good green jobs, skills and competitive supply chains in the Net Zero Strategy; work with industry and the education sector to ensure green careers advice and pathways into green jobs; and continue to build on the government's skills reforms contained in the [Skills for Jobs](#) white paper to support people to work in the new green economy. To push this agenda forward, the government has set up a Green Jobs Delivery Group to enable ministers from various departments to work together. The then Energy Minister, Greg Hands, co-chaired the first [meeting](#) of the group in May 2022, along with fellow co-chair Michael Lewis, the CEO of energy firm E.ON, with an aim to support the delivery of up to 480,000 skilled green jobs by 2030.

The government's [Net Zero Strategy](#) aims to "level up the country, create new green jobs, and put the UK at the forefront of growing global markets in green technologies", with the investment needed coming primarily from the private sector. The strategy highlights sectors such as renewable energy, construction, heating, and automotive as those with urgent and emerging skills challenges, but maintains that all employers will need workers with wider cross-cutting skills to deliver net zero, including digital and data skills, project management, communications and change management. To address these cross-cutting demands, the government aims to make the skills system more responsive to demand and encourage providers and employers to support the transition to a green economy. The strategy also calls for increasing support for employees currently in high carbon economy jobs to enable them to transition and help young people to receive the training they need to work in a future green career.

In [response](#) the CCC said the government had clearly recognised the importance of education and skills in delivering a fair transition to a green economy. However, the House of Commons cross-party Environmental Audit Committee (EAC) said the Net Zero Strategy had not fleshed out its definition of a green job and how the government would evaluate demand from business. In the [final report](#) of its inquiry into green jobs published in October 2021, the Committee said the government's employment schemes, such as Kickstart and Restart, did not embed sustainability,



with just one percent of Kickstart placements in green sectors. It also expressed concern that climate change and sustainability could risk being seen as a “tick box exercise” in education, and said it was imperative that current and future workforces were both climate and sustainability literate. Philip Dunne, the chair of the EAC, [said](#) “the workforce of the future is being undermined by a lack of evidence-based government policies on how jobs will be filled in green sectors. Encouraging announcements of investment in green sectors of the economy are very welcome but the government admits that claims about green jobs lack explanation and data on how the targets will be achieved.”

[Responding](#) to the EAC’s report, the government said it was taking steps to embed processes to capture how it was supporting green jobs through government schemes, and would report on this periodically, but added that it would only include sustainability elements where occupationally relevant. However, the government has continued with efforts to green the workforce following the serious disruption to education caused by the Covid crisis. In April 2022 it [published](#) a policy paper titled “Sustainability and climate change: a strategy for the education and children’s services systems”. The strategy set out plans to introduce a curriculum of “world-leading climate change education”.

## About Dods Political Intelligence

We provide insight, intelligence and impact through our comprehensive suite of policy tools. Our services comprise of three main elements: *Dods Consultancy* – based in Brussels and London, our industry experts offer real-time analysis and impartial guidance on the latest policy developments and trends. *Dods Monitoring* – our recently relaunched platform offers instant alerts and contextual insight from over 13,000 sources across the UK and the EU. *Dods People* – the original who is who in politics, Dods Parliamentary Companion, was established in 1832. Today, our stakeholder management tools cover the UK and the EU, helping you identify and communicate effectively with key contacts.

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