CASE STUDY

Engaging with Government to shape the pathway to net-zero

Introduction

The scale of the challenge of reducing global emissions and limiting rises in temperatures to 1.5 degrees requires collaboration across all sectors of business, government, and civil society. Businesses inevitably are critical actors, providing the investment and innovation to deliver the necessary change. This however, cannot be in isolation. Governments, in particular, create the conditions to enable effective business action, setting standards to shape markets, designing incentives and using their spending power to promote change. In addition, many governments and businesses see opportunities to be exploited through new, innovative green solutions and technology, and are putting net-zero at the heart of their broader economic plans. Governments also provide democratic legitimacy, helping ensure the impacts of change are considered across the population. As a result, respondents have regularly referred to government interactions and engagement as important factors in determining the success of their initiatives, whether as a catalyst or as a barrier.

Key messages

Whether responding to climate-related policies and regulations, or seeking to get ahead of them, all businesses need to understand the role of government in shaping the environment for decarbonisation and track how this is developing.

By setting well-designed regulatory standards, governments can enable new markets for businesses and encourage investment.

Rather than pushing back against regulation, many businesses want to see more robust regulatory frameworks established to give them greater confidence to invest in green initiatives.

Many governments are opting to guide markets towards green investments by establishing ‘long lead-time’ regulations aimed at phasing out higher carbon technologies.

Tax and spend policies can be effective tools in crowding in finance from the private sector and reducing the cost of climate technologies.

01 The role of regulation and policy in shaping corporate climate action

A shift to a net-zero economy requires a transformation of markets and consumer behaviours in a short space of time. A business-as-usual approach will not see the necessary reforms or investments made sufficiently quickly, necessitating the government. Businesses are motivated to act independently of governments, but without government setting the direction of travel for the economy and establishing the standards it expects, businesses cannot move forward with certainty.

Around 40% of contributors cite regulation and policy change as a driver of their climate action. However, a much smaller proportion – just over 5% - believe this to be the primary motivation for their initiatives. Further insight from responses suggests that policy and regulation are viewed as factors that shape and influence initiatives and their impact, rather than instigating change.

Externally, the business view of government regulation has historically been caricatured as sceptical, with such intervention railed against on the grounds that it could increase costs, create an uneven playing field, or stymie innovation. The reality is much more nuanced. Respondents have cited examples of regulations that have been poorly designed or targeted, but more generally businesses recognise the importance of regulation in providing certainty, shaping markets and counteracting rogue players in the market, or unfair competition. Many businesses have cited the absence of comprehensive and effective policy and regulation to be a barrier.

As commitments from an increasing number of national governments become more ambitious and the concept of net-zero becomes more widespread, climate change will intersect with ever more aspects of policy. In a world where emissions were expected to be reduced rather than eradicated, businesses might have fallen into the trap of believing that their own carbon footprints would lie within the residual emissions, and therefore be out of scope for government intervention. That expectation is becoming less prevalent, with businesses across the economy recognising their responsibilities and expecting more actions from government to support or compel them to decarbonise. As businesses grasp the urgency and severity of our predicament, they are anticipating a policy environment that changes significantly and adapts quickly.

The question is not whether we need regulation to enable business action on climate change – we clearly do – but how regulatory systems can best be designed to support companies on this journey.

02 Businesses' perception of a good regulatory environment

Businesses do not want to be taken by surprise by regulation. Often the stability and predictability of the regulatory system rank in importance alongside the design and targeting of the regulations themselves. Respondents expressed a desire to get ahead of potential policy changes, rather than reacting to changes. This underlines the imperative for companies to monitor and influence the regulatory environment, rather than wait for it to dictate their futures.

We don't want to be driven by increasing regulations related to sustainability, but rather aim to be a front-runner in sustainability matters and incorporate sustainability into our business operations.

Neste (Energy, Resources & Utilities)

Businesses require sufficient time to plan and adapt their operations. Depending on the industry, investment cycles can span a decade or more, and so need to understand the likely pathway for decarbonisation and the implications for technology developments well into the future. Businesses can accommodate new rules, standards, or policy initiatives, as long as they have sufficient time to plan and have confidence the changes will be long lasting.

For most countries, climate change policy is characterised by long-term targets for cutting greenhouse gas emissions. This in turn is translated into potential indicative pathways for different emissions categories – like energy production and distribution, transport, and industry. Some governments have therefore started to favour the implementation of 'long lead-time' regulation, giving businesses early notice of a necessary change, and a chance to adapt in line with their normal investment cycles. In the UK, these rules are emerging with particular prominence in parts of transport and buildings policy, but will need to be extended across the economy going forward. The establishment of these rules generates new questions among businesses affected – 'Where do we need to invest to meet this new requirement?' and 'What support will we require to get us there?':

Significant engagement across the sector was achieved only after the government mandated diesel trains be phased out by 2040. This statement has transformed senior leadership's view on this, resulting in the sector making significant investment decisions as a response.

Avanti West Coast (Transport & Mobility)

In addition, businesses require signals from governments to help guide their investment to places where they are likely to generate returns. Often when new green technologies are introduced and sufficiently advanced, coordination is required at a national or local government level to create efficiencies and reduce the risk of stranded assets. For example, the development of hydrogen has multiple potential uses across the economy from industrial processes to heavy transport vehicles, to some forms of home heating.

Ideally, we would generate renewables at our sites to both power the treatment plants we operate and to charge small electric vehicles. Similarly, we would use the biomethane we produce to create hydrogen for fuelling larger tanker vehicles and to sell to other fleets. However, we are never going to be able to do this on our own – it requires government intervention and support to help set up hydrogen networks. In this way we can all work to a common set of standards and goals.

Dŵr Cymru Welsh Water (Energy, Resources & Utilities)

The infrastructure and utilities sectors which are often characterised by natural monopolies, have an especially symbiotic relationship with regulators. In the UK, many firms in sectors such as energy, water, and telecommunications are accustomed to high levels of intervention from independent economic regulators.

Unsurprisingly then, respondents from these sectors were much more likely to call out regulation as a primary driver of their climate initiatives, highlighting the important role that regulators have in promoting tangible climate action on a broad scale. Many regulators are working closely with leading businesses in their respective sectors to ensure ambitious targets are met.

There are 2030 targets for the water sector, which the Regulator will ensure we meet. We had put forward a very forward thinking and innovative business plan, that had some challenging targets. We effectively agreed a high-level carbon reduction plan with the Regulator, rather than a clear-cut reduction target.

Northumbrian Water Limited (Energy, Resources & Utilities)

To unlock business investment, economic regulators need to operate in a way that is consistent with delivering net-zero. At present, most UK economic regulators are not bound to consider their contribution to progress towards the UK's net-zero ambition. There are therefore growing calls from business for economic regulators to have a remit and objectives to contribute to reaching the UK's net-zero target by 2050, and for them to be required to report on their progress on delivering these objectives.

03 Government spending's impact on corporate climate action

Government spending can also be a powerful tool in catalysing corporate climate action. Respondents point to examples where public sector spending has been instrumental, particularly in stimulating innovation and helping to bring down the cost of key climate technologies:

Finance is pivotal as expansion and scaling of our turbine operations and deployment requires funding. In order to scale, we require government-backed support as well as long term investors that understand the timelines of these projects and their longer than conventional payback periods.

Orbital Marine Power Ltd
(Energy, Resources & Utilities)

In the UK, the experience of deploying offshore wind power is illustrative of the power of government market-making and co-investment. The subsidy mechanism, the Contracts for Difference scheme, has invited bids from private sector power companies for new projects, providing developers with high upfront costs and long lifetimes with direct protection from wholesale price volatility. The competitive element of the mechanism has driven down the cost of the technology rapidly with significant falls in the strike price over a short period.

Businesses are keen to see this experience replicated for more technologies, which could be critical to achieving the UK's net-zero ambitions. In doing so, it could also create new growth and export opportunities for firms. For example, there is an opportunity to compete with other leading countries in the development of hydrogen power for cross sector use, carbon capture technologies and sustainable fuels for shipping and aviation.

The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing, and Delhi, the CBI communicates the British business voice around the world.