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Recommendations for the US-UK Sustainability Agenda

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Introduction

The transition to and development of climate-friendly energy, technologies, and products, is one of the greatest business opportunities in decades.¹ Research from the Global Commission on the Economy and Climate finds that bold climate action could deliver trillions of dollars in economic benefits.² While these numbers are not always easy to qualify, they show a clear direction. Acting quickly to take part in the transition to a greener economy will not only respond to public pressure, it will pay off.

Many leading transatlantic businesses have already seized the opportunity of the energy transition and made progress towards meeting global climate objectives, or driving sustainable growth through investments in new products, technologies and services. For example, in the aviation sector – a critical partner to facilitating transatlantic trade, business and growth – Heathrow Airport has set out a £200 million investment plan for carbon reduction and extended a £38 million fund incentivising airlines to make the switch to Sustainable Aviation Fuel (SAF). The US energy and petrochemicals company, ExxonMobil, has established a new Low Carbon Solutions business focused on hydrogen, biofuels, and carbon capture and storage, with the intention to invest approximately \$17 billion through 2027 on lower-emission initiatives.

For a long time, the political efforts to engage on climate change and sustainable practices in business have run in parallel. While political leaders committed their countries to ambitious net zero goals, many companies started to implement their own sustainability agendas. More recently, both streams have started to visibly integrate. In both the UK and the US, there is acknowledgement, encouraged by business, that government must use incentives as well as regulatory and legal changes to ensure that business can lead this transition globally.

In the US, the 2021 Infrastructure Investment and Jobs Act and the 2022 Inflation Reduction Act (IRA) provide unprecedented government support for climate and clean energy development, with large incentives for both the public and private sectors. In the UK, the 2021 Net Zero Strategy sets out policies and proposal for decarbonizing all sectors of the economy. In January 2023, the UK released an independent report into the government's current approach to delivering its net zero target, with a focus on ensuring that the UK's sustainability agenda is pro-business and pro-growth.³ The report will serve as a basis for a formal update of the UK's Net Zero Strategy in March 2023.

This paper is first and foremost an acknowledgement of these policy achievements, but also seeks to identify how the US and UK can build on their current efforts to transition to greener, more sustainable economies. Building on the 2022/23 BAB Policy Agenda, this paper makes recommendations that will help ensure that the US and the UK take advantage of the economic opportunity the green transition presents for their respective economies, citizens and businesses.⁴



State of Play

The discussion about the impact of climate change on our economies and the need for political action goes back several decades. In 1993, for example, former US President Clinton announced the aim to reduce greenhouse gas emissions by 2000 to 1990 levels, in accordance with the United Nations Framework Convention on Climate Change (UNFCCC). The UK, on the other hand, became the first major country to establish a clear governance framework on how to achieve emissions reductions in 2008⁵. US and UK government action on climate action gained further momentum when both countries signed the Paris Climate Accord in 2015 and more recently at the 26th UN Climate Change Conference of the Parties (COP26) in 2021, hosted by the UK.

Both the US and UK have been actively involved in global climate discussions, working in multilateral institutions like the UN and WTO to reduce global emissions and mitigate the physical and economic impact of climate change. Both countries have voiced a commitment to sustainable, values-driven trade with like-minded countries around the globe and are driving climate action through bilateral trade and investment.

Under the broader theme of 'sustainability', businesses have started to actively take part in the transition to and development of climate-friendly energy, technologies and products over the last several decades. In the UK and US, the E in ESG has real teeth, with implications for a business's reputation, financing and long-term viability. In fact, public pressure, and companies' own philosophies and responsibility, will drive business to report and commit to actions towards a reduced carbon footprint.

By the end of 2021 over 2,200 companies, representing one third of global market capitalization, had approved emissions reductions targets, with the majority of businesses using 1.5°C targets on track to cut their emissions twice as fast as required. Over 50 global companies have now joined the First Movers Coalition, a global initiative which harnesses the purchasing power of companies to decarbonize seven industrial sectors that currently account for 30% of global emissions.⁶ Operating between the US and UK, transatlantic companies have similarly taken decisive action to become carbon neutral, protect the environment, and fund the climate transition.⁷

Many businesses have already incorporated sustainability goals as part of their future business plan. The growing demand for sustainable energy, products, solutions, and processes has opened an entire new field of business opportunities. McKinsey estimates that the growing demand for net-zero offerings could "generate more than \$12 trillion of annual sales by 2030" in areas such as transport, power, and hydrogen, among others.⁸ Companies that adapt early or expand into these fields stand to benefit.

However, not all companies have the means to do so. Areas such as the development of sustainable fuel will require long-term investment. Until recently the balance of government action has been weighted towards making the public case for change and using the threat of legal and regulatory requirements on business. But commercial enterprises also need to see the financial case in order to convince their shareholders to make the commitments to invest in these new industries. Business has needed government to create policies that provide incentives for companies that lack resources to transition their business models and to invest in new technologies.

This now seems to be changing. The major climate legislation enacted by the United States has put climate and clean energy at the top of the domestic agenda. The IRA provides \$369B in subsidies and incentives designed to drive the demand for electric vehicles, increase the deployment of clean energy generation, spur innovation through research and development and create demand for low-carbon products in the construction of federal infrastructure projects.

The UK took a major step when enshrining a commitment to net zero greenhouse gas emissions by 2050 into law in 2021. Since then, the binding targets, including for air quality, water, biodiversity, transport

systems and waste reduction, have shaped areas, such as public procurement, and trade. The government's 2021 Net Zero Strategy outlined a roadmap for achieving net zero by 2050 through targeted policy action, increased public and private investment, and incentives for businesses to invest in the green economy.

In 2022, the UK Government commissioned Mission Zero, an independent report on how to meet its net zero commitments. An important element in the study, to which BAB members contributed, was how the UK can deliver on net zero targets in a pro-business and pro-enterprise way. In its findings, the report noted that there is need for more clarity, certainty, consistency and continuity from government, so that business can adjust long-term investment plans.⁹ In addition, the report acknowledged the importance of smart incentive schemes and government investment to keep pace with other economies, such as the US or the European Union (EU). The report will likely serve as a basis for a formal update of the UK's Net Zero Strategy in March 2023.

The past year has also seen an increase in bilateral US-UK cooperation, with a notable focus on developing a shared approach to climate-related issues. For example, BAB welcomed the inclusion of a green trade workstream at the US-UK Dialogues on the Future of Atlantic Trade and the increasing frequency of sustainability goals in trade discussions. BAB also noted the climate provisions which were included in the Memoranda of Understanding (MOU) the UK has signed with the US States Indiana, North Carolina, and South Carolina. Finally, BAB members welcomed the launch of the US-UK Strategic Energy Dialogue established with the aim to accelerate the transition to clean energy and advance shared net zero goals.¹⁰

United States Trade Representative Katherine Tai and UK Secretary of State for International Trade Anne-Marie Trevelyan met in April 2022 for the 2nd round of the US-UK Trade Dialogues. Photo Credit: Department for Business and Trade



Recommendations to Policy Makers

In the context of global energy challenges, climate change, and looming net zero commitments, the US and UK face a pivotal moment. While each country is at a different point in its domestic sustainability debate, they both face a similar opportunity to deliver greater investment and economic growth through timely policy action. The US and UK must continue to set clear and achievable targets to address climate change, deliver regulatory stability and enact policies that support businesses on the path to carbon neutrality.

The US needs to ensure that the IRA can be fully implemented at speed

- The US has taken a significant step in incentivizing massive investment by passing the Inflation Reduction Act in 2022. While the IRA includes many measures that have nothing to do with climate change like new limits on drug pricing, US companies, and international companies operating in the US, are able to benefit from many of the incentives the bill provides. The challenge and opportunity for the US government, and its agencies is to process the incentives packages as foreseen in the bill. There needs to be a clear structure and plan how and when the incentives will be accessible to public and private organizations. In addition, the US should prioritize further permitting reform, for example for energy infrastructure projects, so investments can be made quickly and impactfully.
- We welcome and encourage current conversations within the US government on the implementation of the IRA to boost US industry, while also working effectively with foreign partners. The ongoing talks between the US and the EU on critical minerals should be extended to the UK.

The UK should see the IRA as an opportunity for British business but also respond to the IRA with its own set of incentives

- The UK should see the IRA as an opportunity for its economy and businesses. The UK and many of its businesses have an unparalleled expertise in many green technologies. The IRA therefore presents a huge business opportunity for the UK and UK-based companies to grow in the US, and they should be encouraged to take advantage of it.
- In light of the IRA in the US and the EU Green Deal Industrial Plan, which similarly will provide major public incentives for decarbonising industry, the UK should design and promote its own green incentives package.¹¹ The UK Net Zero Review concluded that the UK is well-placed to benefit from the increasing demand for net-zero goods, services, and technologies, if the UK were to make the right public and private investments. In addition to financial incentives, we agree with the report's findings that major gains are to be achieved if the UK ensures that there is a simple, coherent and consistent process for companies to take part in the green transition.
- The UK should therefore review and update its current Net Zero Strategy to complement and rework existing measures to help drive the green transition across the economy. As the UK will not be able to match the funding scale seen in the US and the EU, measures should focus on specific growth areas, such as offshore wind, low carbon hydrogen and carbon capture storage, and on creating a simple, consistent process that removes barriers and allows businesses to access funds and incentive schemes in an efficient way.

The UK and the US should put emphasis on clear, consistent and equivalent regulation

- Alongside efforts to speed up the transition of their economies, both the US and the UK should ensure

that regulation keeps pace. Whether it be TCFD disclosures, rules around the Green Taxonomy, the US Clean Water Act, or the UK Environment Act, governments should ensure that there is clear, consistent, equivalent and technology neutral standards, regulations and/or incentives that support businesses. Government should consult and work with business on ways to implement new rules and regulations to avoid any pitfalls.

The US and the UK should raise the global bar on green trade

- Businesses have welcomed, and in many cases led the shift in both the US and UK towards a green and sustainable trade agenda. Trade liberalization is an important tool to reduce the costs of green technologies, increase their global availability, and incentivize more efficient production, as well as to set standards to shape the global trading landscape. Businesses have increasingly sought to establish green supply chains and sustainable practices at each stage from the sourcing of raw materials to the manufacturing of goods, to the global shipment of these goods. In that context, the US and UK should prioritise closer trade cooperation to continue to drive the green trade agenda, deliver economic growth, and promote sustainable, values-driven trade globally.
- Relatedly, the US and UK must collaborate on the development of new regulation and standards, such as those on deforestation, agricultural practices, recycling, or supply chains. For example, new regulations on the use of forest risk commodities included in the UK Environment Act are a great of example of how domestic policymaking can increase the transparency and sustainability of business supply chains. This is an opportunity to set a high standard for US and UK businesses beyond voluntary commitments, as well as a potential driver of stronger global environmental standards.
- Bi-lateral conversations can then inform global discussions and the US and UK should develop a joint approach to green standards at the multilateral level, such as in the WTO Structured Discussions on Trade and Environmental Sustainability (TESSD).



The US and the UK should use existing dialogues and collaboration platforms to further advance overarching objectives on economic collaboration, green trade and regulation

Trade

- BAB welcomed the inclusion of a green trade workstream at the recent US-UK Dialogues on the Future of Atlantic Trade. Both governments should develop a joint approach to green trade to improve policy and regulatory alignment in the near term, using existing fora like the trade dialogues, to continue government and stakeholder discussions.
- As part of the existing Trade Dialogues, such as the US-UK SME Dialogue, governments should also integrate and highlight any trade promotion tools that exist to help companies make their operations more sustainable, such as through the UK Export Finance Transition Export Development Guarantee, a financing tool for UK exporters looking to invest in low carbon solutions and operations.¹²
- We urge future trade dialogues to include wording that supports remanufacturing, which contributes to sustainable development and the circular economy. Trade agreements should include language that ensures market access for remanufactured goods, and restricts barriers placed on used goods from being applied to remanufactured products. Provisions included in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the U.S.-Mexico-Canada Agreement (USMCA) specific to remanufactured goods are a strong step forward and should be adopted in future trade agreements.

Energy

- The US and UK should use the recently launched US-UK Strategic Energy Dialogue to explore joint measures that increase energy security, accelerate the diversification of energy sources, including renewable energy, and build more resilient economies.
- In addition, we urge the US and UK to use platforms such as the UK-US Energy Security and Affordability Partnership to continue to use all the resources at their disposal, from crude oil, natural gas and nuclear energy to offshore wind, to increase energy affordability, security, and efficiency in the short term, while also developing a pathway to net zero.¹³
- Finally, the US and the UK should work jointly on how best to support industries on their path of decarbonization. For example, both governments should work to create the right framework that allows for the development and sufficient lead time for the implementation of new energy solutions, such as low carbon biofuels, hydrogen, or SAF.
- The UK and US should work together on and share expertise and lessons for international decarbonisation efforts, such as in hard to abate but economically vital sectors such as aviation. The UK should reflect on the leadership on SAF shown by the US within the IRA and introduce a “contracts for difference” price support mechanism – which would help to cut the price premium between SAF and fossil fuel and was successfully used to boost innovative energy technologies in the UK, like solar and wind.

Sustainable Finance

- We encourage the US and UK to use existing regulatory dialogues, like the UK-US Financial Regulatory Working Group, to enhance cooperation on climate-related issues and sustainable finance. These conversations would benefit from close cooperation with relevant industry groups like the British American Finance Alliance (BAFA).
- Furthermore, the US and UK—along with international partners such as the EU—should work at an

international level to harmonize and seek alignment around global financial standards and corporate sustainability reporting. We encourage the regulators at the US Securities and Exchange Commission and the UK Financial Conduct Authority, along with the International Sustainability Standards Board (ISSB) and other relevant regulatory bodies, to develop joint standards and taxonomy related to sustainable finance, ensuring continued interoperability between the US, UK, and EU finance and reporting regimes.

- As many transatlantic financial service firms have shown, factoring in environmental, social, and governance (ESG) considerations in investment decisions can lead to better risk management and long-term financial returns. It is important that government and industry work together to clearly articulate the economic value of sustainable investing.

Technology, Innovation & Skills

- Capitalizing on the respective strengths of the US and UK in research, science, and technology, we encourage both governments to pursue closer bilateral cooperation and information sharing related to the development of new low carbon and sustainable technologies. Building on the existing US-UK Science and Technology Partnership and Strategic Energy Dialogue, the US and the UK should facilitate bilateral collaboration in areas like nuclear power technology, sustainable aviation, offshore wind, sustainable AI, or carbon capture.¹⁴
- Both the US and the UK should link their domestic education & skills agenda to the wider sustainability goals so that both economies have the talent they need to fill new, green jobs.⁶ As outlined in BAB's July 2022 White Paper "Tackling the Skills Shortage," addressing the needs of the labour market will require the US and UK to develop comprehensive skills programs in close partnership with the private sector. We encourage both governments to work closely with industries at the forefront of the green transition—as well as with educational institutions—to develop the talent, knowledge, and workforce skills needed in a future green economy. BAB welcomed the focus on green jobs and skills included in the MOUs the UK has signed with Indiana and North Carolina and looks forward to seeing tangible progress made on these commitments through ongoing information sharing and green skills education exchanges.

Conclusion

The coming years will undoubtedly see a rapid acceleration of the sustainability discussion and the need for related action. This paper encourages policymakers and businesses alike to consider the significant opportunity the transition to and development of climate-friendly energy, technologies and products presents. There is a real opportunity for both the US and UK economies to take advantage of the green transition, to the benefit of their businesses, people, and economies.

For this transformation to happen, the US must ensure an efficient implementation of the IRA. The UK must respond to the IRA with its own updated incentive package which itself needs to focus on existing strengths within the UK economy and champion unique British solutions, rather than competing with the financial scope of the IRA.

Beyond that, the US and the UK should work jointly to raise the bar on green trade and sustainability regulation; and intensify bi-lateral dialogue platforms and economic collaboration in areas such as trade, energy, sustainable finance, technology, innovation and skills.

References

¹ While the term 'sustainability' can encompass a broad set of themes, including social equity and economic development, this paper focused on environmental sustainability.

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⁷ BAB, [Corporate Citizenship and Sustainability Series](#), 2023

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¹⁰ Department of Energy, [US-UK Strategic Energy Dialogue Joint Statement](#), May 2022

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