

UK Pandemic Recovery Offers Opportunities For Green Cos.

By **Samantha Deacon**

The COVID-19 pandemic has given rise to momentous economic challenges. Efforts to control and mitigate the pandemic have caused one of the largest global recessions in history, with governments around the world scrambling to develop plans for economic recovery.

For the U.K.'s green business sector, however, an unprecedented opportunity may be found within these plans, and the momentum for progress they may generate. With the urgent need to address climate change translating into increased government and private funding, the cleantech/green business sector appears poised for a significant revival in the post-pandemic economic recovery.



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COVID-19 as a Potential Threat to Climate Change Progress

Immediately prior to the pandemic, the World Economic Forum's annual meeting in Davos, Switzerland, focused almost entirely on the threat climate change poses to the global economy and its effects on geopolitics. Discussions centered around how to meet the objectives of the Paris Agreement — to limit global temperature rise this century to 1.5°C above preindustrial levels — and how GDP as a metric has failed to properly capture societal health.

The International Energy Agency has now warned that the pandemic's economic fallout could threaten climate progress, unless ambitious green investment is forthcoming from governments to help support economic growth out of the global recession.

Calls for a Green Recovery in the U.K.

In addition to the familiar calls to action from climate campaigners and academics, U.K. business leaders are now lining up to demand a green-led recovery. Nearly 200 chief executives, including from BP PLC, Lloyds Banking Group, HSBC Holdings PLC, Heathrow Airport Holdings Ltd. and National Grid PLC, wrote to Prime Minister Boris Johnson in June, pushing the government to "use the recovery to accelerate the transition to net zero."

Aligned with this pressure from the private sector, the U.K. legal framework mandating dramatic climate progress is already in place. In June 2019, Parliament passed legislation requiring net greenhouse gas emissions to be reduced to zero by 2050. HM Treasury has since launched the Net Zero Review, looking into the costs and opportunities of reaching this ambitious target, with a final report expected in late 2020.

Regulation's Role in the Transition to a Green Economy

In addition to funding, regulation will have a critical part in pushing societal change. The ban on sales of new petrol and diesel cars is arguably the most visible regulatory change at

present.

In advance of the COP26 United Nations climate summit in Glasgow in November, the prime minister recently announced that this ban would be brought forward from 2040 to 2035 "at the latest," as part of making 2020 a defining year of climate action. Additional regulation can be expected, in line with the U.K.'s legislative and international commitments, as part of the country's transition to a net-zero economy.

The independent Committee on Climate Change's 2020 annual report to Parliament gives an indication of potential future regulations. Among the committee's priorities are "buildings that are fit for the future," which could lead to strengthened energy and water efficiency regulations, and "moving towards a circular economy," which suggest more stringent waste separation and recycling rules may need to be applied across the U.K.

Clean Growth Fund

As part of its net zero pledge, the U.K. government has launched a £40 million (\$51.6 million) new venture capital fund to "supercharge green start-ups." The government is contributing £20 million to this new Clean Growth Fund, with the other £20 million coming from one of the U.K.'s largest charity investors, CCLA Investment Management Ltd.

The fund will be managed by Clean Growth Investment Management. With additional private sector investment now being sought, the government anticipates this fund could reach £100 million by 2021. It will be accessible to U.K.-based companies that are pioneering green technology across the power, buildings, transport, industry and waste sectors.

The Clean Growth Fund will make investments at early stage, seed or Series A rounds in "exciting, innovative clean growth start-ups." Typical first round funding will be in the region of £500,000 to £3 million, with the fund anticipating active participation in follow-on rounds.

Green Recovery Challenge Fund

As part of its COVID-19 pandemic recovery package, the U.K. government has also pledged £40 million to create new green jobs, a critical part of any transition to a greener economy.

This Green Recovery Challenge Fund will provide funding to help charities and environmental organizations to begin work on projects in England that restore nature and tackle climate change.

Green Investment Bank 2.0

The U.K. government has also previewed a potential Green Investment Bank 2.0, after the controversial privatization of the first bank. In July, the energy minister, Kwasi Kwarteng, said that he expects the government to announce its plans for a successor Green Investment Bank "in the not-too-distant future."

With the U.K.'s original Green Investment Bank having been sold to Macquarie for £2.3 billion in 2017, the government may now be close to creating a new state-backed bank to drive low-carbon infrastructure development.

Private Funding for Clean Growth

According to UK100, a network of local government leaders who have pledged to shift to

100% clean energy by 2050, their research indicates that "investing £5 billion in renewable energy could unlock £100 billion of private capital."

Private capital will of course be absolutely critical for the U.K. to realize the goal of a green recovery. Although many venture capital investors were burned by the initial wave of green investments, momentum may well be building behind a next, and much larger, wave of funding.

Corporate investors in particular have recently been announcing large-scale commitments to climate investment:

- In January, Microsoft Corp. launched a new Climate Innovation Fund to invest \$1 billion over the next four years to accelerate the global development of carbon reduction, capture and removal technologies. The fund will "invest directly in companies and into investment funds, to scale new innovative solutions in the market, to demonstrate the viability of new technologies, and to partner with other investors to meet the world's climate objectives."
- In June, Amazon.com Inc. also pledged an initial \$2 billion in funding for its venture investment program. Amazon's Climate Pledge Fund will "invest in visionary companies whose product and service solutions will facilitate the transition to a low carbon economy."

The Amazon pledge is particularly interesting, as it is widely reported to have come after increasing pressure from employees for Amazon to make positive steps in mitigating climate change. Might this be the start of a trend toward pressure from employees, including competition for top recruits, forcing companies to increase their efforts to appear — and increasingly actually be — climate-friendly?

Potential Inflection Point for Green Businesses

Governments have moved mountains to address the COVID-19 pandemic, shutting down entire economies and taking previously unimaginable measures to protect their populations.

To emerge from this global recession, while at the same time tackling the urgent climate crisis, public, private and nonprofit sectors are setting ambitious greenhouse gas emissions targets and pledging significant sums of capital. For companies in the cleantech/green business sector, the recovery could represent an inflection point: an unmatched opportunity to access funding and fuel growth, enabling the U.K. to realize its stated aim to "build back better."

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