



Rt. Hon Chris Skidmore MP
Chair, Net Zero Review
Department for Business, Energy and Industrial Strategy

By email to: netzeroreview@beis.gov.uk

31 October 2022

Dear Mr Skidmore

USS submission to Net Zero Review: Call for Evidence

The Universities Superannuation Scheme (USS) welcomes the opportunity to respond to BEIS's *Net Zero Review: Call for Evidence*.

About USS

The Universities Superannuation Scheme (USS) was established in 1974 as the principal pension scheme for universities and other Higher Education institutions in the UK. We now have than 500,000 members across 340 institutions and are the largest private pension scheme in the UK by assets, with total fund assets of around £90.8bn (at 31 March 2022). The Scheme's trustee is Universities Superannuation Scheme Limited (USSL), a corporate trustee which provides scheme management and trusteeship from its offices based in Liverpool and London. The trustee company delegates implementation of its investment strategy to a wholly-owned investment management subsidiary company - USS Investment Management Limited (USSIM) - which provides in-house investment management and advisory services and is authorised and regulated by the FCA.

USSIM directly manages the majority of the Scheme's assets. This allows USS's investment approach to be tailored to the Scheme's requirements and provides us with a unique perspective compared to many other institutional investors. USS aims to be an active, engaged and responsible owner of the companies and assets in which it invests.

We are proud to have been a leading voice on the need for pension funds and other investors to address climate change for over 20 years and believe that achieving Net Zero is of critical importance from both a financial and societal perspective. Since we announced our [ambition to achieve Net Zero by 2050 in May 2021](#), we have been working to put in place the policies and processes we need to deliver on that ambition. We are further integrating climate change and carbon into our investment decisions, analysts are increasingly factoring climate impact assessments into their valuations and portfolio managers will be given their own targets (relevant to their investment universe) to ensure we meet our climate-related objectives.

Achieving Net Zero: three key challenges

However, we believe there are three challenges to be addressed. These are:

1. Divestment leading to charges of ‘greenwashing’

There are some who believe that divestment, particularly of fossil fuel companies, is the only answer to achieving Net Zero. However, we believe that engagement is the most effective way to drive positive change. Divestment risks being seen as ‘greenwashing’ because, while it is possible to divest from some carbon-exposed assets, it would make no difference to the actual carbon emitted to the atmosphere and therefore will not address the climate challenge. If we were to simply sell a high carbon asset, another investor without a strategy to address climate risk may buy it, reducing the incentive for that company to transition. As such, we could be seen as washing our hands of our responsibilities as a trustee (with a primary fiduciary duty to invest in the best financial interests of our members and beneficiaries) and global investor with a role to play in supporting society’s transition to Net Zero.

That is not to say that we will not use divestment as a tool if it becomes clear that a particular sector or company cannot transition to Net Zero. We have divested from, or will not invest in, several sectors, such as companies that mine for thermal coal where this activity made up more than 25% of a company’s revenue, as it is difficult for this sector to transition to Net Zero. However, we recognise the Net Zero opportunities thermal coal can present when coupled with carbon capture and storage.

We therefore call on Government to be both vocal and unequivocal in its support for transition rather than divestment. The transition to a low carbon future requires companies to shift their business models over time, which will require incentives and positive policy levers, as well as a wider societal shift, which Government is well-placed to help facilitate.

2. Poor quality and availability of data

Another challenge is that much climate data is either unavailable or poorly researched. The availability and reliability of Scope 3 data for many companies and sectors is still poor and disclosure of this data remains rare. Our core reporting focused on Scope 1 and 2 data this year, which is generally available for public asset classes (although some assets and asset classes will rely on estimated data). We plan to report Scope 3 data (where available) in our next TCFD Report, as the quality improves, with an initial focus on energy intensive sectors.

The processes for assessing carbon footprints for certain asset classes are still in development, particularly, for example, for sovereign debt. This means the results can be anomalous. In the case of sovereign debt, the footprint is apparently an order of magnitude higher than that for public equities because whole-of-economy data are used. This is because of the very substantial effect of double-counting of data reported by companies. It therefore makes sense to report metrics for sovereign debt and other asset classes separately.

We therefore request that Government requires statutory reporting of carbon and climate data from UK companies as a matter of priority.

We also call on Government to publish its own carbon footprint in a manner which makes it compatible with other carbon footprinting processes. This may require Government to work with other issuers of sovereign debt and other bodies in order to establish a suitable framework.

3. The need for a stable environment for further investment in renewables and infrastructure

We share the Government's view that there is an opportunity to drive growth and prosperity by investing in the UK, securing the returns that will enable USS to pay the pension promises made to our members. Further investment in renewable technology, nuclear power and other key infrastructure will be vital in enabling the transition to a low carbon future. Unexpected changes in regulatory frameworks and short-term perspectives from regulators significantly increase the risks of investment, making it more difficult for us to take advantage of the opportunities that exist in UK infrastructure. Furthermore, the current energy and cost of living crisis reinforces the need for a shift from fossil fuel dependency where external geopolitical forces outside the UK's control includes energy supply. A focused shift to renewables (with appropriate energy storage or back up generation) would lessen this dependency, which requires further investment.

In addition, strong and consistent policy on the demand side, fostering increased insulation and the use of more efficient technologies such as heat pumps, would also mitigate a reduction in commercial and residential energy use and could lead to the rise of appropriate investment. Pensions funds such as USS, who invest for the long term, could play a central role here.

We therefore call on Government to facilitate further investment into the green transition, including into renewable energy and infrastructure, by ensuring predictable, transparent and stable regulation of infrastructure assets, and to put in place additional policies to reduce energy demand.

We also call for renewed support to be given to the development of technical solutions (for example, carbon capture and storage) that will unlock further decarbonisation. We understand, for example, that if low carbon hydrogen is produced at scale, it could support decarbonisation in a wide range of industrial sectors such as chemicals and steel, power generation and domestic heating.

We do not expect the journey to Net Zero be easy and recognise that there will be difficult decisions to be made along the way. Our strategy is to encourage and support the transition of assets to a low-carbon world, which will take time, but we feel it is the most appropriate and effective approach we can take to achieving the climate we will need in the future.

Thank you for opportunity to respond to this Call for Evidence, and I hope that this response provides a useful addition to your deliberations. We would welcome the opportunity to discuss these issues in further detail.

Yours sincerely

Simon Pilcher

Chief Executive Officer, USSIM