

## London Chamber of Commerce and Industry's response to the Government's Review of Net Zero

### INTRODUCTION

1. London Chamber of Commerce and Industry (LCCI) is the capital's largest independent business advocacy organisation. We represent the interests of firms of all sizes, from micro-businesses and sole traders through to large, multi-national corporates, across all 33 London local authority areas – genuinely reflecting the broad spectrum of London business opinion.
2. As the voice of London business, we seek to promote and enhance the interests of the capital's business community through representations to central government, the Mayor and London Assembly, Parliament and media, as well as international audiences. Through business surveys and commissioned research, LCCI seeks to inform and shape debate on key business issues.
3. LCCI engages with businesses in a variety of ways, including through membership committees that bring together industry experts to discuss how best to support London companies in key interest areas. LCCI's Environment, Sustainable and Green Growth Committee is made up of London businesses from a range of sectors and sizes, and seeks to support LCCI in its efforts to assist businesses through their net zero journey. As part of LCCI's response to the Review of Net Zero, LCCI has spoken to members of the Committee.

### REVIEW OF NET ZERO: CHALLENGES FACED BY FIRMS

4. London Chamber of Commerce and Industry (LCCI) supports the approach taken by the Government to review the current net zero strategy and ensure that targets are met in a way that supports businesses, consumers, and the wider economy. This response is based on a wealth of data that LCCI has collected on net zero and business, as well as engagement with LCCI members.
5. On the issue of barriers to decarbonisation, LCCI research has shown that more than two-thirds (69%) of London businesses encounter at least one barrier to lowering their greenhouse gas emissions.<sup>1</sup> Chief among those concerns are around costs, both to initially in the forms of new equipment practices, and higher operating costs going forward.
6. The 2021 London Business 1000 survey showed that costs are a barrier to firms undertaking different actions to reduce their emissions. Nearly half (44%) of London firms said that initial or higher operating costs are a barrier to using greener technologies (such as more energy-efficient, lower emission technologies). A third (32%) of companies said they would not seek to use more sustainable suppliers / sustainable procurement policies due to the upfront and higher operating costs. A similar share of London businesses said costs were also a barrier to offsetting emissions (31%), and to adapting their products / services to be more sustainable (33%).<sup>2</sup> Costs were also cited by a quarter (26%) of firms in the motor trades / wholesale / transport and storage industries, and a similar share in the retail sector (24%).
7. Away from costs, London businesses also cited a number of other barriers<sup>3</sup>, including:
  - a. Lack of resources / time within the business
  - b. Lack of appropriate substitutes / alternatives
  - c. Lack of knowledge / skills within the business

<sup>1</sup> London Business 1000 2021 survey, LCCI and London Councils, November 2021

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

- d. Business priorities focussed elsewhere
8. One of the biggest barriers to firms taking action on net zero is around a lack of infrastructure (e.g. electric charging points for vehicles, ultra-fast broadband). In the 2021 London Business 1000 survey, a lack of infrastructure was cited as a key barrier to businesses using greener technologies, such as low emissions alternatives.
  9. Businesses have reported to LCCI that the lack of available charging infrastructure is a fundamental barrier to the transition to lower or zero-emissions vehicles. This was cited by the logistics and taxi industries in a previous LCCI consultation response on zero-emissions vehicles.<sup>4</sup> Businesses found that there was high demand for the few charging points in London available, which prevented them from charging vehicles. In addition, the number of different charging operators posed a barrier, with each requiring their own payment method.
  10. A lack of suitable infrastructure also featured as one of the main concerns of LCCI members in the response to Transport for London's recent consultation on the expansion of the Ultra Low Emissions Zone.<sup>5</sup>
  11. There are other issues around infrastructure faced by businesses. With increased demand for electricity comes a need to upgrade local electricity grids, and businesses are being presented with sizeable upfront costs. In addition, for firms who operate commercial fleets, such as logistics companies, there is not enough time between deliveries to charge the vehicle so it must be charged overnight at base. This puts a heavy demand on the electricity supply of that building.
  12. One particular challenge around the transition to zero emissions vehicles in the extremely long lead-in times currently faced by purchases. Global supply chain issues are causing delays to the delivery of vehicles, which is dampening efforts by vehicle-intensive industries (such as freight) to transition to cleaner vehicles. Challenges such as this are important to consider for policymakers when introducing new measures, as even though they are well-intentioned and the need to urgent action on decarbonisation is understood by companies, the realities may be quite different.<sup>6</sup>
  13. Skills shortages are present across all industries in the current labour market. The issue of 'green' skills shortages is having an impact on businesses' ability to reduce their emissions too. In LCCI's Q1 2022 London Skills Survey, just under half (46%) of London firms said that they had little to no access to the skills they need to lower their emissions.<sup>7</sup> This increases to 70% of companies who said they were either currently planning / intending to plan a reduction in emissions.<sup>8</sup> Micro businesses<sup>9</sup> and SMEs<sup>10</sup> were also far more likely than large companies<sup>11</sup> to say that they only had access to a few / none of the skills they need to decarbonise.
  14. The issue of skills has been reported on the supply side too. LCCI members in the training and education sectors have indicated that even if they are able to provide courses related to decarbonisation, it is extremely difficult to obtain the teachers and trainers to run the courses. This shortage in teachers requires education providers to turn to industry experts, for whom the costs are higher to recruit.

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<sup>4</sup> LCCI response to Transport Committee's inquiry into zero emission vehicles and road pricing, LCCI, February 2021

<sup>5</sup> LCCI response to Transport for London's consultation on the expansion of ULEZ and road user charging, LCCI, August 2022

<sup>6</sup> Ibid.

<sup>7</sup> London Skills Survey Q1 2022, LCCI, May 2022

<sup>8</sup> Ibid.

<sup>9</sup> Defined as businesses with 0-9 employees

<sup>10</sup> Defined as businesses with 10-249 employees

<sup>11</sup> Defined as businesses with 250 or more employees

15. One of the sectors facing the biggest barriers to decarbonisation is aviation. Efforts are being made by airports to achieve net zero targets, and though while these are welcome, they inevitably focus on operational emissions. Airlines however face significant challenges in meeting net zero targets, given that the technology for low and zero-emissions aircraft has some way to go. This is particularly a challenge in the long-haul sector.
16. It is important to note that not all airlines strictly operate commercial passenger fleets. Some airlines focus either entirely or at least partially on freight distribution, and have commitments to reducing emissions in other parts of the business.
17. LCCI research has shown that London businesses feel they are responsible for contributing to the UK's efforts to decarbonisation.<sup>12</sup> However, linking back to the costs barrier, there is no escaping that companies have faced an extremely difficult two-and-a-half years. The Covid-19 pandemic saw a rapid drop in business turnover and demand<sup>13</sup>, and whilst there has been a recovery, there is still a long way to go.
18. To make things more difficult, businesses are facing unprecedented cost pressures in the current climate. The most recent Capital 500 survey for Q3 2022 highlighted that three-quarters of London companies had seen an increase in energy costs in the previous three months, and this measure has been consistently high since 2021. Borrowing costs are now rising for businesses, which is a particular concern given the increased liabilities firms have taken on to get through the Covid-19 pandemic. In this tight labour market, pressure to raise wages from employees is climbing too, with firms unable to hold onto talent due to salary gazumping by competitors. All of this makes the outlook for investment in green technology more precarious.

## WHAT CAN BE DONE TO SUPPORT FIRMS TO DECARBONISE?

19. With the above barriers in mind, there are a number of actions that could be undertaken to support businesses to decarbonise. These actions can be undertaken at different levels.
20. As part of its London Business 1000 survey for 2021, LCCI asked companies what they would like to see from their local council to help support them in their decarbonisation efforts. Perhaps unsurprisingly, additional financial support was most cited by firms, particularly via tax breaks for environmentally-friendly firms (38%) and grants for energy efficiency works (32%). However, nearly two-fifths (37%) of firms also wanted greater support on recycling from their council, rising to 43% of companies in the accommodation and food services / arts, recreation and entertainment industries.<sup>14</sup>
21. Support on green transport and retrofitting were also seen as possible actions that councils could use to better help firms to decarbonise. The issue of retrofitting is of national importance too, given the substantial emissions from commercial and residential buildings. However, insufficient funding, and a lack of relevant training programmes with clear career paths are holding back businesses from taking action on retrofit. Businesses in the construction sector were keen to see more action on green skills too, from both boroughs and central government.
22. A quarter (27%) of companies said they would like further information from their borough on how to become more sustainable. In recent years, a plethora of 'climate hubs' have been developed by different stakeholders, including the SME Climate Hub from the Department for Business, Energy and Industrial

<sup>12</sup> London Business 1000 2021 survey, LCCI and London Councils, November 2021

<sup>13</sup> Capital 500 Q3 2022, LCCI, October 2022

<sup>14</sup> London Business 1000 2021 survey, LCCI and London Councils, November 2021

Strategy (BEIS).<sup>15</sup> These hubs need to be promoted more widely, with only around 3,600 SMEs currently signed up to the SME Climate Hub at time of writing. In addition, there needs to be more investment in the support team at the SME Climate Hub to provide businesses with the information and help they need to decarbonise.

23. On a city and national level, businesses are keen to see the return to stability in the political space. Businesses seek certainty from government on the direction of travel for net zero, and it is vital that the new Prime Minister makes clear that the commitment to net zero by 2050 will remain in place. Furthermore, for industries such as aviation, government has a significant role to play. LCCI and its members were encouraged by the statements made in the Jet Zero Strategy, particularly on sustainable aviation fuels.
24. The Jet Zero Council would be bolstered however by including representation from the air freight sector, to ensure that freight is included in governmental policy considerations. More detailed engagement with the air freight sector could also boost prospects for greater commercialisation of sustainable aviation fuels and zero-emissions flight technologies.
25. Green skills that were highest in demand were in recycling collection / treatment (27%), alongside green finance (19%), energy economics and conservation (18%), energy process monitoring (17%), and energy engineering (16%).<sup>16</sup> The government's recent reforms to post-16 education should hopefully mean that businesses' skills needs are better reflected in the provision of courses from providers, but investment will be needed to ensure educators in decarbonisation are available.
26. This support on skills extends to ensuring that the existing systems are functioning as well as possible. For example, the apprenticeships levy stands ready to be evolved into a skills and training levy that gives firms and learners more flexibility on the types of courses and training that can be covered by levy funding.<sup>17</sup>
27. On the issue of energy security, net zero presents an opportunity for the UK to build energy resilience whilst also accelerating the transition to cleaner forms of power. Government should be investing in scaling up renewable energy production as part of its drive to net zero by 2050, which should in turn lessen the UK's reliance on imported energy supplies. Rather than the two being mutually exclusive, energy security and net zero can and should compliment one another. In addition, government should not be the sole party for deciding which form of renewable energy to prioritise. In order to build resilience, the UK should be working towards renewable energy solutions across a variety of methods, such as wind, solar, and tidal.
28. Following on from COP26 in November 2021, the UK must ensure it continues to be a leader on net zero on the world stage. This will present opportunities for UK businesses to export their knowledge, goods and services to all parts of the world in vital areas, such as green finance.

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<sup>15</sup> UK Business Climate Hub, <https://smeclimatehub.org/uk/>

<sup>16</sup> London Skills Survey Q1 2022, LCCI, May 2022

<sup>17</sup> Recovering employment and skills in London, LCCI, May 2021