

Rt Hon Philip Dunne MP
House of Commons
Westminster
SW1A 0AA

10 October 2022

Re: The financial sector and the UK's net zero transition

Dear Mr. Dunne,

Thank you for your letter dated 17th August 2022 regarding the Environmental Audit Committee's inquiry into the financial sector and the UK's net zero transition. Please find enclosed information about BlackRock and our role as a fiduciary asset manager, and responses to the questions in your letter.

Yours sincerely,

Sarah Melvin
Head of BlackRock, UK

Paul Bodnar
Global Head of Sustainable Investing, BlackRock

About BlackRock

BlackRock is a provider of investment, advisory and risk management solutions, and we and our predecessor firms have served clients in the UK for over 50 years. Our clients include retail fund distributors (e.g. banks and financial advisors), defined benefit and defined contribution pension schemes, insurance firms and charities who entrust us to manage approximately £750bn on their behalf.

BlackRock is not a bank, and the money we manage is not our own - it belongs to our clients. We act on their behalf, investing for them in a wide range of public and private asset classes. Without exception, we are obligated to always act in our clients' financial best interests.

BlackRock has a long history of expanding investment choice. Our investment capabilities span active strategies that invest in a pre-defined region, sector, or theme, index strategies that track a specific benchmark of securities, and alternative investments such as in infrastructure. We connect the financial resources of diverse individuals and institutions in more than 70 countries to investment opportunities in companies, projects, and governments around the world.

Governments representing over 90% of global GDP have committed to move to net-zero in the coming decades.¹ We believe this energy transition will affect, to varying degrees, all economies, global finance, and all companies regardless of business model, sector, size, or geography. All companies, including energy companies, must decide how to manage material risks and opportunities related to the transition to a low-carbon economy. Investors and asset owners must decide where to put capital to work, and how to engage with companies to guard their long-term economic interests.

We believe that there are investment risks and opportunities associated with the transition towards a decarbonized economy. We also believe that, as this transition occurs, climate change will continue to test the resilience of many industries and businesses in which our clients invest. To that end, we believe investors and issuers that take a forward-looking position with respect to climate risk and its implications for the energy transition will generate better long-term financial outcomes. However, our clients decide how to invest, and our role is to offer them the tools to make investment decisions, including data and analytics, investment insights, and thought leadership about the impacts of the energy transition on their portfolios.

¹ Net Zero Tracker, <https://zerotracker.net>.

Public position on fossil fuel finance**a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

As noted, BlackRock manages money on behalf of clients, who choose their own investment strategies and products. To that end, BlackRock offers a broad suite of investment products to meet our clients' varied investment goals, priorities, and risk tolerances. Many of our largest clients globally have made the decision to align their portfolios with the long-term changes in the economy that they anticipate in response to climate change and the transition towards a decarbonised economy, while others seek out investment products that have broad market exposure, including to energy companies, or make sector-specific investments. BlackRock's product offering also takes account of the regional regulatory environment; for example, in the EU and the UK, we have enhanced product ranges and disclosures to meet new sustainability related regulation, including the application of exclusionary screens in respect of issuers with a material involvement in fossil fuel production. In each case, as a fiduciary, we seek to realise the best long-term financial results for our clients consistent with their individual preferences, investment objectives, risk tolerance, and other constraints. As noted above, our role is to provide clients with the tools and insight to make informed financial decisions and the choice of products to meet their financial needs.

b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

No. We do not have a firmwide investment position on financing fossil fuels, reflecting our clients' varied goals, priorities, and risk tolerances, including as they relate to the energy transition. As described above, as a fiduciary we are bound to adhere to our clients' investment guidelines and objectives. For active portfolios where the client has granted us investment discretion, in 2020 we made an investment decision to exit public debt and equity investments in businesses generating greater than 25% of revenue from thermal coal. (This investment decision did not impact BlackRock's index-tracking products.) We took and continue to hold this view because our active portfolio managers concluded that the long-term economic or investment rationale no longer justified continued investment in companies with significant exposure to thermal coal. Consistent with our commitment to providing clients with choice, certain clients have opted to continue investing in thermal coal companies.

We provide a broad choice of investment products for clients who believe in the likelihood of long-term success for companies that take a forward-looking position with respect to climate risk and its implications for the energy transition. To serve client demand, we manage more than 300 dedicated sustainable investment strategies across index, active and alternative asset classes, accounting for \$470 billion of client assets.²

On behalf of our clients, we expect to remain long-term investors in carbon-intensive companies, because they play crucial roles in the economy – such as in power generation, transport, and manufacturing – and their success will be critical to our clients' financial goals and achieving an orderly transition. Indeed, divestment from such sectors in the near term may be at odds with enabling an orderly transition to a low-carbon economy in the long term. Furthermore, divesting from entire sectors – or pushing companies to simply pass carbon-intensive assets from public markets to private markets – could result in companies within these sectors being subject to less accountability. Many such companies are themselves engaged in developing new technologies and renewable power sources, and investors may seek opportunities to participate in the transition by identifying companies that are positioning themselves to lead decarbonization within their industries.

² As of June 2022. Source: BlackRock Sustainable Investing

c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?

As described above, we invest in companies in accordance with our clients' instructions and investment objectives. BlackRock provides clients with investment strategies that seek to take advantage of the changes in the economy that they anticipate as a result of climate change and the transition towards a decarbonized economy. This can include investments in renewable energy companies and electric vehicles producers, or in carbon-intensive companies with a credible transition plan that help enable the transition by supplying needed materials, equipment, and services for capital investments. We offer one of the world's largest dedicated renewable power platforms, with over \$9 billion in client assets under management, with strategies across our index, active, and alternative investment strategies.

The IEA Roadmap to Net Zero

[The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.]

d. In view of the [International Energy Agency] statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil, and gas'?

No. BlackRock's role in the transition is as a fiduciary to our clients – it is not to engineer a specific decarbonization outcome in the real economy. BlackRock is developing tools that help our investors and clients assess how the transition is likely to unfold and to support clients' navigation of the transition and – for those who choose – to accelerate it. We are guided by our clients' investment choices, and we do not pursue broad divestment from sectors and industries as a policy.

We understand that net zero pathways will not be linear: energy markets and the macro-economic environment are complex and volatile. Many of our clients remain long-term investors in the energy sector because these companies play a crucial role in the economy and the energy transition by, amongst other things, providing reliable and affordable energy supply in the wake of short-term shocks, such as the war in Ukraine.

However, we recognize the strong statements of ambition made by governments, companies, and financial institutions to the specific goal of 1.5°C. However, as a fiduciary, our engagement with companies focuses not on enforcing a particular temperature goal, but rather on how companies can generate long-term financial performance in the operating context of evolving climate policy and regulation. It is the role of governments, not industry bodies or investors, to set the targets that private sector actors should pursue, and those government-set targets are currently grounded in the language of the Paris Agreement. Asset managers' role and duty is to understand how companies' long-term prospects may be impacted by, among other things, environmental factors and government regulations, including by seeking disclosure on how they are working to meet any such requirements.

e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?

We expect to remain long-term investors on behalf of our clients in carbon-intensive sectors, and, as noted above, we do not pursue broad divestment from sectors and industries as a policy. An energy transition cannot happen immediately and will need to pass through multiple phases of decarbonisation. To ensure continuity of affordable energy supplies throughout, traditional fossil

fuels like natural gas will be required both for power generation and heating, as well as to produce hydrogen.

The UK Government's [Net Zero Strategy](#) notes that oil and gas will continue to play an important role as the UK economy transitions away from fossil fuels and towards clean energy. The Government's [Energy Security Strategy](#) noted that in Autumn 2022 a new round of licensing for North Sea oil and gas will be launched, with the expectation that there will be "more domestic gas on the grid sooner". As part of this strategy, continued investment in fossil fuel and energy-intensive sectors will be necessary.

That said, between the former Prime Minister's Ten-Point Plan for a Green Industrial Revolution published in 2020, the 2021 Net Zero Strategy, and the 2022 Energy Security Strategy, the UK has set several clearly defined targets for energy generation from different sources, and targets for initiatives to slow the pace of climate change.

Private sector investors have made a big contribution towards financing the expansion of the zero-carbon energy sector. The UK's National Infrastructure Commission highlights that between 2018 and 2021 the vast majority of the UK's energy infrastructure was privately financed, and private financing is also expected for over half of the overall infrastructure pipeline (see [here](#) and [here](#)). This suggests that the UK's approach to regulation is already relatively conducive to attracting and incentivising private finance.

As noted in our response to the call for evidence on the [UK Green Finance Strategy](#), we see increased client demand to allocate capital toward activities that support the transition. Indeed, we believe the intersection of infrastructure and sustainability represents one of the biggest opportunities in alternative investment for our clients in the years to come, and as a fiduciary, it is our job to connect the two. Anecdotally, we see continued interest from a broad range of end-investors to make allocations to private markets, suggesting there is a strong supply of capital to be leveraged for the UK's policy objectives.

However, as the UK's [2022 Infrastructure Progress Review](#) noted, while the *Ten-Point Plan*, *Net Zero Strategy*, and *Energy Security Strategy* have generated "clear, long-term goals" for its infrastructure and energy generation requirements, it also warned of a "lack [of] detailed policy plans" and "major gaps" on implementation and how infrastructure should be financed.

While the UK has a robust regulatory regime for infrastructure financing, the recent wave of targets and objective setting have expanded financing requirements, including for nascent markets and technologies. Attracting private financing to meet these targets requires a robust regulatory and policy environment, but also a clear 'demand side' of projects that require financing. Policies that focus on the supply-side – opening up sources of capital and regulatory regimes to encourage investment – are critical, but government targets for infrastructure and energy generation capacity must be translated into project proposals. Specific infrastructure needs, and demand for finance, must be made clear to prospective investors for them to be able to provide the financing.

- f. Please identify the proportion of assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

As of June 30, 2022, BlackRock's global assets under management are split as follows: 26% active; 32% index; 33% Exchange Traded Funds; 9% cash.³ We manage more than 300 dedicated sustainable investment strategies across index, active and alternative asset classes globally.

BlackRock is actively engaged in the stewardship of the investments we manage on behalf of our clients, irrespective of the strategy that led to the investment, seeking to understand how

³ [BlackRock Q2 2022 Earnings Release Supplement](#)

companies are managing material environmental risks and opportunities to ensure long-term success.

On behalf of our clients, BlackRock has been one of the largest investors into the UK, investing approximately £500bn into the country, including into UK Corporate and Government debt. Over £5bn is aligned with the UK Governments' Energy Security Strategy and almost £7bn is invested into UK projects specifically aligned to the Ten-Point Plan and Build Back Better agenda. For example, BlackRock owns over 100 projects from offshore wind in Grimsby (Lincolnshire) to Walney (in the Irish Sea) on behalf of our clients.

BlackRock, October 2022