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## Brexit and climate change: recalibration ahead

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### Theme

The UK vote to leave the EU has caught the world off guard. Internationally there will be a delay in the EU's ratification of the Paris Agreement. Within the EU, short-term paralysis and weakening of climate ambition may result. Uncertainty is the key word at present but both the climate challenge and existing climate commitments remain unchanged.

### Summary

Climate change politics is not for the faint-hearted. After 25 years of painstaking international climate negotiations, the Paris Agreement was finally adopted last December. Just over six months after this great diplomatic success, the UK has voted to leave the EU. With this decision uncertainty reigns once more in climate politics. Internationally, the ratification of the Paris Agreement by the EU is very likely to be delayed. Despite recent statements reassuring investors that climate commitments and ambition are unaffected by Brexit, they could waver both in the UK and the EU. Delays and lower ambition could tarnish the expectations of a low-carbon future, key for long-term investment. There is currently no way of telling with any degree of certainty what the divorce will entail for EU-UK climate relations. At best, cooperation and policy coordination will prevail between these life-long partners.

### Analysis<sup>1</sup>

#### Brexit? A no-win in climate terms but no climate drama

The UK's greenhouse gas emissions (GHG) amount to 1.3% of global emissions and 13.10% of EU-28 emissions in 2013 (Eurostat, 2015). The above figures and the fact that climate legislations in the UK and the EU have jointly evolved through time implies that the Brexit vote is arguably more relevant for European climate policy and politics than for international climate negotiations, but both spheres will be briefly analysed.

As regards international climate policy, on 22 June Christiana Figueres, the outgoing Executive Secretary of the United Nations Framework Convention on Climate Change, admitted that a Brexit result would require 'recalibrating' the Paris Agreement. What this recalibration means at this stage is unclear. The reason for recalibration is that the EU-

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28 jointly submitted its Intended Nationally Determined Contribution (INDC) and now the EU-27 and the UK would have to submit their contributions independently, unless they decide to jointly fulfil the agreement. The latter would signal a strong commitment to climate change during troubled times (Born, 2016).

At a European level, the UK has traditionally pushed for ambitious commitments within the EU, for example advocating a 40% GHG emission reduction by 2030 compared with 1990 levels. The UK has also exercised its renowned climate diplomacy skills in international climate negotiations to the benefit of the EU (Oberthür, 2016a, b) and has managed to include in the EU's climate policy agenda the use of instruments such as the Emissions Trading Scheme (Rayner & Moore, 2016). However, less ambitious proposals have been supported by the UK in the EU as regards energy efficiency and renewable uptake. Britain has also pushed for cutting red tape via the 'Better Regulation' package, an initiative criticised by environmental civil society organisations (Wates, 2014). The Brexit vote could therefore lessen the pressure for EU revisions (some would argue a weakening) of environmental laws.

Domestically, the UK has implemented legislation to curb GHG since the late 1990s (Nachmany *et al.*, 2015; Rayner & Moore, 2016). Two key pieces of legislation include:

1. The Climate Change Act (2008) that sets the goal of reducing the UK's GHG emissions by at least 80% by 2050 compared with 1990 levels; this also includes a set of carbon budgets<sup>2</sup> to meet the target. The Climate Change Act is hailed as being an ambitious piece of legislation that brings the UK into line with the EU's 2050 Roadmap for a Low-Carbon Europe.
2. The Finance Act 2011 considered the primary legislation for the development of a carbon-price floor, which later developed as part of the key elements of the Energy Act 2013 (see LSE, 2015, for a full analysis of climate and energy legislation in the UK).

The EU has also influenced climate policy in the UK (Rayner & Moore, 2016). For instance, the EU 2020 targets resulted in new subsidies and planning, a more hands-on approach that helped to raise the UK's climate ambition and meet its own energy targets. The EU's policymaking process has also arguably provided greater stability and predictability to energy investments that are capital intensive.

With the above in mind, if and when Article 50 of the Treaty of the EU is invoked by the UK, the EU will lose one of its climate leaders and most skilful negotiators, potentially losing part of its 'actorness' or 'leadior' role (leader and mediator) in international climate politics. This leadership jointly arises from the EU's market and regulatory powers, which in turn provide international bargaining power (Oberthür, 2016).

In the short term, paralysis in EU policy-making could be expected at a time when ratification of the Paris Agreement is crucial and when a host of key reforms and

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<sup>2</sup> Carbon budgets under the Climate Change Act (2008) are defined as the maximum amount of CO<sub>2</sub>e that the UK can emit for each of the five-year periods running from 2008 to 2050.

decisions await (Effort Sharing Decision, Review of Directive 2012/27/EU on Energy Efficiency, etc). The timing could not have been worse for climate action. In the medium to long term the EU's internal climate ambitions could be diminished, as the distribution of votes will change, particularly affecting decisions that are to be taken by qualified majorities. With less internal climate ambition, the EU's position in international climate negotiations would also be weakened.

The UK, on the other hand, loses its ability to punch above its weight in international climate politics via the EU's loudspeaker. It also loses its say within the EU, a traditional ideational force as regards climate matters. Additionally, the UK might fail to feel the EU pressure to increase its ambition regarding for instance renewable energy goals, currently set at 15% by 2020, a target the UK is set to miss according to the Energy Secretary, Amber Rudd (Mason & Vaughan, 2015). In any case, the UK has affirmed its continued support for climate action within the existing UK institutional framework (Rudd, 2016) and as of 30 June it has adopted its fifth carbon budget, which requires the UK to reduce its GHG emissions 57% by 2032 compared with 1990 (Twidale, 2016). The fact that the UK has historically implemented its climate commitments (Averchenkova & Bassi, 2016) –ie, is a credible climate partner– should appease investors.

### What next? Further cohesion and ambition versus loss of leadership

An optimist would hope that in the aftermath of the Brexit vote the EU could react as it did in 2001 when the US failed to ratify the Kyoto Protocol, ie, by pushing ahead and leading by example on climate change (Jordan, 2010).

The scale of the climate change challenge, the expected consequences of climate change and the developments in the contextual factors<sup>3</sup> that paved the way to Paris, should indeed call for a more cohesive and ambitious European climate policy. Additionally, climate change is one of European citizens' main concerns (EC, 2014a) and three quarters of them agree on the need for policies to protect their environment (EC, 2014b). At a time when EU disenchantment is making itself felt, greater climate leadership could be one of the elements for citizen appropriation of the future European project (Jordan, Burns & Gravey, 2016).

However, losing one of the EU's climate leaders is expected to facilitate the formation of blocking minorities that could prevent ambitious climate action in the future (Rayner & Moore, 2016). This, along with a reduction in GHG emissions and diminishing economic weight, can reduce the EU's climate negotiating clout. In the light of the above there is a slim chance of better integration and higher ambition as regards climate matters for the EU-27 to be. But the regulatory and institutional road travelled by the EU, as well as by the UK, could, at least, prevent any accelerated backsliding in climate policies.

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<sup>3</sup> Some of the key factors that paved the way to Paris include: climate change science is more robust, there is mounting evidence of the economic costs of unabated climate change, there has been a significant drop in renewable energy costs, the major players were on board, the business sector and civil society organisations as well as cities have taken a more prominent role in climate action, countries needed to show the world that the global community could stand united and solve problems affecting the global commons after the terrorist attacks in Paris and the institutional developments after Copenhagen. (Lázaro Touza, 2016; Cordonier Segger, 2016).

## The European Emission Trading System (EU ETS): initial thoughts on one of Europe's flagship climate instruments

As is the case for other areas, two key words characterise the ETS scene in the aftermath of the Brexit vote: shock and uncertainty. The UK was one of the main proponents of the EU ETS and one of its key supporters. Meetings between EU member states and at the Commission level will follow and undoubtedly help clarify the Brexit roadmap as regards the European carbon market.

Immediate concerns after Brexit have focused on the drop in the price of CO<sub>2</sub>. Prior to 23 June, experts expected a bear market in the case of a Brexit vote (Vitelli, 2016). A drop in CO<sub>2</sub> prices has indeed occurred, with the price of EU allowances in the secondary market falling from a high of €5.70 on 23 June to €4.46 at the time of writing on 30 June (EEX, 2016). How long the bearish market lasts will depend on myriad factors including, amongst others, broader macroeconomic trends and expectations regarding the institutional structure of the carbon market in a post-Brexit EU.

Despite the fact that it is too early to predict what the future carbon market will look like with any degree of confidence, at least two options, with many variants, may arise. Under a 'continuity scenario' the UK will remain within the ETS and changes would be minimal. In terms of the European carbon market, a UK-EU separation *à la* Norwegian or *à la* Swiss (Piris, 2016) would essentially imply for the UK accepting future EU decisions without being able to influence them. That would be an undesirable option for the UK, which has around 1,000 installations operating under the current ETS (Department of Energy and Climate Change, 2013), accounting for approximately 10% of verified emissions (Vitelli, 2016). A continuity scenario might be a win-win situation, but it must be borne in mind that what is being negotiated is far more encompassing than the ETS or climate and energy policies. Furthermore, history tells us that during troubled times climate policies may not be high up on the political agenda.

Another possibility is a fully-fledged divorce with a post-divorce *affaire*. This entails the withdrawal of the UK from the EU ETS, the development of its own UK ETS and 'linking' (carbon dating) thereafter. The fact that there is a clear record of the ownership of each permit, that environmental quality is known, that the ETS is an artificial market and that delinking and linking is (although costly for both parts) an accounting exercise, means that we could face a future scenario in which the carbon market fundamentals remain unchanged. The problem with this scenario is that there can be market segmentation, ie, companies might prefer to buy EU allowances rather than UK allowances if more regulatory stability is expected from the EU. UK permits would trade at a discount, reflecting higher regulatory uncertainty (Taschini, Pers. Comm., 2016).

## Conclusions

Independently of the UK's decision to withdraw from (or remain in) the EU, the scale of the climate challenge remains, although an expected economic slowdown post-Brexit would reduce GHG emissions (Rosa & Dietz, 2012). Overall, there seems to be hope that joint climate ambition will prevail, although within a different institutional structure,

once the dust settles. Larger threats to global climate action would arise should the US elect Donald Trump as 45<sup>th</sup> President. Given recent surprises, contingency plans for that scenario would be welcome. In any case, there are path dependencies, inertia, for a continuity approach to climate politics. However, recalibration of NDCs, delays in UK and EU climate policies, uncertainty about pathways and outcomes, as well as increased complexity in legal, procedural and implementation arenas, will follow.

Should the UK notify its decision to the European Council to withdraw from the Union, the UK and the EU would be advised to ensure a swift response to the Brexit vote that would provide markets, governments and citizens with the required incentives, predictability and stability for a prompt transition to a low-carbon future.

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