



E3G

Crash or Cooperate?

Climate, Brexit and the Future of Europe

Nick Mabey, June 2017

Introduction to E3G



- E3G is a European non-profit organisation working globally to accelerate the transition to sustainable development
- E3G has offices in Brussels, London, Berlin and Washington DC and also works in China and Latin America.
- E3G is working with a range of organisations in Brussels on the Brexit negotiations and the “Future of Europe” debate
- E3G is part of the “Greener UK” coalition of environmental organisations working on Brexit in the UK
- This work is supported by European and UK foundations

Core Messages



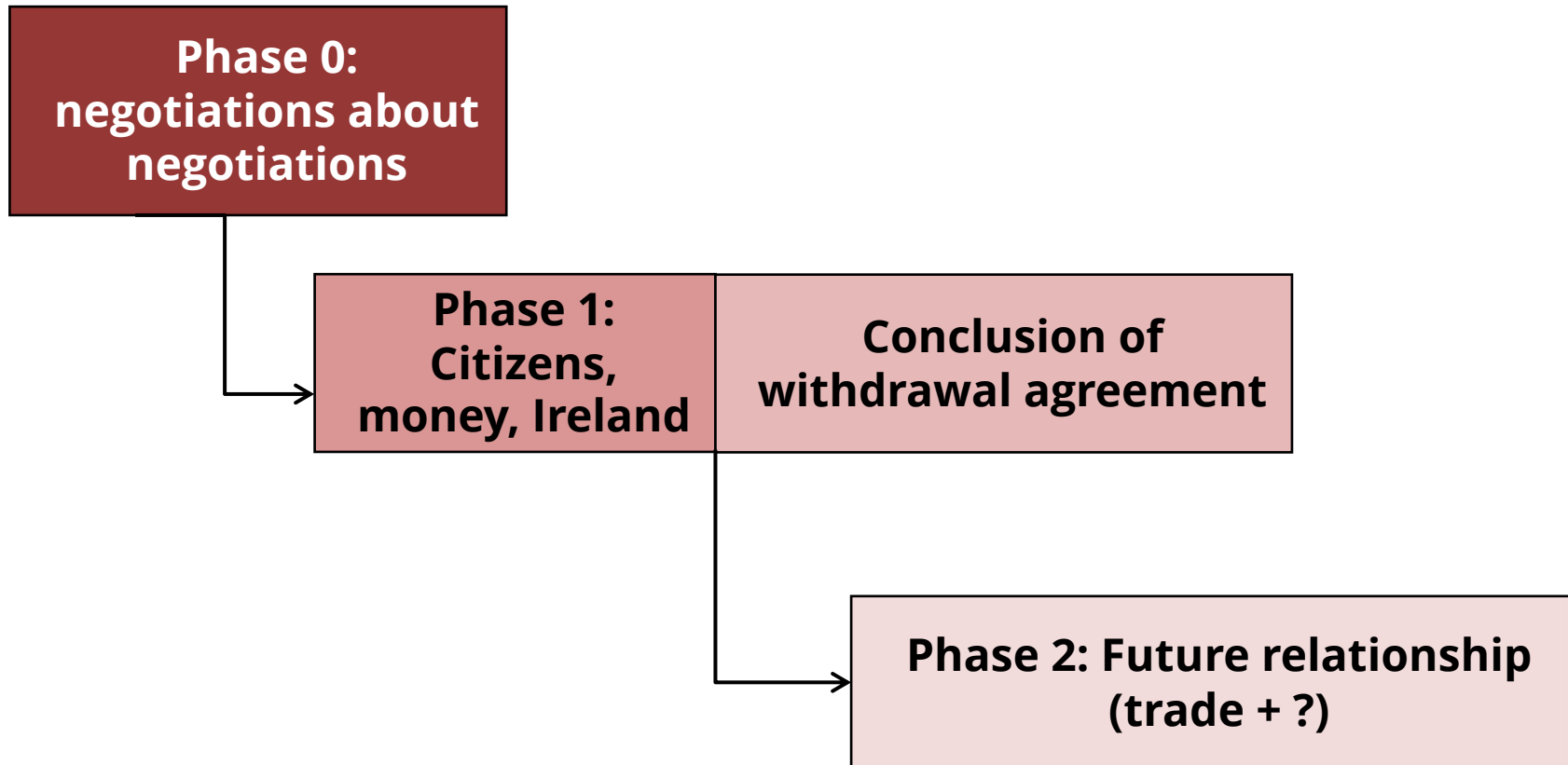
- **The EU27 are too complacent about Brexit outcomes** underestimating the worst case impacts on the future security & prosperity of Europeans.
- **The EU cannot afford an uncooperative Brexit** as this would lead to a deregulatory state in the UK, chill progress on clean energy & climate change and impose immediate costs – especially on Ireland.
- **The most likely Brexit scenarios have become increasingly polarised between crash and cooperation** as UK politics has become both more aligned with a soft Brexit and more chaotic.
- **Energy and Climate Change can be a pole for building cooperative politics** which will help avoid the most destructive Brexit outcome as well as generating direct short and medium term benefits.
- **Ireland can be a champion for a more cooperative approach**

EU is complacent about Brexit Impacts



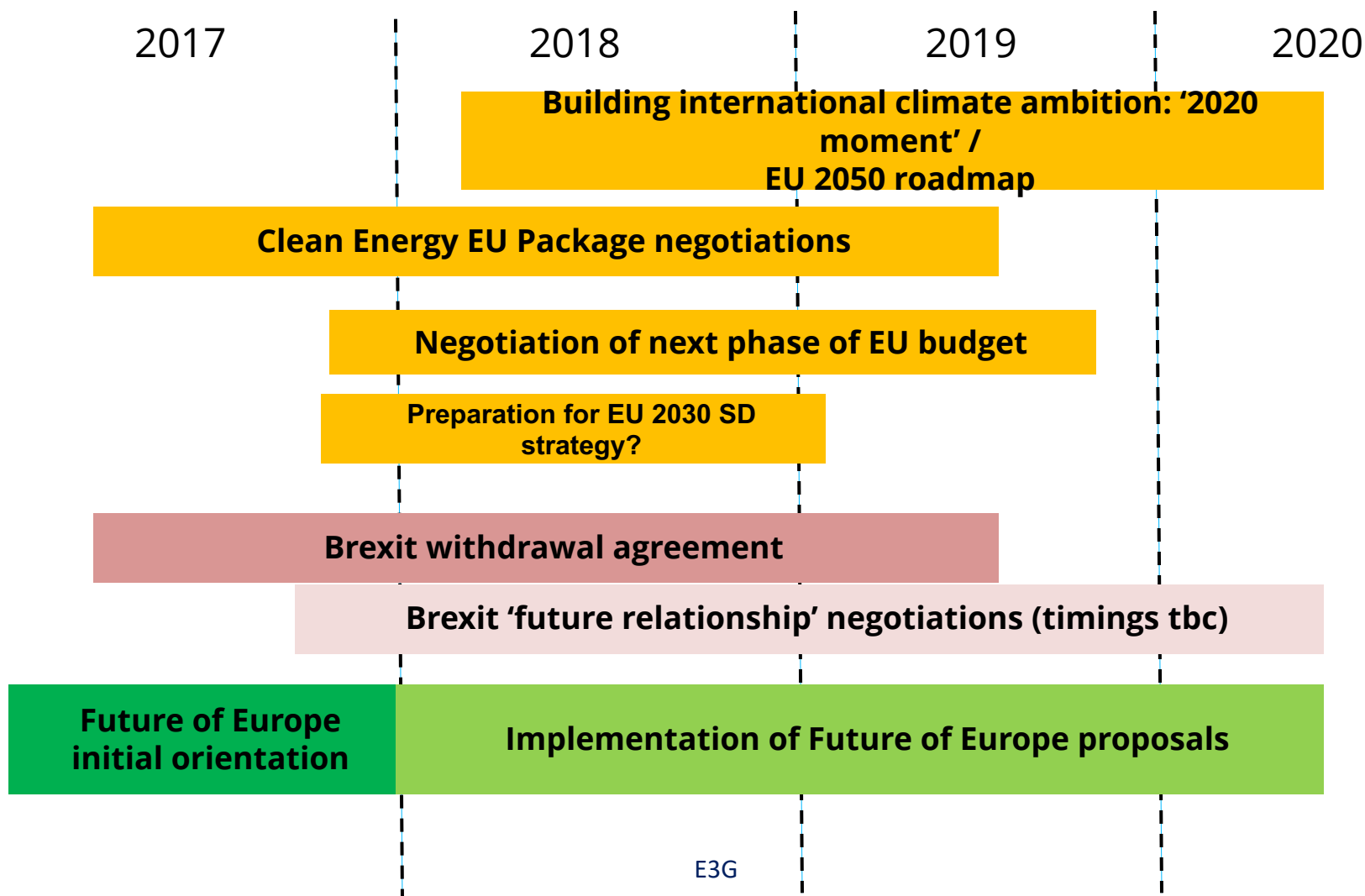
- Improving economic growth, defeats for populist parties and Macron's overwhelming victory in France have increased confidence in the EU27
- Political attention to Brexit is falling as politicians focus on Eurozone reforms, foreign policy issues and the "future of Europe" process.
- The economic impacts of a "crash Brexit" are correctly expected to fall disproportionately on the UK, and British political disarray is seen as a useful warning to others who might be tempted to leave the EU.
- This underestimates the broad costs to European citizens and the EU project of the worst Brexit outcomes. A hard and uncooperative Brexit would immediately empower the strong deregulatory forces in the UK conservative party and media to immediately weaken environmental, climate, labour & health regulations and aggressively cut business taxes and increase subsidies.
- The UK is already planning to align parts of its regulatory systems with the US and Australia in order to rapidly secure new trade agreements post-Brexit.

Brexit Timeline: Three phases of activity?



**EU proposal of a “2+2” model:
2 years exit negotiations; followed by 2 years of transition?**

Brexit negotiations coincide with a critical period for EU climate and energy policy



Crash Brexit would damage progress on Clean Energy and Climate Change



- **Distraction:** empowering low climate ambition forces inside the EU, weakening EU diplomatic capacity & global influence on climate change.
- **Deregulation:** risking a ‘race to the bottom’ in environmental standards on air pollution and possibly climate change.
- **Disruption to markets:** Ireland becomes an “energy island”. Slowing physical & market integration for trade in clean energy, low carbon goods & services just when integration accelerating due to renewables growth.
- **Disentanglement:** opening up EU climate & energy legislation forcing reallocation of effort sharing in climate and energy policy instruments.
- **Deferral of investment:** uncertainty over final market relations causing hiatus in clean energy investment, particularly in the context of changes to European Investment Bank and scale/allocation of EU budget.

Where does energy and climate fit in current EU negotiating priorities?



- Strong position on no rolling back environmental standards, but will it be binding (unlike CETA, TTIP etc)
- No “cherry picking” approach understandable but:
 - Revolution in energy & digital systems means deeper integration is technological fact
 - Political importance of EU climate leadership has risen with Trump leaving Paris; major geostrategic priority for macron & Merkel.
 - Move to 50% renewables in power sector by 2030 means benefits of regional power integration growing fast
 - Energy has never been part of “classic” single market; Energy Community and other models extend beyond EU
- Play the long game on cooperation? Barnier is unclear.
- “Punishment” versus “Integrity”

Drivers of Brexit Scenarios



Driver 1: Prioritisation of national interests

Driver 2: Orderly versus disorderly negotiation process

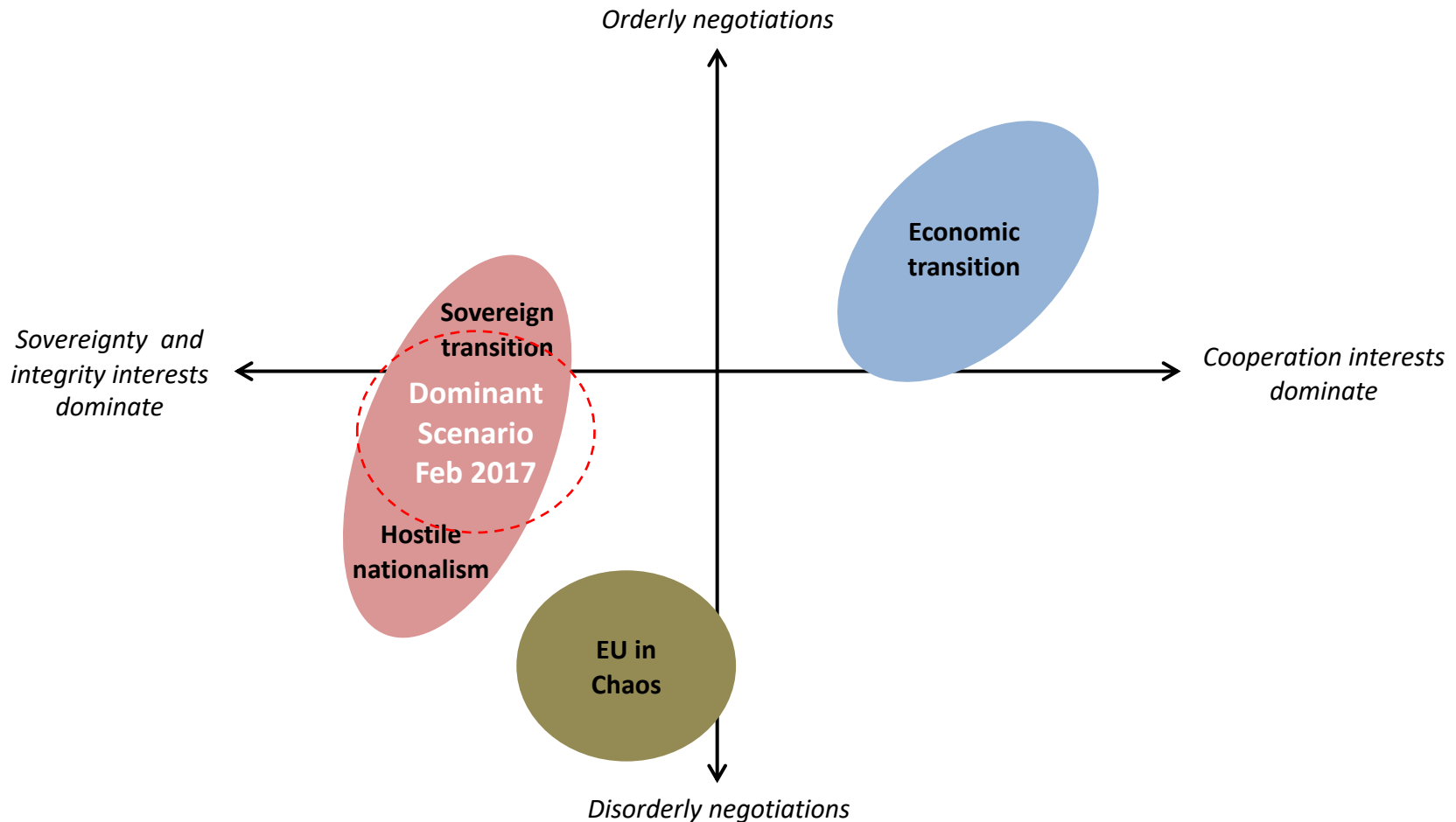
Driver 3: Timing and extent of economic impacts

Driver 4: Momentum after Article 50 negotiations

E3G Brexit scenarios – February 2017



E3G



Sovereign Transition: impacts on Energy and Climate objectives

Impact on UK perceived interests

Negative: UK unlikely to retain IEM market access causing a rise in energy bills and increased cost of low carbon transition



Energy market access and regulation

Negative: UK likely to leave EIB cutting off an important source of energy sector investment



Energy sector investment

Neutral: UK free to set own climate change targets. However, may end up passively accepting many standards set in EU with little say in their creation



Climate change and environment

Neutral: Scope remains for diplomatic cooperation and engagement with Russia and other major export countries



Energy diplomacy

Negative: UK would need to rapidly establish new arrangements or transition deal. Risk of significant disruption



Euratom and nuclear power

Impact on EU/Cion perceived interests

Negative: Ireland likely to be cut off from rest of IEM. UK may import less electricity from continental suppliers. Increased cost of low carbon transition and risk UK pursues deregulatory agenda



Neutral: UK withdrawal may impact EIB and other EU funding for energy investment. However, broader EU investment landscape more robust



Negative: Effort sharing regulation decisions could be significantly complicated by UK withdrawal. Could lead to reopening of 2030 climate and energy package and delay in Energy Union implementation



Neutral: Scope remains for diplomatic cooperation and engagement with Russia and other major export countries



Neutral: Although short-term risk while new arrangements established impact much lower for EU as a whole (however, would be negative for France given Hinkley Point C exposure)



Momentum going forward: Downward

Unstable policy space that could quickly descend into a hostile nationalism scenario



Drivers update post-UK and Fr Elections

Q2 Events Impact

Notes

Prioritisation of national interests



Positive: EU elections, especially President Macron in France, makes EU in chaos scenario much less likely. UK election result potentially makes a cooperative approach to Brexit more possible (although by no means certain) which would support more positive outcomes for energy and climate change.

Orderly versus disorderly negotiation process



Negative: Weakness of UK government could lead to an extended period of political uncertainty, and potentially fresh elections within the next 2 years, undermining the UK's ability to negotiate effectively.

Timing and extent of economic impacts



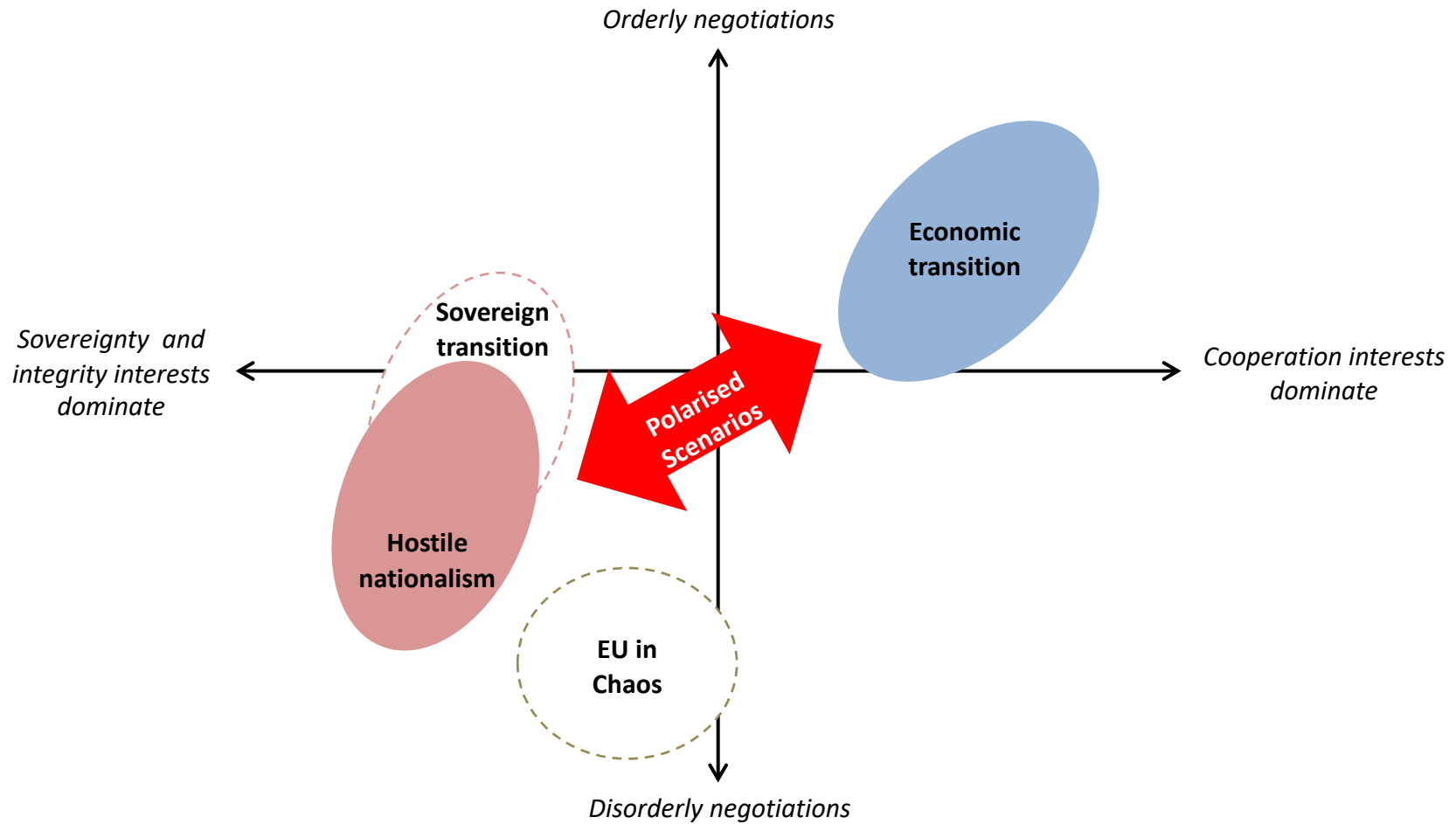
Mixed: Inflation as a result of the devaluation of the £ following the Brexit vote starting to impact UK growth. However, little direct connection to Brexit process at present.

Momentum after Article 50 negotiations



Mixed: UK election could lead to a stronger focus on securing stable transitional arrangements. However, also a risk of a crash Brexit outcome destroying momentum.

Q2 Update



Hostile Nationalism: Energy and Climate Outcomes



Impact on UK perceived interests

Negative: UK has a sharp exit from IEM causing a rise in energy bills and increased cost of low carbon transition



Energy market access and regulation

Negative: High uncertainty could lead to significant investment hiatus as UK business and investors face a sharp cliff edge. Messy exit of UK from EIB



Energy sector investment

Negative: Cliff edge exit may undermine climate change objectives in favour of sharp deregulatory agenda focused on competitiveness. Major negative impacts for broader environmental objectives



Climate change and environment

Negative: Breakdown of trust would undermine cooperation and empower countries such as Russia



Energy diplomacy

Negative: Significant chance of failure to agree interim/transitional measures



Euratom and nuclear power

Impact on EU/Cion perceived interests

Negative: Ireland likely to be cut off from rest of IEM. UK may import less electricity from continental suppliers. Increased cost of low carbon transition and risk UK pursues deregulatory agenda



Neutral: EU potentially significantly more attractive place for foreign FDI investment than UK. However, still significant rise in policy risk



Negative: Effort sharing regulation decisions could be significantly complicated by UK withdrawal. Could lead to reopening of 2030 climate and energy package and delay in Energy Union implementation



Negative: Breakdown of trust would undermine cooperation and empower countries such as Russia



Neutral: EU less impacted than UK (however, would be negative for France given Hinkley Point C exposure)



Momentum going forward: Strongly Downward

Breakdown of trust would severely limit future engagement without full diplomatic reset



Economic Transition: Energy and Climate Outcomes



Impact on UK perceived interests

Positive: UK likely to retain IEM market access helping to reduce energy bills and cost of low carbon transition



Energy market access and regulation

Neutral: Avoid cliff edge for business and investors. However, may still need to withdraw from EIB



Energy sector investment

Positive: Strong basis for future cooperation on climate and environment issues.



Climate change and environment

Positive: Strong basis for future cooperation on energy diplomacy



Energy diplomacy

Neutral: Good basis for establishing new arrangements/transitional measures but may still face a tight timeline



Euratom and nuclear power

Impact on EU/Cion perceived interests

Positive: No energy 'islands' created for remaining EU countries. UK continues to provide demand for EU energy and lowers overall cost of decarbonisation



Positive: EU potentially significantly more attractive place for foreign FDI investment than UK. However, still significant rise in policy risk



Positive: Strong basis for future cooperation on climate and environment issues.



Positive: Strong basis for future cooperation on energy diplomacy



Positive: Good basis for continuity going forward



Momentum going forward: Upward

Good basis for future negotiations which could result in a range of outcomes (e.g. Canada style free trade agreement or Swiss style sectoral deals etc.)

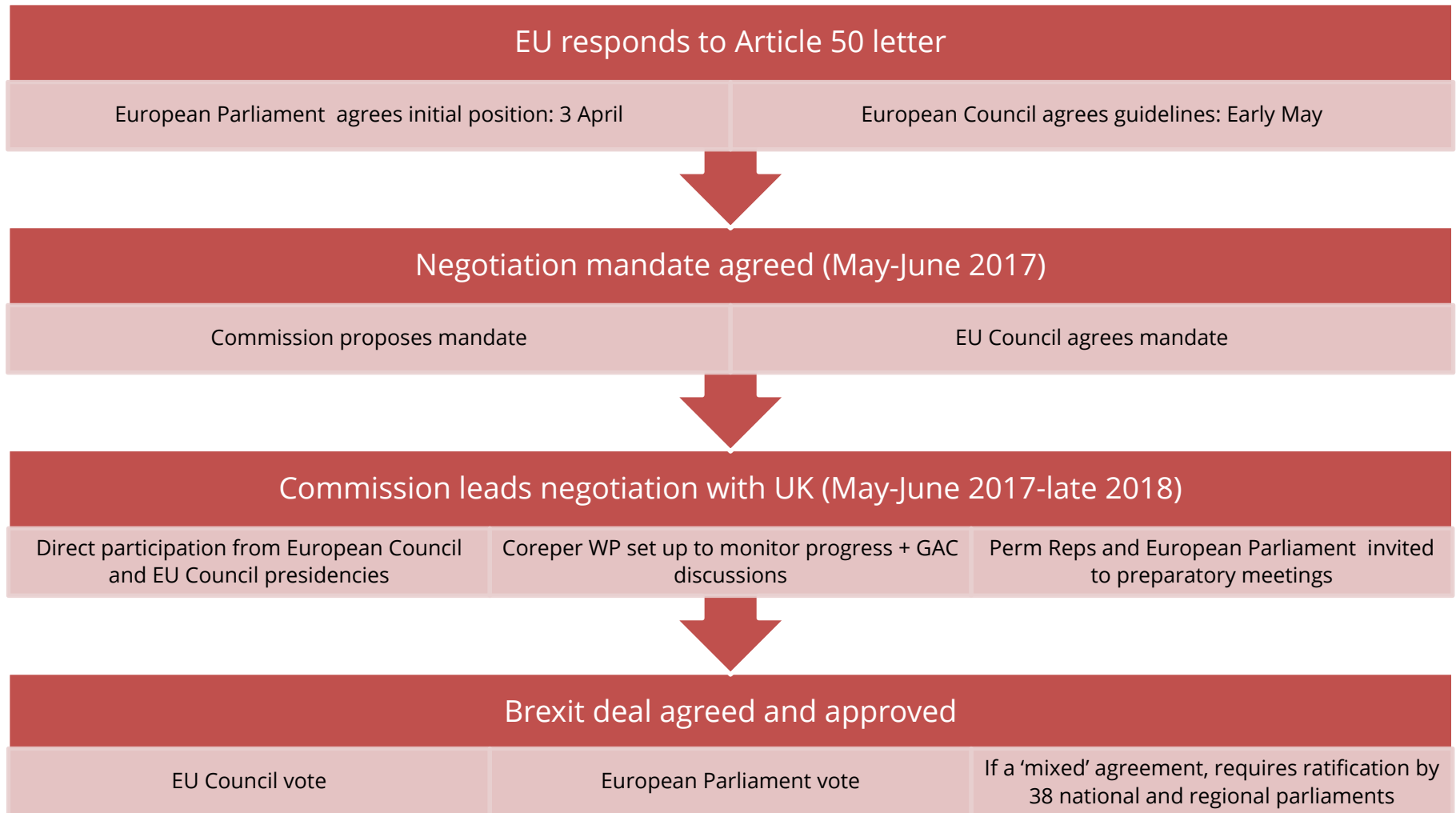


Ireland can champion a more cooperative politics



- Ireland has most to gain from strong cooperation, and much to lose from a crash Brexit.
- Ireland is well positioned to be the champion of a negotiating approach that combines a hard headed approach to future economic arrangements, particularly strong rules to prevent a “race to the bottom” in subsidies, environment, labour and health standards, with a positive approach to building strong future cooperation.
- Ireland could do this in four steps:
 - Make the public case for establishing a parallel cooperation track in the negotiations in order to build a positive political atmosphere.
 - Ensure these issues are treated positively in the phase 1 negotiations on Irish border and integration
 - Build a coalition of EU countries who wish to see strong environmental protections in the future EU-UK agreement combined with close and dynamic cooperation on environment, energy and climate change. Support business and thinktanks dialogue between EU27 & UK on these issues
 - Propose that climate and energy are treated as an “early harvest” negotiating issue under a distinct cooperation track because of the importance of clarifying the impact of Brexit on delivery of the UK & EU27’s joint commitments under the Paris Accord.

Back-up Slides: On the EU-27 side, the European Commission will lead negotiations, guided by member states. The European Parliament gets a final vote.



Mapping UK perceptions of energy and climate interests



Energy market access and regulation

- UK currently imports a significant proportion of both electricity and natural gas from the European Economic Area (EEA). Potential benefits to energy costs and security from retaining access to the Internal Energy Market (IEM).
- Technical standards for energy regulation and transmission (ENTSO-E, ENTSOG, ACER etc.)
- Standards for products and services (white goods, cars etc.); Ecodesign directive etc.
- Fears being a “policy taker” especially of any new EU renewables target

Energy sector investment

- Need to avoid investment hiatus as a result of Brexit uncertainty
- Potential withdrawal of mechanisms such as the European Investment Bank (EIB) for energy sector lending
- Links to industrial strategy – productivity, jobs and skills vs energy costs, supply chain links in clean energy/transport – interest in engaging with EU regulation

Climate change and environment

- Delivery of domestic carbon budget targets and UK climate diplomacy to encourage action in other countries
- Future of the Emissions Trading Scheme (ETS)
- Cooperation on transboundary environmental public goods (e.g. air pollution) vs. the potential for a ‘bonfire of the regulations’
- See climate cooperation to 2030 as a potential “give” to EU in return for IEM access

Energy diplomacy

- Continued cooperation with EU countries in engaging with major energy exporters esp. Russia
- Membership of early warning mechanism, gas advisory council etc.

Euratom and nuclear power

- Ensure continued access and trade for nuclear fuels which are currently governed under the Euratom Supply Agency (ESA) – this also includes medical radioisotopes. Euratom also sets standards for nuclear safety, decommissioning and handling of radioactive waste and spent fuel
- Without effective alternative/transition arrangements it is possible there could be a major disruption in the UK nuclear sector

Mapping Cion/EU 27 perceptions of energy and climate interests

Energy market access and regulation

- Delayed development of interconnection, an important source of flexibility to support a high-renewables power system.
- Delayed development of offshore wind in the North Seas (UK has over a third of European offshore wind potential)
- Disrupted supply chains for low carbon goods and services

Energy sector investment

- Uncertainty causes clean energy investment hiatus in both UK and EU-27
- The EIB loses a major shareholder (providing 16% of its capital), constraining its ability to support climate and clean energy lending
- Significant reduction in future EU budget means less EU investment in climate and energy

Climate change and environment

- UK withdrawal from the EU's UNFCCC negotiation 'bubble' lowers EU's headline target (from at least 40% to ~36%)
- UK withdrawal from EU-ETS leads to increasing 'hot air' in the system from legacy UK emissions allowances
- A radical deregulatory economic strategy from post-Brexit UK ('Singapore of the North Sea') forces a 'race to the bottom' on environmental standards
- Some Member States may use lack of UK compliance to avoid implementation of EU environment and climate rules

Energy diplomacy

- Continued cooperation with EU countries in engaging with major energy exporters esp. Russia
- Membership of early warning mechanism, gas advisory council etc.

Euratom and nuclear power

- Specific French interest in ensuring Hinkley Point C can continue to go ahead