

Energy & Climate Change Committee inquiry - Leaving the EU: implications for UK climate policy



EFET comments – 24 August 2016

Introduction

EFET welcomes the opportunity to provide our views and recommendations on the implications of the UK's departure from the EU on the UK's climate-change commitments and ambitions. In particular, we are strongly supportive of the central role of the EU Emission Trading System (EU ETS) in the European Climate policy. Europe needs a cost-efficient decarbonisation of its economy through a unique, EU-wide robust price signal for investment in low-carbon technology; to reach this end, we are convinced that a reformed EU ETS will deliver the objectives of the EU energy and climate policy and reduce carbon emissions in a cost-effective manner across the whole economy. Therefore, we particularly encourage the UK Government to consider these aspects and to retain its full participation to the EU ETS.

Specific questions

1. *What role has the UK played within the EU in terms of driving the bloc's international climate change ambitions?*

The UK has been instrumental in pushing for strong European and international carbon reduction commitments and enacted the first of a kind Climate Change Act with binding requirements to reduce emissions domestically by 80% by 2050. EFET believes that this proactive role within the EU could and should be maintained and improved as an external partner of the Union.

With specific regards to the EU Emission Trading Scheme, the UK has long been a proponent of this market instrument, and has advocated a strong reform in the ongoing debates over the revision of the EU ETS post-2020.

Like Norway, the UK could and should remain a member of the EU ETS and subscribe to virtually all of the EU's climate and environment legislation, while keeping the ability to launch independent diplomatic demarches.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

2. *What should be the UK Government's priorities on the EU Emissions Trading System when negotiating the UK's exit from the EU? What would a successful negotiation outcome look like?*

The first best solution would be keeping the UK as a full participant to the EU's carbon market.

Alternatively, if UK would decide to implement its own ETS, then its design should be fully compatible with the EU ETS, bringing its features in line with Directive 2003/87/EC and subsequent modification and prospective British allowances should be full tradable into and out of the EU scheme.

More in general, we believe that a lesson should be learnt from the Swiss case: the link between the EU ETS and the Swiss ETS has been formally approved, but its implementation is still blocked by the deadlock of political negotiations between the EU Commission and the Swiss Government. The risk of a similar impasse involving a British ETS should be kept in mind when assessing the different possible modalities of the UK's exit from the EU.

3. *What are the implications of the UK's exit from the EU on both the UK's and the EU's COP21 pledges? What will be the UK's future role within the United Nations climate change processes?*

With regards to international commitments there should not be significant impacts. Under the UNFCCC, each Intended Nationally Determined Contribution will need to be formalised into an NDC. This will need to be done through notification by 2020 at the latest, although the act of ratification of the Paris Agreement automatically serves as such notification. Unless the UK decides to abandon its commitments taken for COP21, its pledges are meant to remain untouched. This would avoid adjustment of EU pledges and possible additional burden to achieve stated EU targets.

Surely the UK would have been much stronger as a leader in a heavy weight coalition than a stand-alone country. Notwithstanding this, the UK government should maintain its commitments on climate change and on Paris Agreement to which the UK has contributed intensely. We encourage the UK Government to immediately reaffirm Britain's relationship with the international community by ratifying the Paris deal without any delay.

4. *What should be the UK Government's priorities in deciding which EU-led climate policies and legislation to retain?*

The first priority is to retain access to the EU ETS and bring forward carbon reduction commitments consistently. Having this in mind, we welcome the recent adoption of UK "fifth carbon budget" with 57% GHG reduction target for 2030.

The UK should seek to retain those policies that better allow for:

- (i) maintaining flexibility in determining how to achieve environmental goals and specifically carbon reduction;
- (ii) avoiding overlapping policies and related carbon market distortions.