THE PRINCE OF WALES'S
CORPORATE LEADERS GROUP

# Business Energy and Industrial Strategy Committee's inquiry on Leaving the EU: negotiation priorities for energy and climate change policy.

"Written Evidence Submitted by The Prince of Wales's Corporate Leaders Group" December 2016

**Executive Summary:**


1. The Prince of Wales's Corporate Leaders Group strongly urges the British Government to prioritise securing the most favourable outcome for a competitive, resilient and prosperous economy from the Brexit discussions, as supported by leading businesses. The outcome should ensure that the UK suffers no loss of low carbon leadership either at an international or a domestic level. The UK has to maintain and increase its ambition to deliver a low carbon, climate resilient, and sustainable economy.

2. The UK has played a leading role in the EU to secure ambitious climate change action, through the 2030 agreement, the Paris Agreement, and in pushing for a competitive energy market that helps deliver secure, more affordable and decarbonised energy. It needs to continue to show this leadership.

3. The UK needs to ensure that any deal it agrees with the EU will deliver continued access to the Internal Energy Market and will reinforce the climate integrity of its policies. During the instability of the negotiations, the Government needs to provide strong signals to investors that the UK is committed to getting a good deal from the EU, while not reneging on its climate and energy ambitions, and that much of the *acquis* in these policy areas will be retained.


**About the Corporate Leaders' Group:**

4. The Prince of Wales's Corporate Leaders Group (CLG) is a select group of European business leaders working together under the patronage of His Royal Highness The Prince of Wales to advocate solutions on climate change to policymakers and business peers within the EU and globally.

5. The CLG members are: 3M, Acciona, Anglian Water, BT, Coca Cola European Partners, Doosan, DSM, EDF Energy, EDF, Ferrovial, GSK, Heathrow, Iberdrola, Interface, Jaguar Land Rover, Kingfisher, Lloyds Banking Group, Philips, Skanska, Sky, Stora Enso, Tesco, Thames Water, Unilever, and United Technologies.

6. The CLG counts major companies amongst its membership. It is deliberately representative of a broad cross section of business sectors, including service providers, retailers and consumer goods companies, infrastructure operators, energy

generators, energy producers, energy intensive industries, advanced manufacturing, and technology suppliers. The University of Cambridge Institute for Sustainability Leadership (CISL) provides the secretariat to the CLG.

7. CLG members employ more than 2 million people across 170 countries and represent combined revenues of more than £115 billion.

8. CLG members are committed to playing a leading role and providing thought leadership to secure a just, zero carbon transition. The members are working towards business models that are compatible with the Paris Agreement to limit global temperature rise to well below 2 degrees Celsius.

**Why is the CLG responding to the BEIS Inquiry?**

9. As a progressive platform of members operating in the UK and the EU, the CLG has a strong interest in ensuring continued climate and energy leadership from the UK. The CLG does not wish to see any loss of leadership from the EU as a result of the UK's exit, nor any loss of leadership from the UK as a result of leaving the EU.

10. CLG Members have long realised that tackling climate change means businesses may need to re-engineer their products and services and respond to shifting demands as the world strives to meet the ambitious goals of the Paris Climate Agreement. Seizing the opportunity to innovate and build on low carbon growth will require strong, better integrated infrastructure and a good skills base. Working constructively with our European partners to deliver this in the coming years will be strongly influenced by the approach the Government takes to the Brexit negotiations.

11. CLG Members wish to see a constructive relationship between the EU and the UK during the negotiations, and after Brexit, in the interests of continued policy coherence, continued positive low carbon signals to investors, and continued ambition in line with the Paris Agreement. This approach will contribute to a smooth, just transition to a low carbon, climate resilient, and sustainable economy.

**Questions posed by the Inquiry**

What should be the Government's priorities on energy and climate change when negotiating the UK's exit from the EU?

12. The UK Government needs to provide clarity that continued leadership in energy and climate policy is a high priority. This should be made clear in the preamble to, and explicitly as part of the announcement and communications of the triggering of Article 50 next year. If the UK is going to have an impact on any live dossiers during the negotiations, that it may then wish to continue to be part of, after Brexit, then it needs to be as clear as possible that these policies matter.

13. The ongoing discussions around the EU ETS are a prime example. A priority should be to conclude ETS phase IV and achieve a strengthened emissions cap to deliver a higher carbon price and clear signals to investors. Phase IV of the ETS will run from

2021-2030. The UK should indicate that it intends to continue to be part of the largest carbon market in the world since the ETS will be an important part of the UK's ability to meet the 5th Carbon Budget.

14. The recently announced "Winter Package" is a significant suite of energy policy proposals which will run during the probable course of the Brexit negotiations. If the UK is intending to take on the energy and climate *acquis* it will need to be heavily invested in the different elements of the Winter Package.

15. During the Brexit negotiations, the UK needs to demonstrate to business and investors that the UK will remain on the front foot of energy and climate innovation. The forthcoming Industrial Strategy presents a unique opportunity to deliver the business case for a green economy built on low carbon innovation. Positive signals about the UK's commitment to low carbon activity are important, as is engaging stakeholders in the UK and elsewhere.

What would the impact be on the UK leaving the Internal Energy Market? How important is continued UK participation in the Internal Energy Market? What model should this participation take?

16. If the UK left the IEM there would be a significant knock to investor confidence and the UK's ability to attract inward investment. Access to the IEM has helped energy security, consumer prices, the de-carbonisation agenda, and the UK's ability to negotiate with extra-EU energy suppliers. Without access or membership of the IEM these important facets of energy policy would be at risk with cost implications to the UK economy.

17. Free trade of energy is vital to the UK economy. The UK is a net importer of electricity and gas with significant proportions coming from Europe via European interconnectors. No longer having tariff free access could have security of supply implications.

What should be the Government's priorities on the EU Emissions Trading System? How viable are alternative options?

18. The UK needs to remain part of the EU ETS. Otherwise we make things difficult for the UK in terms of loss of scale, difficulties over interconnections and lack of investment certainty. The UK should remain a member of the IEM and ETS. The UK should therefore negotiate a good outcome for phase IV of ETS to 2030 (see paragraph 13.).

19. If the UK set up its own system (as it tried in the early 2000s) the market would be too small. The UK system would then look to link with the EU's which would require coordination and replication of EU ETS rules as per Norway's experience. Switzerland has been negotiating linking its trading system with the EU ETS for many years. The best solution is to remain part of an already established system and

thereby minimise costs, administrative burdens and access a bigger market with the same carbon price as potential competitors.

20. If the UK left the ETS there would be a loss of funding for innovation. The current NER and in phase IV, the Innovation Fund, makes provision for low carbon research and development. The funds are administered by EIB. If the UK leaves the EU and the ETS it loses access to these funds. Will the UK Government make up the shortfall in lost innovation funding opportunities as, it has signaled, it will do in other areas?

Which aspects of EU policy should be maintained? Should energy-relevant EU policy be grandfathered into UK law? If so, how could it be updated and enforced?

21. The Corporate Leaders Group would like to see as much EU energy and climate policy retained as possible.

22. EU policy around energy efficiency, energy performance of buildings, product standards, sustainable consumption and production, the circular economy, and emissions from vehicles are all important for the UK economy and for the achievement of EU and UK climate goals. Ditching existing product standards and labels that the market on our doorstep requires is counter intuitive. It also opens the door to low quality, poorer performing products being dumped in UK, undermining carbon saving efforts and the investment efforts businesses have made to deliver better performing products.

23. Abandoning Energy Performance Certificates and the requirements in the Energy Performance of Buildings Directives could send further signals that the UK is not serious about tackling emissions from buildings (following last year's scrapping of the low carbon homes standard). If the UK Government is faced with high demand for housing but has no provisions to tackle emissions from homes, then there is a high risk of carbon lock in for long periods of time which would hamper the UK's efforts to meet its long term de-carbonisation goal set out in the Climate Change Act 2008.

**Other points invited by the Inquiry**

How best can investor confidence be maintained in the face of considerable uncertainty surrounding the negotiations and, post-Brexit, the potential absence of EU policies and legislation?

24. The CLG urges the Government to send clear signals about the Brexit negotiations. It should be as open and transparent as possible in terms of the process, the timetable, consulting stakeholders, using business expertise (including where business operates in other Member States and where business holds particular Brussels expertise). The Government needs to avoid conflicting messages from Ministers and

spokespeople. This creates unnecessary confusion and undermines investor confidence.

25. The Government can continue to demonstrate leadership and clarity of purpose in these policy areas in other international fora such as the UN climate change negotiations, the way it will deliver the Sustainable Development Goals and the way it works with others to do the same, in the G7 and G20 including during the Clean Energy Ministerial meetings and in setting climate and energy goals at the heart of its bilateral trade negotiations.

26. The CLG believes that the UK Government has a great opportunity to demonstrate a new Government wide commitment and coherence on the domestic landscape. This opportunity comes from the back stop of the Climate Change Act, the recent setting of the 5th Carbon Budget, the forthcoming Emissions Reduction Plan and Discussion Paper on Industrial Strategy.

How would possible new restrictions on trade and movement of labour affect the security of energy supply and prices and the attraction of inward investment into energy infrastructure and facilities?

27. Increased tariffs and trade restrictions on UK goods and services, including energy should be avoided. They pose potential risks to the UK's ability to attract investment, have implications for energy prices and therefore household and business bills. The knock-on effect for the wider UK economy is concerning.

28. If there are future restrictions on the free movement of people it is likely that some businesses may not be able to recruit the skilled work force they need. It is likely that innovation in new low carbon goods and services would be impacted not least where cross border research and development collaborations (often funded and facilitated by the EU) take place.

How can the UK maximise future opportunities to cooperate with international partners to retain its standing as a hub for low carbon innovation?

29. The UK has taken a lead as a low carbon hub. This applies in a number of fields, not least the City of London as a centre for expertise in low carbon finance. The UK is leading efforts around green bonds and other innovative finance options. London provides much of the expertise required to put together low carbon projects across the world through its legal, professional and financial services offer. The UK can build on this expertise by ensuring it is not seen to be back sliding on its own commitments to low carbon action. The UK should use its own International Climate Finance commitments to further clean energy and low carbon deployment, but also to further the UK's leadership as a centre for low carbon finance.

30. There is a clear threat to the UK's research and development efforts from Brexit. The CLG is concerned that there will be a general loss of EU R&D funding as a result of

Brexit, but perhaps more troubling is the potential for loss of collaboration between businesses, universities and other innovators.

How can the UK retain its influential voice in 1) international climate negotiations and 2) future changes to EU rules and regulations?

31. The UK has played a major international leadership role over many decades: from Prime Minister Margaret Thatcher at the second world climate conference in 1990, to the G8 Gleneagles Summit, and most recently at the Paris talks last year. Ministers and officials worked tirelessly in Paris and the CLG acknowledges the important role the UK played as lead EU negotiator.

32. In future the UK will need to re-think its role. The UK can still be a climate leader, if its domestic policy is ambitious enough to be credible. The UK has choices to make: will the UK continue to be part of the EU bloc in the negotiations or will it carve out its own role? The UK has some of the tools to do this including using its International Climate Finance commitments in a smarter way, making full use of the Foreign Office Special Climate Envoy and the Foreign Office network, and as in paragraph 26 using other international fora to demonstrate its climate and energy leadership.

33. Future changes to EU rules and regulations as a result of Brexit will be more difficult. The UK would no longer have representatives in the discussions amongst member states (in Council formations, in working groups etc.) and no representatives in the European Parliament amending and shaping legislation. The UK will need to think carefully how it intends to influence legislation which will have an impact on the goods and services which the UK businesses will want to continue to sell to the large market on its door step.

What are the implications of the UK's exit from the EU on the 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?

34. The UK's COP 21 pledge was part of the overall EU INDC. The pledges ought to be unaffected (any future UK pledge and the existing EU one). If the UK is no longer part of the EU and chooses to no longer be part of the EU's pledge, the UK would have to submit its own pledge, having signed up to the Paris Agreement, which has already entered into force. In any case, the UK provisions in the Climate Change Act, and the recently endorsed 5$^{th}$ Carbon Budget are broadly in line with the EU's offer and the UK's likely contribution to meeting it (at least a 40% emissions reduction by 2030).

35. The Paris Agreement review and ratchet for action after 2030 will take place in 2018-2020. This is more problematic for the UK given the probable timing of the Brexit process. This review and ratchet will shape the UK's future role in the UN climate change talks. The CLG urges the UK to continue to be a constructive and active partner in those talks and to consider carefully its role as outlined in paragraph 33.

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