



BREXIT AND THE ENERGY SECTOR: UK CLIMATE CHANGE AND RENEWABLES POLICY AND TARGETS

At a time when the UK renewables industry needs a stable investment outlook more than ever, the vote to leave the EU has created a new period of uncertainty. Will climate change targets be reduced? Will there be a bonfire of environmental regulations¹? Will subsidies for renewable energy generation be reduced or removed? What will the UK's place be in the international climate policy arena? Initial signs show reason to be optimistic but there are risks on the horizon.

What climate change and renewable targets bind the UK currently?

The UK is currently bound by EU climate policy and legislation in a variety of ways. Key targets for greenhouse gas (GHG) emission reductions and commitments to renewable energy generation are contained in the EU's 2020 climate and energy package (agreed in 2009)², and 2030 climate and energy framework (agreed in October 2014).

While the EU's 2020 GHG emissions reductions targets have already been achieved³, the 2030 framework will require at least a 40% cut in GHG emissions from 1990 levels by 2030 across the EU. Work will start later this year on dividing the target up between Member States and agreement on legislation to enshrine the target. This target will also form the nationally determined contribution of the EU under the Paris Climate Agreement signed earlier this year.

In relation to renewable energy targets, the EU's 2020 legislative target requires the UK to achieve a 15% share of renewable energy in the UK's energy mix by 2020. Beyond that, the 2030 package sets a EU-wide target of 27% renewables in the energy mix by 2030 although there will not be individual targets set for this as a result of Member State (including UK) opposition.

What has the UK achieved so far?

On 29 June 2016, the UK Committee on Climate Change (CCC) published a report to Parliament confirming that the UK has made some progress in meeting current carbon reduction targets⁴: in 2015, UK GHG emissions fell to

Key issues

- The UK is currently bound by EU targets for emissions reductions and renewable energy, but also by its own strong domestic climate legislation
- Recent progress in meeting climate targets is largely driven by the power sector; other sectors need to catch up
- Progress on meeting renewable energy targets is insufficient; while renewable electricity generation has increased considerably, a step change is required in other renewables sectors
- The UK Government has reconfirmed its climate agenda since the vote, but the political situation is uncertain, given recent Government action and the Vote Leave campaign stance
- Brexit might afford flexibility in approach to climate change but balance is required if climate targets are to be met

¹ See our recent briefing: [Brexit - What next for Environmental & Climate Change Law?](#)

² The EU's 2020 commitments also match EU commitments under the Second Commitment period of the Kyoto Protocol, running from 2013 to 2020, before the Paris Agreement is intended to take over (see further our briefing '[The Paris Climate Change Conference – what did it achieve?](#)').

³ As reported recently by the European Environment Agency.

⁴ [Meeting Carbon Budgets – 2016 Progress Report to Parliament – Committee on Climate Change - June 2016](#)

38% below 1990 levels⁵, and on average the UK has broadly complied with its 2nd and 3rd carbon budgets (covering the period 2013 to 2022). However, the power sector has been largely responsible for major reductions in emissions through reduced coal-fired generation and increased renewable generation. A step change in effort is needed particularly in relation to the buildings sector, transport policy and carbon capture and storage, to ensure future targets are met.

In relation to development of renewable energy, the picture is mixed: in 2015, renewable energy represented only 8.3% of total energy mix (far below the UK's EU 2020 target of 15%, and the EU-wide 2030 target of 27%). However, renewable electricity generation represented 22.3% of total electricity generation – above the 16% indicative target for 2015 set in the Government's National Renewable Energy Action Plan. Significant additional renewable electricity generation and/or a further step change in the heating & cooling and transport sectors will be needed to achieve even the 15% target by 2020 (let alone the higher 2030 target).

Will the UK keep to its climate change commitments? Some positive news

In light of the above, what are the likely implications of the vote to leave the EU? It is important to note that the UK has been a leader in promoting strong climate policies within the EU and at international level. Reflecting this, the UK's Climate Change Act 2008 is independent of EU law and requires the UK to reduce GHG emissions by 80% from 1990 levels by 2050, going far beyond what the EU has legally committed to.

Despite scepticism over what the result means for future climate action in the UK, there has been a positive boost in the two weeks since the referendum. Amber Rudd, Secretary of State for Energy & Climate Change, has confirmed the Government's commitment to dealing with Climate Change and specifically to the Climate Change Act. In support of that commitment, the Government has laid legislation before Parliament to adopt the 5th Carbon budget recommended by the CCC⁶. This will create a legally binding target for the period 2028 to 2032 to keep the UK on a trajectory to meeting its 2050 target at the lowest cost. Amber Rudd also confirmed the Government's commitment to closing unabated coal-fired generation⁷ and continuing support for offshore wind and new nuclear generation. This should help to give some comfort on the Government's climate agenda.

Risks to the current Government climate change agenda

The political situation is currently far from certain: how long will Amber Rudd (who supported the campaign to remain in the EU) stay in the government, and within the Environmental & Climate Change department? Vote Leave campaigning on environmental matters included complaints about the cost of green policies but also highlighted the UK's independent leadership on environmental issues. It therefore remains to be seen whether a future government will roll back on these commitments. While Andrea Leadsom (key Vote Leave campaigner and Prime Ministerial contender) has clearly committed to the Climate Change Act and its targets, commentators suggest that others on the Vote Leave side are reportedly more climate-sceptic.

⁵ A drop of 35% if international aviation and shipping is included.

⁶ The Climate Change Act required the budget to be set by 30 June 2016.

⁷ The deadline proposed in November 2015 was 2025.

Significantly, the Vote Leave campaign made specific criticisms against the Large Combustion Plant Directive⁸ claiming that it increases the risk of blackouts through closure of coal-fired power stations. If major growth in renewables and timely development of new nuclear capacity appears to be at risk, this might lead to calls to end or restrict the limitations on older coal-fired plant to ensure security of energy supplies. If this happens, this would have a major impact on the Government's climate agenda, particularly given how much the closure of coal has contributed to progress on recent carbon budgets.

In addition, the last few years have seen a trend of Government policy reducing financial support for renewable energy development and generation in line with their view of decreasing capital cost of certain technologies, such as PV solar. Given Vote Leave criticisms of the cost to consumers of green energy policy, it is possible that this trend will continue more sharply making achievement of targets more difficult.

Ironically, and perhaps more worrying for the EU, the removal of the UK from the EU climate change decision-making process might make it more difficult for the EU itself to promote a strong climate change policy, and meet its own targets under the 2030 climate & energy package. In particular, the UK has helped secure these targets in the face of resistance from other countries which still rely on significant coal-fired electricity generation, such as Poland. It seems likely that the UK's voice in international climate negotiations will also be weaker outside of the EU.

Continuing uncertainty

Given the ongoing political uncertainty, there are clearly many questions about the future of UK climate action. In addition to general uncertainty over future targets and policy, these include:

- How will the UK implement the Paris Climate Agreement if it is not in force before the UK leaves the EU? Will the UK increase its climate change commitment to aim for a "less than 2C" target as foreseen under the Agreement? Currently UK budgets are set only based on the 2C increase scenario.
- Will the UK wish to, and be able to, secure access to the EU Emissions Trading System (EU ETS) to help meet its climate targets and how long would that take if the UK left the EU before securing such access? Carbon prices are anticipated to rise once the Paris Climate Agreement is implemented, and the EU ETS should, in the longer term, be a key mechanism to help reduce carbon emissions for the industrial and power sectors.
- How far will the Government allow international mitigation action to count towards UK climate goals?
- What will happen to the Government's carbon-related mechanisms put in place through its electricity market reform programme: will it continue with "Contracts for Difference" support (no formal commitment to a further auction has been announced as yet)?; will the Carbon Price Floor remain in place or will it be abolished for cost reasons?
- Will there be greater support for fracking to ensure security of supplies?

⁸ Now superseded by the Industrial Emissions Directive 2010.

- Will EU state aid rules continue to apply? If not, the Government might have more flexibility to award targeted support for certain renewable technologies, subject to complying with World Trade Organisation rules on subsidies.

Final comments

Even before the Brexit vote, the Government was seeking more flexibility in driving its climate ambitions, including seeking to avoid binding targets for renewables and energy efficiency. Leaving the EU is likely to give the UK more flexibility in this regard (a common goal shared with the Vote Leave campaign), although just how much flexibility will be determined by the complex negotiations that lie ahead that will include discussions relating to the UK's access to the EU's Internal Energy Market. As a concluding comment, it is worth noting the CCC's recommendation warning about flexibility in meeting targets and reliance on international mitigation action in its latest progress report:

"There are various ways to meet carbon budgets, with scope for the Government to adopt a different balance of effort from the one we have proposed. However, reduced effort in one area must be compensated by increased effort elsewhere. The clear goal should be to meet carbon budgets through action in the UK. Flexibilities available under the Climate Change Act (e.g. use of credits, banking of over-performance) should only be used to deal with unexpected difficulties, not as an alternative to domestic action."

Whether the Government chooses to take this advice remains to be seen.

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