



## “Brexit”: Implications for UK and EU Renewables and Emissions Policy

*22 September 2016*

Michael Mehling



# “Brexit” and the EU ETS

Following formal withdrawal from the EU, the UK will have alternative options regarding participation in the EU ETS.

Each has distinct implications.

1. General implications of “Brexit”
2. UK decides to leave the EU ETS
3. UK remains a participant in the EU ETS

# General Implications of “Brexit”

Regardless of whether the UK remains or leaves the EU ETS, “Brexit” already has implications:

- UK has ~750 emitters and 10.5% of emissions
- Has been a net importer of allowances, and would import another ~100 mio. EUAs by 2020
- EUAs fell 20% on referendum, currently price in some uncertainty about future UK participation
- Short-termism will rise; hedging positions (up to ~150 million EUAs) will likely be unwound
- Political balance in Phase 4 negotiations shifts

# UK Withdraws from the EU ETS

UK withdrawal would necessitate adjustment of the EU-wide cap and recalibration of efforts:

- Permanent withdrawal would further dampen EUA price, although MSR may mute effect
- Given robust GHG mitigation record of the UK, retaining the aggregate %-target would shift mitigation burden to remaining Member States
- Timing would ideally coincide with end of 3<sup>rd</sup> TP ...
- Specific implications for some areas (e.g. aviation)
- What might domestic fallback policies be?

# UK Withdraws from the EU ETS

UK withdrawal would necessitate adjustment of the EU-wide cap and recalibration of efforts:

## Issues that would require adjustments or management:

- Permit price
  - Give retail mitigation
  - Timing
  - Specific
  - What might domestic fallback policies be?
- Managing compliance deadlines within the EU ETS
  - Adjusting EUA quantities and allocation
  - Managing EUA auctions, including implications for backloading and deferred EUAs
  - Implementation of MSR by 2019
  - Unwinding of hedging positions by UK entities
  - Banking of EUAs into the next EU ETS phase
  - Status and continued use of Union Registry by UK entities
- EUA  
K,  
es  
TP ...  
ation)

# UK Withdraws from the EU ETS

UK withdrawal would necessitate adjustment of the EU-wide cap and recalibration of efforts:

- Permanent withdrawal would further dampen EUA price, although MSR may mute effect
- Given robust GHG mitigation record of the UK, retaining the aggregate %-target would shift mitigation burden to remaining Member States
- Timing would ideally coincide with end of 3<sup>rd</sup> TP ...
- Specific implications for some areas (e.g. aviation)
- What might domestic fallback policies be?

# UK Remains in the EU ETS

UK influence on the adoption and design of the EU ETS and strong domestic mitigation targets favor continued participation in the EU ETS:

- Significant implementation capacity located in London (Europe's "carbon trading capital")
- Legal effect of EU law ceases for the UK with withdrawal, necessitating new transposing rules
- Details will be part of overall package; might some features (e.g. CPS) have to be abandoned?
- Model: EFTA, EEA, or "Continental Partnership"?



MIT Center for Energy and Environmental Policy Research

Please come visit us!

**Center for Energy and  
Environmental Policy Research**

Massachusetts Institute of Technology (MIT)  
MIT Building E19-411 400 Main Street, 4th  
Floor Cambridge, MA 02142-1017

@ [ceep@mit.edu](mailto:ceep@mit.edu)

☎ 617-253-3551 📄 617-253-9845



Massachusetts  
Institute of  
Technology

<http://mit.edu/ceep>