



Brexit: implications for climate change commitments

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Key messages

- Departure from the EU is unlikely to affect the UK or the EU's international commitments to reducing greenhouse gas emissions. These are enshrined in law in the case of the UK, and in Council Conclusions for the EU. In addition, the UK's departure will not affect existing commitments to support developing countries to address climate change.
- The UK will need to decide whether to implement the Paris Agreement jointly with the EU or as an individual party. The terms of the UK's exit from the EU may determine this decision.
- If the UK acts as an individual party after departure from the EU, it will need to submit its own Nationally Determined Contributions (NDC) to the UNFCCC. The EU's NDC will need to be revised, which may affect the individual contributions of the remaining EU member states.
- How the UK sets its carbon pricing, whether within or outside of the EU emissions trading system (ETS) will be integral to the UK's energy policy in achieving ambitious emission reductions.
- Prolonged delay by the EU and the UK in revising international climate change commitments may weaken their influence and leadership in multilateral climate change negotiations.

1. Introduction

When the UK voted to leave the EU, climate change was far from the minds of both the electorate and politicians. Climate change had scarcely featured in the referendum campaign. Yet, the UK's decision to exit has consequences for climate change policy in the UK and EU, as for almost every other area of policy.

The UK was a member of the EU when the UN Framework Convention on Climate Change (UNFCCC) was first agreed in 1992. Since then, UK policies and actions to address the global climate change challenge have been developed in conjunction with EU climate change policy. To-date, the UK has had a strong influence on policies for climate action within the EU and on the EU's negotiations in the UNFCCC.¹

There is still considerable uncertainty about how the UK's exit from the EU will affect climate change policy and its implementation. However, it is worth reflecting on what the implications might be. It may be two or more years before the details of the UK's new relationship with the EU are fully known but during this time, the global climate change agreement will continue to evolve in a number of areas. Parties to the UNFCCC are expected to confirm their Nationally Determined Contributions (NDCs), examine the options for making them more ambitious, and begin to consider longer-term commitments of climate finance. The EU is due to reform its emission trading system (ETS), revise policies on renewable energy and energy efficiency, and set 2030 targets for emissions outside the ETS. The urgency of deep cuts in greenhouse gas emissions to ensure the average global temperature rise is well below 2°C, will become even greater.

The EU and its member states have committed internationally to take specific actions to address climate change and its effects, and to support developing countries in their efforts to do so too. This briefing paper outlines how the commitments necessary to ensure that the goals of the Paris Agreement can be met will be affected by the UK leaving the EU. The paper will then discuss the implications for international climate change negotiations, and make recommendations for the UK and the EU to ensure international climate change goals can be achieved.

Table 1: UK carbon budgets

Budget period	Carbon budget level	% reduction below base year
1st carbon budget (2008-12)	3,018 MtCO _{2e}	23%
2nd carbon budget (2013-17)	2,782 MtCO _{2e}	29%
3rd carbon budget (2018-22)	2,544 MtCO _{2e}	35% by 2020
4th carbon budget (2023-27)	1,950 MtCO _{2e}	50% by 2025
5th carbon budget (2028-32)	1,765 MtCO _{2e}	57% by 2030

Source: Committee on Climate Change.

2. Implications for the UK

2.1 Emission reduction commitments

The UK has a statutory emission reduction commitment, enshrined in the Climate Change Act (2008), to reduce greenhouse gas emissions by at least 80% by 2050 (compared with 1990). This goal is ambitious by international standards, making the UK a global leader in its commitment to cut emissions. To achieve this target, the act requires successively tighter five-year carbon budgets to be formulated and met, which began in 2008. Table 1 summarises the carbon budgets agreed to date.

It is highly unlikely that the UK's exit from the EU will affect these emission reduction commitments. The 5th carbon budget was adopted by the government just after the referendum, though before the change in Prime Minister and the transfer of responsibilities for climate change to the new Department for Business, Energy and Industrial Strategy (BEIS). The 5th carbon budget is also more ambitious than the EU's target for 2030. There is no risk of backtracking on commitments made by the UK to the EU with respect to emissions.

The longer-term commitment set out in the Climate Change Act, an 80% reduction in emissions by 2050, is also likely to be retained. This target is consistent with the EU's aim to reduce emissions by 85-90%, by the same date. Lowering it would require a change in legislation and would go against the advice of the independent Climate Change Committee. If the UK went down this route, it would risk losing any claim to international leadership on climate change.

Although exit from the EU appears unlikely to have an impact on the UK's emission reduction targets, how these targets are met may be affected. EU agreements provide parameters for how the UK and other member states should achieve their emission reductions. For instance, there are separate EU targets for emissions in the carbon market of the ETS (from electricity generation and large-scale energy users) and for emissions that are outside the ETS (from buildings, transport and agriculture). The target for emission reductions to be achieved through the ETS is a 43% reduction by 2030 (compared with 2005). For emissions outside the ETS, the EU average target is a 30% reduction by 2030 (compared with 2005). The UK has an EU target to reduce its non-ETS emissions by 37% (European Commission, 2016). Outside the EU, the UK would be able to revisit the proportions of total emissions reductions to be achieved from different sources.

Emission reductions in the UK to-date have been achieved, largely, through energy efficiency and decarbonisation in the power sector (Climate Change Committee, 2015). The UK will continue to look to the power sector as a major source of emission reductions: a third of reduced emissions by 2030, and half by 2050, are expected to come from the sector (Climate Change Committee, 2015). Departure from the EU might allow the

UK to place even greater reliance on emission reductions from the power sector.

Renewables

Exit from the EU may affect the UK's commitment to renewable energy targets. The EU Renewable Energy Directive of 2009 sets binding targets for each member state, for the proportion of energy consumption that should come from renewable sources by 2020. The UK argued against renewable energy targets during negotiations within the EU, however, and advocated less ambitious renewable energy targets than were included in the Directive (FoE, 2009). This reflected the UK's own preference for market mechanisms to promote renewable energy. Though it is lower than the EU average of 20%, the UK is on track to miss its agreed 15% renewable energy target (National Grid, 2016). Departure from the EU may mean that the UK will no longer be required to meet this target, depending on the terms of its new arrangement with the EU. If the UK is no longer bound by EU climate change legislation, it will not face sanctions for missing the renewable energy target.²

Capacity mechanisms

The intermittency of renewable energy power generation is increasing the use of 'capacity mechanisms'. Capacity mechanisms provide payments to power sector companies to maintain generation capacity that can be used to ensure there is enough power when renewable supply is inadequate. Emission reductions in the UK have largely come from reducing carbon intensity of electricity generation. However, the capacity auctions in 2014 and 2015 resulted in payments to diesel and coal-fired power producers, as well as gas and nuclear companies (van der Burg and Whitley, 2016b).

The EU is currently investigating the future of capacity mechanisms and their role in the single energy market (van der Burg and Whitley, 2016a). Reform of the EU energy market is likely to give greater consideration to emission reduction objectives, which may affect the extent to which capacity mechanisms can be used in the future to support carbon-intensive power generators. However, being outside of the EU, the UK may be unaffected by any future EU regulation on capacity mechanisms. Depending on the eventual exit agreement, the result may be that the UK continues its current policy, which provides disproportionate support for high-emission electricity generation.

Carbon pricing

The UK has long advocated market mechanisms as the way to establish a carbon price and incentivise emission reductions. Indeed, the UK piloted its own carbon market before the ETS was established (Grubb and Tindale, 2016). The UK played a key role in the establishment of the ETS, now the world's largest carbon market. One

instance of this occurred during negotiations between EU member states about the emission caps for 2008-2012. The UK advocated an ambitious approach which helped to counter high allowance allocation proposals from other EU members (IEEP, 2016). Participation in the ETS has been important for the UK to achieve its emission reduction targets.³ Yet the low price of carbon in the ETS has prompted the UK to set a carbon floor price more than four times higher than the EU price.⁴

The current phase of the ETS ends in 2020, potentially providing an opportunity for the UK to leave the market on a similar timetable to the UK's departure from the EU. But it is not certain that the UK will leave, after all it is possible for non-EU members to participate, as Iceland, Liechtenstein and Norway do now. However, outside the EU, the UK's influence on the continuing reform of the ETS will be much diminished, while UK influence on ETS reform during the period before exit may also be reduced.⁵

Departure from the EU means the UK will need to decide how to set a carbon price that will incentivise emission reductions within the UK. The UK could remain in the ETS, establish its own carbon market, rely on its carbon floor price; or work with other countries, bilaterally and multilaterally, to establish carbon pricing systems. The policy for carbon pricing will be partly determined by the overall nature of the UK's exit, which may not be clear for some time. Therefore, in this interim period, delays in deciding the broad shape of the UK's policy for carbon pricing could affect achievement of the emission reduction targets.

Other international commitments

The G20 group, which includes both the UK and the EU, has made commitments every year since 2009 to phase out 'inefficient' fossil fuel subsidies (Bast et al., 2015). In 2016, the UK committed, along with other G7 members, to achieve the phase out of these fossil fuel subsidies by 2025.

The phase out of fossil fuel subsidies is also a target in the Sustainable Development Goals (SDGs), adopted by the UN General Assembly in 2015. In addition, the SDGs include targets to increase substantially the proportion of renewables in the world's energy system and to double the global rate of improvement in energy efficiency, by 2030.

Achieving these targets would make a significant contribution to the reduction of global greenhouse gas emissions. Although the UK's engagement was through EU representation, the UK's departure from the EU should not affect its commitment to them.

2.2 Climate finance commitments

The UK has been a leader on international climate finance, making early commitments and allocating 50% of its climate finance to support adaptation in the world's poorest countries. The UK's International Climate Fund (ICF) – the main source of the government's bilateral and multilateral climate finance – was established as a clear

channel to deliver on the UK's global climate finance commitments. In late 2015, the UK government committed to double its funding through this channel over the next five years.⁶ A major structural innovation of the ICF is that it was jointly managed by the Department of Energy and Climate Change (DECC), which led on international climate negotiations and is now incorporated in BEIS, the Department of Food, Environment and Rural Affairs, and the Department for International Development (DFID).

It remains to be seen whether exit from the EU will have an impact on the ICF. Even though the UK's aid budget of 0.7% of GNI appears to be safeguarded (and enshrined into law), its value in the short-term has been reduced by the referendum result, through the fall of the pound in foreign exchange markets and, potentially, lower economic growth.

Through the ICF, the UK has pursued a number of objectives for its climate finance. These include: seeking to create incentives for development finance institutions, including multilateral development banks to do more on climate change, finding new ways to engage the private sector and catalyse private investment in solutions to climate change, and incorporating a climate risk perspective into development assistance and supporting efforts to strengthen resilience. These activities are likely to continue, and the incorporation of DECC into the new Department of Business, Energy and Industrial Strategy, may also bring new opportunities. In BEIS, there may be new innovations to mobilise business action and private investment in solutions to climate change in developing countries.

The UK's aim of a 50:50 split of climate finance between adaptation and mitigation is also likely to continue. While the referendum result is not expected to have much effect on the UK's commitment to supporting and delivering adaptation internationally. The UK, through DFID, has proven to be a strong advocate for supporting adaptation and resilience among the global development community (e.g. through programmes such as Future Climate for Africa, and Building Resilience and Adaptation to Climate Extremes and Disasters).

Trends in the UK's support for developing countries that had started to take effect before the referendum are likely to accelerate. These include a stronger requirement for value for money, a greater focus on private sector delivery, and an increasing emphasis on the UK's national interest (HM Treasury and DFID, 2015). This will be welcomed by institutes like the Met Office and UK universities, which have strong technical and scientific capacities in supporting climate change activities – especially if it becomes more difficult for them to access funding from the EU.

3. Implications for the EU

3.1 Emission reduction commitments

In March 2015, the EU set out its international commitments to reducing greenhouse gas emissions in the Intended Nationally Determined Contributions (INDC), submitted to the UNFCCC. The EU has committed to reducing greenhouse gas emissions by 'at least 40%' by 2030 (from 1990).⁷ This commitment is in line with the EU's aim of achieving an 80-95% reduction in emissions by 2050.

The INDC was submitted on behalf of all EU member states, including the UK. Accordingly, member states did not submit their own INDCs. The overall target of 40% emission reductions by 2030, contained in the INDC was first agreed by the Council in 2014,⁸ and is likely to be retained. However, after the UK's departure from the EU, this target will relate to the emissions of the remaining 27 member states (EU-27). If the UK does not retain a commitment to act jointly, this will require an adjustment of the emissions allocated to each member state when the EU ratifies the Paris Agreement.⁹

An example of this reallocation of contributions following the UK exit can be seen in the EU's non-ETS emission reduction commitments. After the referendum, the EU announced the reductions each member state will need to achieve in agriculture, transport and building emissions (i.e. non-ETS emissions) in order to achieve the 2030 target (European Commission, 2016). In aggregate, the EU aims for a reduction of 30%. The UK on its own, however, is expected to reduce emissions by 37%. Consequently, the 7% difference, amounting to 29 million tons of greenhouse gas emissions, will need to be reallocated if the UK leaves the EU and does not enter a joint action arrangement for emission reductions (Schiermeier, 2016). Moreover, there is a risk that reaching an agreement between member states on the reallocation of contributions could delay the EU's ratification and implementation of the Paris Agreement.

The EU will participate in the 2018-2020 stock-taking 'facilitative dialogue' provided for in the Paris Agreement, also intended to inform its NDC.¹⁰ Therefore, once the EU ratifies the Paris Agreement, and during the period of the UK's exit negotiations, the EU-27 will need to consider measures to increase the ambition of its contribution to global greenhouse gas emission reductions. The process to agree measures and legislation, to enable the EU's 2050 emission reduction aim to be met, will also need to begin. Without the UK advocating within the EU for ambitious reductions, the influence of those member states that have shown less commitment to tackling climate change may be enhanced. This could result in longer-term commitments that are less ambitious, beyond the 2030 target.

Carbon pricing

The ETS covers around 45% of the EU's greenhouse gas emissions, and the UK accounts for about 10% of the verified emissions in the ETS. Should the UK decide to leave the ETS, another recalibration may be required. Uncertainty about the future of the ETS caused an immediate fall in the market's carbon price after the referendum, by about one euro per unit.¹¹ The cap on emissions that underpins the ETS, including allowance levels for the next phase of the ETS, will need to be adjusted downwards if the UK decides to leave the scheme.

The European Commission tabled proposals for the next phase of the EU emissions trading scheme (2021-2030) in July 2015, consistent with the overall 40% emission reduction target presented in the INDC. These proposals include a revision of the system to allocate allowances and a faster rate of reduction in the total number allowances.¹² However, doubts have been expressed over whether these proposals will be enough for the EU to rely on the ETS meeting its 2030 target and the longer-term aim of 85-90% reductions by 2050.¹³

3.2 Climate finance commitments

The EU is a major funder of action to address poverty and climate change. It is committed to contributing its share to the international pledge of \$100 billion a year by 2020 to support developing countries. At least 20% of the total EU budget in the 2014-2020 period will be spent on climate-related projects and policies, in the EU and externally. EU development cooperation will contribute over €5.3 billion between 2014 and 2020 on climate change action through the Development Cooperation Instrument.¹⁴ While the European Development Bank intends to increase the proportion of its climate finance going to developing countries to 35% by 2020.

When the UK leaves the EU, the EU budget will be smaller but it is likely to retain the 20% commitment for climate change expenditure, up to 2020. It is too early to say how the UK's exit will affect expenditure to address climate change and the effects of climate change after 2020. The planned revision of the European Consensus on Development and financing instruments for development cooperation will, however, take place in the context of the UK's impending departure from the EU. Revised priorities and instruments for EU development cooperation may affect how support is provided to address climate change in developing countries.

4. Implications for further commitments

The Paris Agreement, negotiated at the end of 2015, comes into force when 55 countries accounting for at least 55% of estimated global greenhouse gas emissions have ratified it. The Agreement could come into force before ratification by the EU or UK, as the EU accounts for only 12.08% of global emissions,¹⁵ and because of the time

required for member states to first agree to act jointly for its implementation (Oberthür, 2016b).

Ratification of the Paris Agreement is required by both the EU and its individual member states. Two weeks before the referendum, the European Commission tabled a proposal for a Council Decision to initiate the process for the EU to ratify.¹⁶ This process could take until the middle of 2017, even without the complications thrown up by the UK referendum result (Oberthür, 2016b). The terms of the UK's departure from the EU, such as access to the single market, may well determine the UK's continued participation in the ETS or joint action to implement the Paris Agreement. Yet, the potential consequences of the UK's exit for EU emission reduction policies and targets may affect member states reaching agreement on their allocation of emissions, which is necessary for ratification. A lengthy delay in ratification would not change what is necessary to achieve targeted emission reductions, but being one of the last to ratify might affect the EU's ability to play a leading role in future climate change negotiations.

The success of the Paris Agreement will be determined over the next five years. During this period, it will be necessary to increase the collective ambition of the NDCs to ensure that the Agreement's goal of holding average global temperature rise well below 2°C can be met. This dialogue is expected to start in 2018, when the UK will still be negotiating the terms of its new arrangement with the EU. Furthermore, the Paris Agreement calls on governments, by 2020, to formulate and communicate long-term, low greenhouse gas emission development strategies, and to scale up their financial support, including concrete proposals for the provision of the promised \$100 billion a year.

In or out of the EU, the UK must ratify the Paris Agreement, but the UK will need to submit its own NDC to the UNFCCC, after it leaves the EU.¹⁷ This should lay out clear and verifiable goals for how the UK will achieve emission reductions, and can include action to adapt to the impacts of climate change. In practice, the process should be relatively straightforward as the groundwork has already been laid by the UK's carbon budget and the National Adaptation Programme (NAP). However, it may be difficult for the UK to increase its ambition while government capacity is focused on the exit negotiations. During this period, the UK may also face difficulty in advocating for more ambition in the EU's NDC, and for further EU climate finance commitments (Burns et al. 2016).

The future climate change strategy and commitments of the EU, and its member states, will have a bearing on Europe's influence in broader global politics, as well as in multilateral climate change negotiations. The EU has sought to play a leading role in international climate change negotiations (see its role in Durban in 2011) and the EU's climate change diplomacy during 2015 contributed to the successful conclusion of the Paris

Agreement (Oberthür, 2016a; Council of the European Union, 2016). EU influence in international climate change negotiations may be weakened by the UK's departure, not least by the absence of UK expertise in EU engagement. Similarly, as it seeks to develop a new role globally, the UK's influence too will be affected by its commitments on climate change. Climate change is now integral to global geopolitics.

5. Conclusions

The short-term international climate change commitments of the UK and the EU are unlikely to be affected by the referendum result. Longer-term commitments may also be unaffected, given that existing emission reduction commitments for 2050 signal that the UK and EU recognise the need for action. However, the route to achieving emission reductions may be affected. The UK will be able to determine how its commitments should be met without EU-set parameters, while plans for achieving emission reductions within the EU-27 could be developed without the UK.

The international perception of both the UK and the EU as leaders in climate change dialogues may be affected by how both parties revise their commitments. There is a risk that the influence of both in multilateral climate change negotiations may be reduced if their revised commitments are much delayed. A number of actions by the UK and EU, summarised below, could help to address these concerns.

UK

An internationalist UK must continue to champion ambitious action on climate change, and lay the groundwork for new commitments of action that bring the international community closer to keeping the average global temperature rise well below 2°C. As a first step, the UK should ratify the Paris Agreement, which the government has undertaken to do before the end of 2016 (Mason and Vaughan, 2016). However, it has not indicated whether it will do so with a commitment to act jointly with the EU to implement the Agreement, or as an individual party. The latter entails a commitment to prepare a UK NDC, the basis for which is already in place. An early decision about joint action for commitments to 2030, at least, will be necessary.

Secondly, the government should provide clear direction for a climate-smart energy policy outside the EU. This is necessary to ensure that the 5th carbon budget is achieved and to provide appropriate incentives for investment in renewable energy and energy efficiency. It should also include measures to phase out fossil fuel subsidies by 2025, in line with the G7's 2016 commitment.

Integral to the UK's energy policy will be its policy for carbon pricing, to ensure adequate incentives in achieving ambitious emission reductions. The UK will need to decide, therefore, within the next two years whether it will continue to participate in the ETS.

Thirdly, the UK should reconfirm its commitments to international climate finance. Continued investment in supporting developing countries to respond to climate change in the coming years is essential. A failure to do so risks compromising the prospects for increasing the ambition of developing country efforts on climate change in the future.

Finally, the UK should signal its intent to pursue and to advocate ambitious climate change policies in collaboration with other UN member states. This might include the UK joining, in its own right, new coalitions of states, such as the High Ambition Coalition.¹⁸

EU

The EU should further develop its domestic energy and climate change strategy towards rapid decarbonisation, to meet EU and Paris Agreement objectives. The departure of the UK from EU membership will require revision of the EU NDC, to reconfirm commitments to short-term climate change goals to 2030 and to signpost EU action to meet longer-term goals.

The EU should continue to actively promote ambitious climate change action in the UNFCCC, and other international fora, such as the G7 and G20.

The EU's revision of its development cooperation strategy should give high priority to achieving low-carbon development in partner countries, including greenhouse gas emission avoidance and reduction. This includes support to developing countries to develop and implement their NDCs.

Acknowledgements

The author would like to acknowledge the contributions, comments and advice on the draft received from, Laurie van der Burg, Lindsay Jones, Anna Locke, Simon Maxwell, Smita Nakhooda, Sebastian Oberthür, Jo Rea and Shelagh Whitley.

Notes

- 1 See <http://icai.independent.gov.uk/report/uks-international-climate-fund/> and <http://blogs.lse.ac.uk/europpblog/2016/06/23/how-would-a-brexiteffect-the-environment/>
- 2 The EU can take member states to court and fine them for not implementing legislation (http://ec.europa.eu/atwork/applying-eu-law/infringements-proceedings/financial-sanctions/index_en.htm).
- 3 In 2014, 768 UK emitters, responsible for 198 million tons CO₂e, were in the ETS. <https://galbraithdaying.wordpress.com/2016/02/04/brexit-and-the-eu-ets-options-to-go-it-alone/>
- 4 The carbon floor price is currently £18 per ton, compared with €4.60 per EUA.
- 5 The British MEP leading ETS dialogue in the European Parliament resigned from this role as rapporteur immediately after the referendum (<http://www.energypost.eu/eu-carbon-market-hit-brexit-reform-carries/>).
- 6 The ICF is expected to disburse £5.8 billion between 2016 and 2020. (<https://www.gov.uk/government/publications/international-climate-fund/international-climate-fund>)
- 7 <http://www4.unfccc.int/submissions/INDC/Published%20Documents/Latvia/1/LV-03-06-EU%20INDC.pdf>
- 8 European Council Conclusion, EUCO 169/14, 24 October 2014.
- 9 To ratify the Paris Agreement, the EU must indicate the emissions allocated to each member state (Oberthür, 2016b).
- 10 ‘The Road from Paris’, Communication from the Commission to the European Parliament and The Council, COM (2016) 110 final, 2 March 2016.
- 11 Redshaw Advisors, ‘Brexit: the impact on carbon price, the EU ETS and beyond’ (<http://www.redshawadvisors.com/brexit-the-price-of-carbon-and-the-prospect-of-carbon-taxes/>); businessGreen, 24 June 2016 (<http://www.businessgreen.com/bg/news/2462732/eu-carbon-price-tumbles-in-wake-of-brexit-uncertainty>)
- 12 <http://www.consilium.europa.eu/en/policies/climate-change/reform-eu-ets/>
- 13 <http://carbon-pulse.com/6456/>; Marcu and Elkerbout, 2015; FleishmanHillard, 2015.
- 14 http://ec.europa.eu/clima/policies/international/paris_protocol/finance/index_en.htm
- 15 The UK’s greenhouse gas emissions amount to 1.55% of global emissions and 12.82% of EU-28 emissions in 2013 (UNFCCC, 2016).
- 16 COM(2016) 395 final 2016/0184 (NLE). http://eur-lex.europa.eu/resource.html?uri=cellar:474eae2-2ef6-11e6-b497-01aa75ed71a1.0001.02/DOC_1&format=PDF
- 17 The UK could submit its own NDC before departure from the EU, provided it is more ambitious than the EU’s. The UK could also contribute to the EU’s NDC under a joint action or other arrangement (Born, 2016).
- 18 The High Ambition Coalition grouping of countries emerged out of the climate change diplomacy which had been undertaken by the EU, the UK and others in preparation for the Paris conference. The grouping is likely to continue to work together in the UNFCCC.

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This material has been funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies.