EU-UK Brexit Deal: What are the ESG Implications?

By Neha Basu

The highly-anticipated EU-UK Brexit deal has dominated much of the news in the past few weeks, and this agreement has several important consequences for the future of ESG. The "zero tariff-zero quota deal" has not only relieved exporters in the UK and EU but also placed both parties in a prime position to improve sustainability. The lack of barriers to trade will promote innovation in both UK and EU companies, thus assisting in the development of more ESG-friendly technologies and operations. Additionally, the free trade agreed upon by the UK and EU will help manufacturers exporting renewable energy technology in both regions.

A lesser-known aspect of the Britain-EU trade deal are the agreements reached with regards to climate change, an important consideration for ESG investors. The deal includes provisions on reducing emissions, particularly those from aviation, and instituting carbon pricing. Carbon pricing, which assigns a monetary price to carbon emissions to incentivize investments in carbon-free technology, has already been implemented domestically in the EU. The Brexit deal affirms that the UK will be developing its own carbon trading system, which will be 5% tighter than the corresponding EU emissions trading system (ETS) to help meet the country's goal for carbon neutrality by 2050. Although the two carbon systems are currently separate, they may be joined under one jurisdiction in the future depending on the outcomes of future negotiations.

The EU has recently implemented a carbon border tax, which effectively places imports under the domestic carbon-pricing system, to help European companies remain competitive in the global market. The carbon border tax is intended to prevent the outsourcing of carbon-intensive production to countries with lower emissions standards, an issue known as "carbon leakage." Since the UK has already reached a carbon pricing agreement with the EU in the Brexit deal, it is likely that the UK will be exempt from this carbon border tax, and the UK itself may implement a similar carbon border tax in the future.

Although the exact wording of the Brexit deal has not yet been released, EU Commission President Ursula von der Leyen has confirmed cooperation with the UK "in all areas of mutual interest, for example in the fields of climate change [and] energy." Both the UK and EU seem to share an interest in developing the North Sea as a renewable energy hub and worldwide center for offshore wind energy. An EU Commission document has also stated that both parties reached agreements on trading arrangements over interconnectors to ensure the security of energy for the UK and EU. Additionally, this document included that the deal will be suspended if either side violates the Paris Climate Agreement, an international treaty outlining plans for the mitigation of climate change.

Read More:

- https://www.cnbc.com/2020/12/28/uk-lawmakers-approve-brexit-trade-deal.html
- https://www.theguardian.com/politics/2020/dec/28/brexit-experts-verdict-uk-eu-trade-deal-details-visas

- https://www.bloomberg.com/news/articles/2020-12-14/u-k-to-set-up-its-own-carbon-trading-system-after-brexit
- https://www.climatechangenews.com/2020/09/17/imf-endorses-eu-plan-put-carbon-price-imports/
- https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2531
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