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BRIEFING PAPER JUNE 2016

BREXIT AND SUSTAINABLE FINANCE
RISKS AND OPPORTUNITIES

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The British referendum vote to leave the EU has created political chaos in the UK, and a crisis in the EU. In light of this E3G has pulled together a short series of briefings on how this will impact different areas of our work.

This briefing gives a few headlines on our view of how brexit will affect the Sustainable Finance and Capital Markets Union agendas at the UK, EU and global levels. There is also a note on how it affects the politics of climate change for those specifically interested in that area.

United Kingdom

A mixture of risk and opportunity for the green agenda

A period of uncertainty will follow: next key decision points to watch will be the UK's 5th Carbon Budget and the Green Investment Bank (GIB) sale.

- The 5th carbon budget is due to be approved this week. It creates the framework for forward UK infrastructure planning to 2050 and so remains an important milestone.
- On the sale of the UK GIB. Given that the GIB's forward business plan included a focus on European markets there is the potential for the sale process to collapse. This, combined with the fact that the UK is now forecast to potentially go into recession and that the UK withdrawal from the EU will means it has no access to public funding from the European Investment Bank, makes the case to retain the GIB as a public institution very strong.
- In the event of recession calls for a new fiscal stimulus will be renewed. This is an opportunity to call for a public GIB to be used to push a green infrastructure stimulus out – which could coinvest with UK institutional investors in low carbon infra.
- The UK Green Finance Initiative remains in place – and is a forum for a discussion of this sort, should to conditions arise.

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European Union

A mixture of risk and also accelerated opportunity in the search for a renewed common EU purpose

The Brexit process will take time: 27 months minimum – could be as long as 3-4 years. In the meantime EU leaders are already meetings in different groupings to discuss their own response.

- Among MS leaders there is fear of populism contagion and a counter-offer is urgently needed. Security – including energy security, jobs and growth remain safe bets. Climate – which is seen as eliteist – is not.
- Momentum was being gained on the need to inject ESG issues into the Capital Markets Union agenda (CMU). The Commission (DG FISMA) had publicly acknowledged already that 'something needs to be done'. If we get the framing right, this momentum won't be lost. The responsible investment agenda and the "Sustainable Capital Markets Union" has a lot to offer at this time – with its focus on long-term and inclusive growth creation. While the "E" in "ESG" had be gaining traction as a result of Mark Carney's pre-Paris interventions; the "S" will be what carries this work forward – given its focus on inclusive wealth creation, workers rights and so on. This is a narrative we need to focus on building and quickly – to ensure 'our stuff' remains part of the solutions mix being discussed.
- The fundamentals to be able to deliver this are largely still in place: a motivated networks of thinktanks and NGOs (which is building) and a range of progress investors motivated by the Paris Agreement and SDGs willing to go further on financial reforms to build the SRI space out.
- What we *have* lost in the UK as a Member State champion to call for reforms (which was due to be a key part of the UK Presidency in 2017). Other Member States – France, Sweden, NL and (newly) Germany (hopefully but to be confirmed, as a result of G20 Presidency) remain as drivers of this agenda.

Global

Outlook unchanged – what the Germans do will be a key point of influence to watch

The outlook remains largely unchanged since these are international processes that would need to 'land' in national governments and the market. In the UK the G20 work, for example, can emerge through the UKGFI. The German G20 presidency next year (if green finance continues as a focus) can positively impact on the German domestic discussion and leverage from there into Europe and the CMU process. FSB work remains important and the focus should continue to be on creating 'receptive' national environments able and capable of responding to the recommendations from this work. For example in Europe this should include early calls for the Non-Financial Reporting Directive to be reopened.

For those focused specifically on **climate action**, our headline conclusion is that while a roll back of climate action is unlikely it will also be a much bigger challenge to get the EU will increase its 2030 climate target at the Paris review in 2020. However, the fundamental logic of climate action and clean energy investment remain unchanged. With deeper and broader investment in shaping the politics, the EU and the UK should remain on a deep decarbonisation pathway and will implement innovative market reforms and governance solutions which can be replicated globally.

E3G's formal position was issued last Friday and can be found here **e3g.org/news/media-room/brexit-shakes-up-energy-climate-landscape-but-fundamentals-unchanged**.

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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