



EU-UK GREEN ECONOMY PARTNERSHIP REPORT

2024

FOREWORD

Global temperatures are rising faster than ever, with 2024 being one of the most extreme years on record. The pace at which climate change is accelerating has global reverberations, increasing the frequency of wildfires, droughts, floods and heatwaves, all of which have contributed to extensive societal challenges.

The European Union and the United Kingdom have consistently driven climate action initiatives, with closely aligned ambitions on achieving net zero by 2050, with some jurisdictions aiming to get there sooner. As the strategic objectives of two of the world's strongest economies are intrinsically linked, it is essential that they cooperate more closely to meet their legally binding climate targets, whilst simultaneously enhancing their competitiveness.

The British Chamber of Commerce | EU & Belgium is proud to present this EU-UK Green Economy Partnership Report which highlights the urgent need to facilitate dialogue on a European industrial cooperation framework, working towards achieving the Green Industrial Transition and Net Zero by 2050.

This Report is the culmination of extensive consultations, contributions from industry, trade association and non-governmental organisations (NGOs) across Europe. Uniquely, this initiative provides a consolidated account of the challenges that European industry faces in their push to decarbonise their sectors.

We will be working with both the European Commission and the British Government to encourage the implementation of these recommendations in the most efficient and timely way possible. We extend our gratitude to all those who contributed to the Report within our workshops, and by providing real world accounts and evidence. We hope that this serves as a valuable resource for policymakers committed to advancing the joint undertaking of reaching net zero.

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EXECUTIVE SUMMARY

The recommendations and content within this Report are a culmination of a series of engagements with stakeholders across industry, trade associations, think tanks and NGOs. It provides in part and detail the similar issues that pervade nations across Europe.

This document also takes into account the following:

- The EU-UK Trade and Cooperation Agreement (TCA) is the basis of the future relationship between the EU and the UK, it already welcomes cooperation in areas such as Energy and Carbon Markets within the existing framework.
- The UK's Industrial Strategy highlights areas that are key for the future of UK economic growth and outlines the fields which can easily be aligned with the EU's Clean Industrial Deal and the Draghi report. This presents a compelling opportunity to ensure European competitiveness and continued joint net zero initiatives to facilitate new economic growth.
- BritCham calls on the EU and the UK to establish dialogue on a Green Economy Partnership, in the areas mentioned within this document. Such a dialogue can greatly benefit the EU and the UK's respective industries, guarantee more affordable clean energy, strengthen European supply chains and utilise each other's competitive advantages.
- Ultimately, the Report offers actionable recommendations to strengthen energy and climate cooperation, between the EU and the UK, in areas of mutual benefit to support European competitiveness.



Quick Wins		Policy Ambitions
Energy	<ul style="list-style-type: none"> ◦ Agree on full UK membership of North Sea Energy Cooperation ◦ Return the UK to an efficient electricity trading mechanism with the EU ◦ Ensure there are no trade barriers between the UK and the EU on development of green fuels ◦ Increased stress testing of the energy system 	<ul style="list-style-type: none"> ◦ Develop a vision for a meshed grid in the North Sea Basin ◦ Develop a joint global vision on import and export of low carbon fuels ◦ Increase supply chain resilience
Transport	<ul style="list-style-type: none"> ◦ Critical Raw Materials (CRM) Joint Area ◦ Industrial Strategy Alignment in key areas ◦ Cross-Border Business Mobility through Frictionless Borders ◦ Build up Charging Infrastructure for operability 	<ul style="list-style-type: none"> ◦ Tariff-Free Trade on Green Goods and Technology ◦ Set up a special economic zone for clean tech industrialization ◦ Regulatory alignment on emerging green transportation technologies
Carbon Markets	<ul style="list-style-type: none"> ◦ Clarify the EU CBAM methodology in early 2025 ◦ Align CBAM methodologies ◦ Start ETS linking negotiations 	<ul style="list-style-type: none"> ◦ Align accreditation process for negative emissions ◦ Allow storage of EU emissions in UK CO2 stores ◦ Align ETS approaches on aviation and shipping
Capital Markets	<ul style="list-style-type: none"> ◦ Increasing interoperability of sustainable finance frameworks ◦ Linking sustainability reporting methodologies ◦ Leveraging the signalling of public support 	<ul style="list-style-type: none"> ◦ Developing a global approach to transition finance ◦ Harness investor interest with policy ◦ Implementing and improving standards for sustainability reporting ◦ Public-private co-investment ◦ EU-UK cooperation on Securitisation with joint investment vehicles
Research & Innovation	<ul style="list-style-type: none"> ◦ Continued long-term UK Association with Horizon Europe ◦ Build on current framework through alternative funding streams ◦ Expand Public-Private Partnerships (PPP) ◦ Sharing of good practices 	<ul style="list-style-type: none"> ◦ Address 'Green Skills' gap ◦ Engaging with the Multiannual Financial Framework (MFF)

INTRODUCTION

From record-breaking heatwaves to damaging storms, extreme weather events are becoming part of the new climate reality, reshaping landscapes and testing the resilience of communities worldwide. The energy crisis in 2022 has also shown Europe's limitations in areas of energy self-sufficiency and the need for wider European cooperation. As the climate continues to change, its impact is felt across national economies and regions, whilst also affecting lives, costing people, communities and countries dearly today and even more tomorrow.

In order to combat climate change, governments around the globe meet at the COP29 United Nations Climate Change Conference in November 2024, agreeing to work together to increase global energy storage capacity six times above 2022 levels, reaching 1,500 gigawatts by 2030.¹

Targets

Within the EU, the European Climate Law mandates that the EU must establish a reduction in greenhouse gas emissions of at least 55% by 2030 (as compared to 1990 levels) and will strive for climate neutrality by 2050. To support these objectives, President of the European Commission, Ursula von der Leyen has proposed a "Clean Industrial Deal," as well as commissioning the Draghi report outlining how Europe must integrate competitiveness into its net zero transition. These are urgent calls on Member State Governments, the new European Commission and Parliament to address an urgent need for more investment, innovation and economic security in European industrial policy. The new Commission will also agree on 2040, including consideration of carbon capture, to truly account for "net" emissions

Concurrently the UK government has also pledged to reach net zero by 2050. As part of its Nationally Determined Contribution towards the Paris Agreement, the UK has committed to an 81% reduction in emissions by 2035.²

European Industrial Competitiveness

On another level, global competition between the United States (US) and China risks leaving Europe behind in key innovative clean technologies that are required to reach net zero emissions by 2050. European Industry must remain competitive so that it can support the green transition as well as ensuring European Strategic Autonomy. As a result, the EU and the UK are undergoing a transformation toward climate neutrality, driven by policies and investments to support renewable energy, energy efficiency, and clean technologies, as well as promote circular economic principles. These efforts aim to combat climate change, foster innovation, create jobs, all whilst ensuring economic resilience in Europe.

Opportunities for Collaboration and Cooperation

Both parties are currently largely working to address these challenges independently, rather than inclusively collaborate on shared objectives. The TCA sets out a framework for an EU-UK economic relationship, but it limits effective cooperation on energy and climate, hindering efforts to deliver the net zero targets and the Green Industrial Transition. That is why the British Chamber of Commerce | EU & Belgium has started this initiative, calling for an EU-UK Green Economy Partnership. BritCham held the kick-off event in February 2024 with multiple panels discussing ways in which EU and UK industry can reach their climate objectives post-2025. In follow up, BritCham has developed a "call" that seeks to draw in support from industry for the EU-UK Green Economy Partnership.

Understanding that a 'call' would not provide sufficient insights for EU and UK policymakers, BritCham has organised a series of workshops around the five key pillars: Energy, Transport, Capital Markets, Carbon Markets and Research & Innovation. Simultaneously throughout the discussions, there emerged three underlying themes, those themes being; partnerships and collaboration, joint clean tech economic zone, movement and skills. As a result, the Report is structured into these five pillars, and the recommendations made each fit within one of the defined themes.

1. COP 29 Presidential Action Agenda – Global Initiatives

2. UK shows international leadership in tackling climate crisis - GOV.UK, published 12 November 2024



THEMES



Partnerships & Collaboration

International cooperation is crucial for addressing global challenges such as climate change and sustainable development, these challenges transcend national borders and require collaborative efforts for effective solutions. By sharing knowledge, technology, and financial resources, the EU and the UK can respond more efficiently to environmental issues, particularly in supporting vulnerable nations. Collaborative frameworks like the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement have managed to foster a common understanding and commitment to shared objectives, enhancing accountability among nations.

Moreover, international partnership between the EU-UK can encourage innovation and the exchange of best practices, leading to more effective solutions for sustainability and climate resilience. That is why within the GEP we call on the two parties to engage in measures which would see the EU and the UK on areas such as Emission Trading Scheme (ETS) Linkage. They also help to build networks that facilitate dialogue across diverse sectors, promoting a holistic approach to problem-solving such as re-entering North Seas Energy Cooperation (NSEC), or maintaining the UK's association with Horizon Europe.

The announced EU-UK Summit in the Q1 of 2025 is a welcome initiative which positively signals the intention to engage at a high political level to discuss strategic cooperation on priority matters. In summary, The British Chamber of Commerce | EU & Belgium believes that international cooperation is essential for tackling complex global challenges, fostering innovation, and ensuring that the green transition benefits extend across Europe.



Joint Economic Zone for Clean Tech

Rising protectionism in the current geopolitical environment and heightened competition between the US and China have led to increased disruptions in global supply chains, which in turn has led to elevated vulnerabilities in Europe. The tone of this debate has recently shifted towards “de-risking” as a way of ensuring Europe’s ambitions for increased resilience and European strategic autonomy as mentioned in the new Clean Industrial Deal³ and the Draghi report⁴.

Facing common strategic challenges, the EU and the UK should emphasise cooperation on their Common Strategic Objectives to leveraging each other's competitive advantages and thus allowing for the creation of more secure supply chains across Europe, alongside more affordable energy, and areas for investment.

Looking forward, we would urge both the EU and the UK to confront pressing geopolitical realities and devise strategies for enhanced regulatory cooperation and clean tech, as envisaged in the TCA. BritCham is supportive of EU-UK Free Trade on clean technologies and goods (such as batteries, turbines, SMRs. etc.) as they are key to achieving our common strategic objectives. While it is expected and understandable that some regulatory divergence is needed, there should be a managed approach that does not create unintended barriers to trade and industrial cooperation

In this context, BritCham calls for the EU and the UK to engage on a “Joint Economic Zone for Clean Tech”. Such a partnership can allow crucial industries to collaborate on projects essential to ensuring the European resilience while ensuring both EU and UK industries can transition to net zero.

3. The Clean Industrial Deal, European Parliament, Parliamentary question - E-002134/2024 17 October 2024

4. EU competitiveness: Looking ahead, European Commission

Movement & Skills

Despite ambitious climate targets and numerous strategies for emissions reduction, concerns around the number of skilled workers to convert these targets into reality is still seen as a major obstacle. Access to a workforce with specialised skills in clean tech presents an enormous challenge for businesses is essential for meeting climate targets and facilitating the industrial transition.

Furthermore, the strategies which are available fail to comprehensively describe the range of skills associated with the green transition. They often lack the necessary combination of sustainable mindsets, transferrable skills and technical expertise. Additional frustration (and cost) as reported by industry is a lack of structure for the transference of these expert employees and skills between the EU and UK respectfully.

Promoting relevant skills in tandem with a coherent industrial policy for the green transition necessitates close coordination between government agencies and private sector stakeholders. This partnership calls for the establishment of clear frameworks that define roles and responsibilities. Sectoral strategies and key performance indicators should align with nationally determined contributions and the Sustainable Development Goals (SDGs) to ensure effective implementation and monitoring.

These strategies must explicitly prioritise skills development through action plans that foster industry engagement, facilitate smooth school-to-work transitions, and create social protection linkages for learners and workers. Therefore, both the EU and UK R&I funding frameworks and programmes should prioritise engagement with industry to cooperate and industry engagement ensuring start-ups are able to scale up and seamlessly operate in the EU and the UK to have access to necessary finance.

To this end BritCham calls on the EU and the UK to take measures which would ensure smooth cooperation and transfer of green skills and operations across the continent.



PILLARS OF THE GREEN ECONOMY PARTNERSHIP

ENERGY

Introduction

The Energy pillar focuses on the need for cooperation between the EU and the UK to deliver the energy transition in the most efficient way possible, therefore, focusing on electricity, hydrogen and security of supply cooperation. The workshop brought together a diverse range of leading firms, NGOs, and energy organisations to discuss the most pressing issues in the industry, compiling several recommendations for policymakers.



Issues

Electricity

Without developing stronger cooperation between the EU and the UK in developing renewable energy in the North Sea, particularly offshore wind and hydrogen, costs will rise, and investment in the region may be hindered. Although the UK has a Memorandum of Understanding with the North Seas Energy Cooperation (NSEC) to participate as an observer, its exclusion from full membership limits project coordination and investment, impacting the region's potential.

The 2023 North Sea Summit in Ostend set a target of 300GW of offshore renewables by 2050, but without closer EU-UK collaboration, this goal could prove difficult to achieve. In addition, without an integrated infrastructure planning, including hydrogen and CCS, the North Seas region risks developing infrastructure inefficiently to the detriment of environment and consumers.

The energy chapter of the EU-UK Trade and Cooperation Agreement (TCA) although relatively extensive is a temporary solution and insufficient for fully unlocking the North Sea's potential.

In addition, the negative impact of the EU Carbon Border Adjustment Mechanism (CBAMs) from 2026 on electricity trading will undermine the investment case for offshore wind in the North Seas. To this end, ETS linking negotiations should commence as soon as possible and aim at concluding by COP30 at the end of 2025.

Hydrogen

Clean hydrogen will be crucial for EU-UK decarbonisation goals, and cross-sectoral planning is key. The necessity of cross-sectoral planning to is critical for the long-term shared goal of decarbonisation of respective economies. This will be in anticipation of North Sea hydrogen and other energy sources coming into account.

A long-term, European-level energy strategy is needed for energy security. Forums like NSEC can help build capacity for energy allocation. The issue of hydrogen certification between the EU and UK must also be resolved to prevent it from becoming a trade barrier.

Similar to what has been planned for the cooperation with European Network of Transmission System Operators for Electricity (ENTSO-E) and European Network of Transmission System Operators for Gas (ENTSO-G), the EU and the UK should also agree to cooperate within the framework of the new European Network of Network Operators for Hydrogen (ENNOH).

Security of supply cooperation

Security of supply cooperation between the EU and UK has been relatively strong since the UK's withdrawal from the transition agreement in 2020, and the necessity of cooperation was strengthened by the illegal Russian invasion of Ukraine. There is a need for structured policy dialogue, effective means of cooperation and coordination. Given the recent energy crisis in 2022, the imperative and importance of these two trading partners to further work with one another cannot be underestimated.

Areas where cooperation already works

Enhancing EU-UK cooperation within energy must consider the TCA framework and chapters on energy have provided a framework for which the EU and UK can work through. Looking to NSEC and the UK's Memorandum of Understanding (MoU) in December 2022, this has allowed the UK to re-engage on some technical issues relating to the North Sea and energy cooperation.

On hydrogen, the work and cooperation that takes place between the EU and UK through joint programmes such as Horizon is a positive point in the relationship to develop energy cooperation through research and innovation. However, with the Clean Hydrogen Partnership due to end in 2027, the need to renew investment and collaboration for the future remains.

The security of supply working group between the EU and UK demonstrates the good bilateral work that occurs already in an area that has risen in importance since 2022. Yet, greater cooperation and even Partnership Agreements are something that could be realised on the basis of cooperation, to ensure energy independence from third parties where possible.

Recommendations:

Quick Wins

- **Agree full UK membership of North Sea Energy Cooperation (NSEC)** to ensure the UK is a part of key discussions inter alia over integrated infrastructure planning, market frameworks, supply chain development and cost-benefit sharing in the North Sea.
- **Return the UK to an efficient electricity trading mechanism with the EU**, ideally using the Single Day Ahead Coupling mechanism (SDAC).
- **Ensure there are no trade barriers between the EU and UK** in the development of hydrogen, carbon capture and storage and biogas and e-fuels via common standards and guarantees of origin.
- **Increase stress testing of the energy system** to ensure security of supply preparedness.

Policy Ambitions

- **Develop a vision for a meshed grid in the North Sea Basin** and a strategic infrastructure planning to achieve a wider European alignment on the role the area will play in achieving the European Green Transition.
- **Develop a joint global vision on import and export of low carbon** fuels to reduce trade barriers and facilitate decarbonisation via appropriate regulatory alignment.
- **Increased joint supply chain resilience** and cooperation to ensure a more competitive Europe.

TRANSPORT

Introduction

The transformation of the transport industry is essential to address climate change while ensuring accessible, safe, and affordable mobility. The EU and the UK need to align their strategies to achieve net zero emissions, particularly in the transport sector, which is set to make up almost half of the continent's greenhouse gas (GHG) emissions by 2030.⁵

The goals of the Transport pillar centre around two topical clusters, the clean transport industry and transport operations. These clusters serve as the foundation for positive, sustainable change from stakeholders within the mobility industry.

By identifying key areas of improvement for transport, EU and UK stakeholders can most efficiently implement sustainable practices and channel synergies of the existing supply chains.



Issues

One of the key issues faced by the European mobility industry is the lack of access to critical raw materials (CRMs), partly due to limited domestic sources and an exponential growth in demand. By 2050, demand for battery metals could increase by up to 10 times, however, the EU will largely depend on foreign imports for a large quantity of these various metals by 2030.⁶

As a result, these resources alone will not be sufficient to deliver on decarbonisation, thus, making free trade on CRMs and consequently green tech crucial for supply chain security and accessibility. Competition from China and the US in the area of net zero can also lead to a loss of competitiveness of European industry. As such, emphasis should be placed on ensuring that the EU and the UK's respective industrial strategies reflect their closely aligned goals.

Increased barriers to the movement of goods and tech across borders has a detrimental effect on the effectiveness of the transport industry in reaching net zero, as well as obstructing the opportunity to make green goods commercially viable.

Through continued border friction, regulatory complexity and a lack of infrastructure, business interoperability of sustainable transport solutions will falter. That is why BritCham encourages policymakers to put emphasis on the improvement of dialogue and sharing of good practice especially in the areas outlined below.

Areas where cooperation already works

Building upon the already solid foundations that both the EU and the UK have set to continue efficient and seamless cross-border transport, our recommendations backed by industry present a guideline of steps that will encourage a more sustainable functioning of this sector.

A notable example of continued cooperation is a Siemens Mobility working with Transport for London to develop a new electric train for the London Underground.⁷

The EU and the UK should not unintentionally diverge on vehicle standards (e.g., emissions, electric vehicle (EV) specifications), otherwise risk increasing the regulatory burden on sustainable industries.

5. Europe's transport sector set to make up almost half of the continent's emissions in 2030, T&E, 20 March 2024

6. Strike a balance - Trade agreements for resilient and responsible supply chains, T&E Briefing, June 2024

7. Siemens Mobility to deliver the new metro trains for London's Tube, Siemens, updated 18 March 2021

Recommendations:

Quick Wins

- **Industrial Strategy Alignment in key areas** allowing a joint funding mechanisms that will support the production of green goods, the 'Ostend Declaration' offers a model for fast-tracking these types of projects, promoting European green infrastructure. The EU and the UK should also align on their respective Industrial Strategies, with the UK's Invest 2035⁸ and the EU's New Industrial Strategy.⁹
- **Critical Raw Materials (CRM) Joint Economic Area** that prohibits export restrictions on critical raw materials. The EU and the UK should also introduce green premiums for sustainably and responsibly sourced CRMs, otherwise green technologies will not be rewarded on commodity markets and will struggle to compete with high emitting, but price competitive goods.
- **Build up Charging Infrastructure for Operability** and expand the installation of electric vehicle (EV) charging points, through public-private partnerships, particularly in urban areas and along key transport routes. This enables the effective integration and interoperability of charging points and hubs across Europe.
- **Cross-Border Business Mobility through Frictionless Borders** which are essential for maintaining efficient and resilient supply chains for green goods and cross-border operations including informative guidance (e.g. company jurisdiction operating in third countries).

Policy Ambitions

- **Tariff-Free Trade on Green Goods and Technology** between the EU and the UK on both finished and unfinished goods would facilitate and incentivise the development and production of critical green technologies. The EU and the UK should also seek to explore opportunities for an EU-UK European battery alliance in the future, further supporting a tariff-free supply chain between the EU and the UK.
- **Set up a special economic zone for clean tech industrialisation** to allow both the EU and UK to leverage each other's strengths to easier funding and scale up of clean technologies to enhance European competitiveness.
- **Regulatory alignment on emerging green transportation technologies** to provide carmakers with the regulatory certainty needed for investments in green infrastructure will be crucial for achieving the EU's goal of reducing emissions in the transport sector by 2030.¹⁰ Collaborate on joint green standards for emerging technologies (e.g. AI, decarbonised fuels, autonomous driving), stimulating innovative solutions for addressing climate change.

8. Invest 2035: the UK's modern industrial strategy, GOV.UK, updated 24 October 2024

9. European industrial strategy, European Commission, updated May 2021

10. Fit for 55: zero CO2 emissions for new cars and vans in 2035, European Parliament, published 14 February 2023



CARBON MARKETS

Introduction

The decarbonisation of the economy is not only critical for addressing climate change, but it will also reduce Europe's exposure and dependence on imported fossil fuels, providing opportunities for new low carbon industrial goods and services. This pillar looked at how the development of European carbon markets can help drive cost effective decarbonisation efforts, boosting Europe's competitiveness, in the context of the upcoming Carbon Border Adjustment Mechanism (CBAM). Our involved parties deliberated on how EU-UK cooperation on emissions trading can help support carbon price stability and a level playing field between the EU and the UK, as well as with global competitors.



Issues

There is an increasing price differential between the EU and the UK's respective Emission Trading Schemes (ETSs), with an anticipated risk of further divergence in the post-2030 design architecture. Specifically, if the systems are not aligned and ultimately linked, the costs of decarbonisation will rise with the direct impact of a smaller, illiquid market. Indirectly, this will occur through increased trade friction and scope for regulatory divergence within Europe, including fragmented approaches to decarbonising aviation and shipping.

One key area of potential divergence in both carbon markets are plans to accredit robust negative emissions credits and integrate them into the respective ETSs to contribute to the 'net' in net zero. This will not only support the development of negative emissions technologies but importantly provide allowances to account for any remaining residual industrial emissions into the 2040s.

The case of the EU's ETS linking agreement with Switzerland represents a useful benchmark for EU-UK carbon market cooperation. However, whilst it presents an objective to work towards, it also highlights that negotiations can take time, with risk of other issues spilling over in linking discussions, stalling progress, and extending trade frictions.

The upcoming implementations of CBAMs (EU in 2026, and UK in 2027) present a ticking clock, as although they can address carbon price differentials, as relatively blunt instruments they can add to trade friction between the EU and the UK. Even putting price differentials aside, the presence of CBAMs in themselves will require regulatory resources to comply, monitor and enforce – all costs that for businesses and governments could be avoided.

This will also bring about revenue implications for governments from ETS allowance auctions if there are sustained depressed carbon prices. With falls in the UK ETS prices seen since the start of 2023, the UK's Office for Budget Responsibility (OBR) revenue forecast for UK ETS receipts in the five years from 2023/24 fell from £30bn to £12bn between the projections done in March 2023 and those in March 2024. Whilst a similar fall had been seen in the EU ETS, a price differential grew between the EU and the UK reaching over £30/tCO₂ in September 2023, which if this were sustained, between 2025-30 it would mean up to £8bn in lost revenue for the UK Government.¹¹

The impact of the CBAM will be particularly problematic for trade between Great Britain (GB) and the island of Ireland, most notably in the application to electricity under the EU CBAM given the interconnectedness of electricity systems. Whilst the latter point will be more acute for the Single Electricity Market (SEM) on the island of Ireland, the impact of the EU's CBAM – and its yet undefined methodology – will also act as a barrier. This would be detrimental to the development of offshore wind and the plans for a more integrated electricity grid across the shared North Sea.

11. Linking UK and EU carbon markets, Frontier Economics, published 06 August 2024

Areas where cooperation already works

To recognise the issues is also to recognise the areas where cooperation has been working already. In reference to their respective carbon markets already in place, the UK's design largely mirrors the EU scheme, to which the UK was a leading voice on its development as an EU Member State. Nonetheless, the economic advantages in linking carbon markets are clear where linking can support efficient EU-UK trade and reduce the costs to both the EU and UK of meeting decarbonisation goals.¹²

The linking of schemes will require close cooperation in the future given the market would in effect be shared. However, this also come with benefits by narrowing areas of potential future divergence which could lead to duplicate processes for market participants and extra cost.

With a new European Commission and UK Government, there is an opportunity to advance into a new era of stability and cooperation. This partnership, built on mutual benefit, would ensure that any linking occurs under mutually beneficial conditions, with both the EU and UK working toward shared goals for their green economies. Areas such as Carbon Capture and Storage (CCS) offer opportunities for collaboration such as allowing EU emissions storage in the UK where CO₂ stores are being developed and aligning negative emissions accreditation processes.

Importantly, whilst there are areas of EU-UK cooperation that will need to wait for a review of the EU-UK Trade and Cooperation Agreement (TCA), both parties committed to give 'serious consideration' to ETS linking within the TCA and should therefore be pursued where possible.

However, while climate cooperation will be important, there is a clear economic case linking of carbon markets, as larger European carbon market will support liquidity, and provide price stability to drive investment and ultimately support industrial competitiveness. Though, questions over ETS design features will have to be solved in more technical discussions, but these can be resolved with the right political will. The incoming CBAMs will present a political imperative to carbon market linking agreed by 2026.

Recommendations:

Quick Wins

- **Clarify the EU CBAM methodology in early 2025** to avoid adverse impacts on electricity trading.
- **Align CBAM methodologies** on monitoring, reporting, and verification standards to simplify compliance, reduce costs, and support trade.
- **Start ETS linking negotiations** during the EU-UK Summit in Q1 2025 and agree to link by COP30 in Q4 2025 or temporarily suspend the CBAM if linking is delayed.

Policy Ambitions

- **Align accreditation process for negative emissions and their integration into carbon markets** to support development of robust technologies.
- **Allow storage of EU emissions in UK CO₂ stores** to leverage available capacity to fulfil mutual climate targets.
- **Align ETS approaches on aviation and shipping** to ensure appropriate areas of transport are covered by carbon pricing signals.

12. Linking UK and EU carbon markets, Frontier Economics, published 06 August 2024

CAPITAL MARKETS

Introduction

The EU-UK Green Transition requires a fundamental transformation from the current industry model to one based on clean energy technologies and an electrified energy system. This transition will entail an unprecedented investment. As European leaders stay committed to reaching European climate goals and the topic of enhancing European competitiveness against other global powers gains traction, the crucial factor remains financing. Without adequate capital, even the most well-intentioned policies will struggle to sustain the green transition at the required pace and scale.

To unlock the full potential of European industry, Europe must establish compelling investment cases for its industrial ambitions and effectively engage public and private pools of capital. Europe also needs to ensure that it can fulfil existing comprehensive strategies aimed at attracting and deploying private investment to finance the next generation of green technologies.

As both the EU and the UK drive towards a net zero economy, a robust transition finance market requires scaling¹³, as well as securing long-term investments to support the green economy will remain paramount. This pillar explores key challenges and opportunities for alignment in the areas of sustainable finance, regulatory frameworks, and green funding mechanisms, focusing on how both regions can accelerate efforts to finance innovation and ensure a successful green transition.

Issues

The recently published Draghi report correctly highlights the reasons why the EU, much like the UK, may struggle to stay competitive in a net zero economy without sufficient investment, a coherent industrial strategy, and an enabling regulatory framework. Unlike China and the US, Europe lacks a decisive will to implement its strategies and create a regulatory framework to facilitate the deployment of next-generation technologies.

The main obstacles include a lack of alignment on a variety of industrial strategies, state aid and trade policy across Europe and insufficient collaboration to ensure the leveraging of public funding to attract private capital. UK and EU sustainability disclosure rules should also be designed to incentivise transition finance alongside green finance.

The EU and the UK are both committed to advancing sustainable finance, yet they both face challenges due to differing regulatory frameworks. The EU has implemented comprehensive transparency regulations like the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy, but concerns arise about their complexity and the cost burden they place on investors.

Meanwhile, the UK has developed its own frameworks, including the Financial Conduct Authority (FCA) Sustainability Disclosure Requirements (SDR) and sustainable investment labels. All while aligning with global standards set by the International Sustainability Standards Board (ISSB) and the Taskforce on Climate-Related Financial Disclosures (TCFD).

The divergence between these approaches creates challenges, pushing stakeholders to call for regulatory coherence to reduce duplication and contradiction, minimising administrative costs and easing cross-border investment. Most technological solutions for achieving climate neutrality such as renewable energy, electrification, storage, and green hydrogen are capital intensive and often still in the early stages of development, bringing significant uncertainties.



13. Scaling Transition Finance: Findings of the Transition Finance Market Review, City of London, 2024

Areas where investment already works

Input from the private sector, specifically looking at private equity (PE) firms and venture capitalists (VC), show that there has not yet been any major divergence since the UK's departure from the European Single Market.¹⁴ The regulatory framework for the industry has been quite stable and Europe is still an appealing market for international PE and VC investors. These examples show that cooperation or at least continuation of existing structures allows both the EU and the UK to mutually benefit from European capital markets.

Both the EU and the UK face challenges in scaling green innovation, with Europe excelling in R&D (Research & Development) but struggling with commercialisation and VC investment compared to the US. EU-UK collaboration on transition finance can come through soon to be launched forums such as Transition Finance Council.¹⁵ The EU's debt financed market and limited funding for green tech startups hinder growth, while the UK benefits from a more mature VC ecosystem and a strong environment for Initial Public Offers (IPO). While the EU leads in R&D and patent generation, it must shift its focus toward supporting the scale-up and commercialisation of green technologies within the region and reducing reliance on US markets for IPO exits.

Recommendations:

The Capital Markets pillar of the EU-UK Green Economy Partnership (GEP) initiative provides a unique opportunity for industry and policymakers to collaborate on funding shared climate ambitions. While this Report focuses on capital markets, future work within BritCham will broaden in scope to address a wider range of financial market initiatives which contribute to the financing of a net zero economy.

Quick Wins

- **Increasing jurisdictional interoperability of sustainable finance frameworks** ensuring that EU-UK requirements do not create new barriers for intra-European investment.
- **Linking sustainability reporting methodologies** to reduce the regulatory burden on businesses with investments in both the EU and the UK.
- **Leveraging the signalling of public support** for priority green industries in cooperation with the private sector, breaching the risk gap for private investors.

Policy Ambitions

- **Working together** to develop a global approach to transition finance and implementing it effectively across Europe.
- **Transition finance bridging the gap** for hard to decarbonise industries and clarifying what competitiveness really entails.
- **Public-private co-investment** playing a bigger role in de-risking green investments.
- **Harnessing investor interest with policy** that supports the development of long-term financing, via capital flows such as pensions systems, mortgages and small loans.
- **Implementing and improving** standards for sustainability reporting (ISSB, TCFD).
- **EU-UK Cooperation on Securitisation** by creating joint investment vehicles or green bonds backed by high-quality assets.

14. UK - EU27 Brexit Dynamics, Invest Europe, published 01 June 2023

15. Transition Finance Market Review, GOV.UK, published 18 December 2023

RESEARCH & INNOVATION

Introduction

As cutting-edge technologies continue to emerge and transform the global economy, the EU and the UK have a unique opportunity to continue building upon existing collaborative frameworks that are mutually beneficial. The basis of the Research & Innovation (R&I) pillar is centred around the UK's continued association to Horizon Europe, the EU's key funding programme for Research & Innovation, as well as its successor programme. As a result of this initiative, UK businesses and organisations can participate in EU programmes that ultimately support European industry in collective decarbonisation efforts. Our stakeholders also seek to focus on further opportunities for collaboration, through existing funding streams such as the Innovation Fund, and other new initiatives that may be introduced in the coming years, such as the new European Competitiveness Fund - as set out in the Draghi report.



Issues

The key areas that come to the forefront of the discussion are ensuring the use of innovative green technologies, while also establishing their viability as commercialised goods. This specifically involves struggles towards access to finance, and the lack of prioritisation for emerging green industries and research. As an example, the US is calling for major funding of \$112.5m in finance for Wave Energy Technologies, which is a prime example of where Europe should learn from.¹⁶

Although the UK now has association with Horizon Europe, they are still underrepresented in its programmes. UK participation – the number of institutions joining projects – fell to make up just 3.85% of the total in the industrially-focused pillar II of Horizon Europe, the only part of the framework programme that UK researchers were still able to join.¹⁷

The demand-side gap for green skills presents itself as another considerable challenge for businesses when meeting climate targets and facilitating the industrial transition. This is especially visible in EU-based manufacturers and Original Equipment Manufacturers (OEMs), hindering them from developing efforts towards net zero.

Areas where cooperation already works

The success of the negotiations culminating in the 2023 Windsor Framework and the UK's continued association in Horizon Europe are evidence that both parties can work through their respective concerns and constraints where lines of dialogue are open.

The existing innovation frameworks that drive European and third-country collaboration are already successful in generating valuable projects for the green transition, through programmes such as Horizon Europe and its predecessor Horizon 2020. For example, the Horizon Europe guarantee grant has kept UK partners involved in Hyper-powered Vessel Battery Charging System (HYPOBATT), a project to reduce carbon dioxide (CO₂) emissions in the shipping industry, through fast charging for battery-powered ships.

16. US moves to seize wave energy's potential with \$112.5 million funding call to finance up to 17 projects, Ocean Energy Europe, published 20 September 2024

17. R&I Projects - Key figures sheet, Qlik Sense, last updated 8 November 2024

Additionally, the existing European Partnerships such as Batteries European Partnerships (BATT4EU), Clean Hydrogen and Connected, Cooperative and Automated Mobility (CCAM), facilitate and help to deepen relationships between business, universities and the wider R&I system. There are also excellent examples of reskilling initiatives in the UK such as the Electric Revolution Skills Hub¹⁸ and the Electrification Skills Network¹⁹, which are consortia-based approaches led by Coventry University and funded by UK Research & Innovation (UKRI) as part of the goal to drive the Electric Revolution.

Recommendations:

Quick Wins

- **Continued long-term UK Association with Horizon Europe** and its successor programme. This programme is essential for supporting collaboration in green technologies and ensures innovative solutions for the transition to net zero remain well-funded.
- **Building on current framework through alternative funding streams** for core clean technologies will enable a more efficient allocation of resources in areas that are crucial to the green transition. The Innovation Fund is an opportunity for wider UK participation in R&I, as currently UK owned companies are a beneficiary party from this fund is marginal in comparison to US owned companies.
- **Expand Public-Private Partnerships (PPP)** by clearer communication channels between industry, academia and governmental organisations to improve efficiency and the administrative burden from funding programmes. This could include a permanent discussion forum which could increase awareness about access to available funds as well as the application process for eligible companies and research institutions.
- **Sharing of good practices with focus on skills** in the R&I phase of the digital and clean revolutions is essential in enabling rapid adoption at a scale to impact productivity in the EU and the UK. Areas for mutual learning between the EU and the UK include sustainable manufacturing, circular economy, clean and smart industrial transformation.

Policy Ambitions

- **Address 'Green Skills' gap by introducing new frameworks** that build into FP10 (Framework Programme for Research and Innovation), addressing the skills gap between technological innovation and commercialisation to fit the demands of the green transition. Additionally, work on a mechanism to allow the movement of green skills between the EU and UK, in order to collaborate on green innovation, ensuring the sharing of expertise.
- **Engaging with the Multiannual Financial Framework (MFF)**, to be launched next year, provides an opportunity to reflect on areas where closer EU-UK cooperation may be beneficial beyond association to FP10. We would encourage the UK Government to engage positively and energetically in this debate and keep an open mind to new areas for closer collaboration as part of the EU-UK reset. Doing this would provide the opportunity to see if the UK can and should associate to new flagship programmes such as the Competitiveness Fund.

18. Electric Revolution Skills Hub, Coventry University, accessed November 2024

19. Elevating Electrification Skills for a Thriving UK Future, accessed November 2024

CONCLUSION & SUMMARY OF RECOMMENDATIONS

Accelerating European transition to net zero through the EU-UK partnership

The TCA, the 2023 Windsor Framework, the reassociation of the UK to Horizon Europe and the opening of discussion on a EU-UK defence pact shows that both the EU and the UK can work together on their common strategic objectives.

In October 2024, the President of the European Commission Ursula von der Leyen and UK Prime Minister Keir Starmer met and agreed on the importance of holding regular EU-UK Summits at a leadership-level and agreed that on an inaugural Summit, to take place in early 2025.

It is at this Summit, that dialogue on mutual support for the green transition will take place and efforts will begin to develop an agreement between the EU and the UK on cooperation to meet net zero.

This Report and its recommendations are a culmination of engagement with pan-European stakeholders across industry, trade associations and NGOs. The Report offers actional recommendations for policymakers in both the EU and the UK to deploy measures to strengthen cooperation, to the mutual benefit of both EU and UK industry.

The recommendations include a list of policy actions which can be taken in the short term as well as providing more long-term policy ambitions, including but not limited to:

Quick Wins



Partnerships & Collaboration

- Agree to full UK membership of the North Sea Energy Cooperation
- Return the UK to an efficient electricity trading mechanism with the EU
- Increased stress testing of the energy system
- Industrial Strategy Alignment in key areas
- Build up Charging Infrastructure for operability
- Clarify the CBAM methodology by 2025 to avoid adverse impacts on electricity trading
- Align CBAM methodologies on monitoring, reporting, and verification standards
- Start ETS linking negotiations by Q1 2025 and agree by Q4 2025, or temporary reciprocal disapplication of CBAMs if linking is delayed
- Linking financial sustainability reporting methodologies to reduce the regulatory burden
- Continued long-term UK association with Horizon Europe
- Build on current R&I framework through alternative funding streams
- Expand Public-Private Partnerships (PPPs)
- Sharing of good practices



Joint Clean Tech Economic Zone

- Avoid trade barriers between the UK and the EU on development of zero-carbon fuels
- Set up Critical Raw Materials (CRM) Joint Area
- Increase jurisdictional interoperability of sustainable finance frameworks



Movement & Skills

- Cross-Border Business Mobility through Frictionless Borders
- Signal public support for priority green projects to scale up development of green jobs

Policy Ambitions



Partnerships & Collaboration

- Develop a vision for a meshed grid in the North Sea Basin
- Develop a joint global vision on import and export of low carbon fuels
- Work together to develop a global approach to transition finance across Europe
- Align ETS approaches on aviation and shipping to ensure appropriate areas of transport are covered by carbon pricing signals
- Promote public-private co-investment to de-risk green investments
- Develop policies harnessing investor interest in clean initiatives
- Implement and improve standards for sustainability reporting
- EU-UK Cooperation on Securitisation by creating joint investment vehicles
- Engage with the Multiannual Financial Framework's (MFF) Competitiveness Fund



Joint Economic Zone for Clean Tech

- Increase supply chain resilience
- Tariff-Free Trade on Green Goods and Technology
- Set up a special economic zone for clean tech industrialisation
- Regulatory alignment on emerging green transportation technologies
- Align accreditation process for negative emissions and carbon markets integration
- Allow storage of EU emissions in UK CO2 stores to fulfil mutual climate targets



Movement & Skills

- Address 'Green Skills' gap by introducing frameworks that build into FP10

The British Chamber of Commerce | EU & Belgium views that these recommendations are an essential part of a wider initiative to increase cooperation across Europe on net zero and to help enhance European Competitiveness.

OUR CALL FOR GREEN ECONOMY PARTNERSHIP

The EU and the UK share common objectives on climate action, energy security and wider green agenda building on the commitments reached at COP29 and the shared ambition to transition their economies to net zero greenhouse gas emissions by 2050.

The Green Industrial Transition will be pivotal in ensuring these goals are met. To support this transition both parties face the same challenges: supply of low emission and secure energy, availability of net zero technologies, secure supply of the materials needed to make them, access to the finance and the skills necessary to drive this change.

Acknowledging that both parties collaborate on these goals but are currently largely working to address these challenges independently.

Considering that the EU-UK TCA covers areas relevant to the Net Zero 2050 and acknowledging that whilst the TCA sets out a framework for an EU-UK economic relationship, it does not provide sufficient support for effective cooperation towards meeting the respective net zero targets or the Green Industrial Transition.

Further common action is necessary to ensure that both parties meet these goals by 2050. To this end, BritCham calls on the EU and the UK to sign a Green Economy Partnership. Focused on addressing the aforementioned challenges, the partnership should serve as a complement to the TCA, providing a framework for deeper cooperation between the UK and the EU to achieve the Green Industrial Transition and Net Zero by 2050.

By signing up to the Call for an EU-UK Green Economy Partnership, participants are able to add their name and weight to influence the key EU and UK stakeholders.

Signatories become an immediate affiliate to this initiative and are included in all communications relating to the development of engagement and ongoing activities.

For more information, please contact info@britcham.eu.

About the British Chamber of Commerce | EU & Belgium

The British Chamber of Commerce | EU & Belgium is an independent, inclusive, not-for-profit association that serves the business interests of its diverse international membership.

Our Chamber plays a pivotal role in the development of mutually beneficial policies and activities which support businesses both in the EU and the UK, whilst connecting people, corporations, and institutions. We provide a unique platform for international industry, business, and policymakers to discuss the ever-evolving challenges faced by industry in both the EU and the UK.





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