

Brexit means Brexit: time to consider options and opportunities for the UK environmental sector

What will the environmental protection and associated services industry look like in a post-Brexit United Kingdom? Will great crested newts get a rougher deal? Is it curtains for the circular economy as UK plc opts for a 'stack 'em up, sell 'em cheap' approach to business and trade in Europe? Yes certain directives may go but others will stay, including those determining the performance of products for export. UK environmental firms will surely need to sell sustainability innovation - everything from renewable energy to environmental impact assessment expertise - harder than ever in order to secure new markets and maintain access to existing ones.

BY NICK COTTAM

These are just some of the key questions and issues that look certain to provoke debate at this year's Environment Analyst Business Summit hosted in central London on the 28 September 2016. The Summit will arguably be energized by the post-Brexit unknown and indeed by the opportunities which may emerge as a result of a new approach to environmental protection and management in the UK. With this in mind the implications of Brexit have moved smartly onto the Summit agenda with luminaries including Matthew Farrow, executive director of the Environment Industries Commission (EIC), providing their own special insights.

Business as usual

"The UK has a strong, positive and global reputation for providing high quality environmental goods and services," says Farrow, "which can now be traded on more strongly with markets beyond the EU. "Even outside the UK there will be a need for us to deal with day-to-day domestic environmental challenges like flooding, water quality, waste management, air quality, contaminated land remediation and so on. The Brexit decision doesn't diminish our need to deal with these issues, but it may see some changes in how we go about it."

After the shock of the initial EU referendum vote, the environmental sector and industry at large are calling for and reporting on a steady as she goes, business-as-usual approach. No triggering of Article 50 until early 2017 says Prime Minister May, and no prospect of repealing frontline environmental legislation – in the short term at least.

Overseas investment

"The mood among our clients is largely business-as-usual," says Haydn Keen, director at environmental consultancy RSK. "It will be interesting to see the first set of post-Brexit data from say the housing developers – I think there may be some reaction but just how much is hard to gauge."

In fact the political imperative for Theresa May and her government has been to demonstrate that UK plc remains open for business, engaged with the outside world and robust in its efforts to maintain economic activity both at home and abroad. The move by Japanese company Softbank to acquire digital technology provider Arm Holdings for £24.3 billion is a welcome indication of the open for business approach. More controversial is the hugely expensive Hinkley Point C nuclear power project with final decision still pending at the time of writing. Many are rightly wary about the scale of the investment – and cost to the consumer – of a still unproven technology but if Hinkley does go ahead it will at the very least be another powerful signal that the UK is open for business.

Above all the environmental sector and its client base needs clarity as the dust settles post Brexit. To this end, the Environmental Audit Committee has proactively called for clarification on UK environmental law as part of efforts to reassure companies and boost confidence in the short term. "My committee believes the government should, as a minimum, commit to maintaining in (UK) law the existing level of environmental protection currently guaranteed by EU law," writes Labour MP and EAC chair Mary Creagh in a letter to Brexit Secretary of State David Davis. The letter refers to recent figures from the Office of National Statistics which show the low-carbon and the renewable energy economy was worth a remarkable £46.2bn in 2014. "It is critical that the government demonstrates its commitment to environmental protection at an early stage in the exit negotiations," notes the letter.

Environmental success story

RSK's Keen argues that environmental legislation has been a real success story for the UK, from the pioneering Climate Change Act to a whole raft of laws designed to bring about improvements and encourage innovation in areas such as air quality, waste and recycling and

integrated pollution control. “We think it’s fundamental that the UK maintains its commitment to robust environmental legislation, and even an opportunity to provide leadership to the rest of the world,” he says. “This will be driven by policy, so it will be interesting to see how this develops over the next few years.”

Others agree that in broad terms the environmental rules that are helping to determine the way we live and work in the UK are here to stay. “For environmental consultants we need to see how the Article 50 process unfolds,” says Simon Aldrich, Golder Associates UK lead for urban development and infrastructure. “An optimistic viewpoint would suggest that the UK, having been led by Europe to implement environmental legislation, will continue on a similar if not identical path.”

At a post-referendum meeting of the sustainable business alliance - Aldersgate Group - Caroline May, partner and head of environment at international law firm Norton Rose Fulbright, enthusiastically noted that 100,000 pieces of legislation now need to be reviewed following Brexit and around 800 are directly applicable to environmental law. If lawyers are rubbing their hands with glee at the job to be done, environmental consultants can also look on the bright side.

While a shrinking economy and a cancelling of some of the juiciest national infrastructure projects would clearly be bad news for the sector, the UK economic outlook following an initial post-referendum shock is presently looking reasonably stable. GDP growth in the run-up to the vote of 0.6% between April and June was stronger than expected, representing the fourteenth consecutive quarter of economic growth. Yet some analysts argue this is a ‘last hurrah’ therefore the Brexit vote plunges the UK into recession early next year, with some ‘early signs of retrenchment noted’ across certain key industries - including car manufacturing and construction - according to the latest reports.

Managing change

For some international environmental players like Royal HaskoningDHV, RSK and Mott Macdonald factors such as the weakness of the pound and a continuing commitment to infrastructure development are helping to drive sales. Another potential plus for these companies is the advice they will be able to give clients about changes in UK government policy regarding environmental protection. Look out for a spate of new briefing documents and commentaries in the run up to Article 50 and beyond.

“The reduction in the strength of the pound has made us more competitive in the international market,” says James Montgomery, manager of Mott Macdonald’s environment business. “We could see clients being able to take a more rounded view of environmental management and protection, moving away (for example)

from an obsession with European-protected species to considering the ecosystem as a whole and how protecting it brings benefits that are much broader to society.”

The message then is that in certain areas - notably including the Habitats Directive - the UK may benefit from a more holistic approach focusing on those areas that really do matter most at the local level and better managing (in some cases) the balance between environmental protection and development.

That said, Montgomery adds: “I believe that trade with Europe will require the UK to demonstrate it is compliant with the standards that the EU operates itself.

“Another example worth recalling is the acid rain that afflicted parts of Europe in the 1970s - where much of the source was the UK due to prevailing winds from the Atlantic. If we permit air quality to deteriorate so that a ‘plume’ affects [continental] Europe, one can see the EU taking action to force the UK to stop this happening.”

A more targeted approach

Simon Aldrich and others make the point that we have a body of UK environmental law which is not going away anytime soon - however quickly Prime Minister May and her government choose to trigger Article 50. Less clear at this juncture is the extent to which certain UK laws - relating to Environmental Impact Assessment and the Habitats Directives - will be revised in line with an EU timetable. To take up James Montgomery’s point, this doesn’t necessarily mean that the UK is moving back towards dirty man of Europe status - simply that in certain eligible areas, we can expect a more targeted, more UK-relevant approach.

Better still, notes Green Alliance director Matthew Spencer, the UK could surprise everyone with a guarantee that it would match or exceed all EU environmental standards and carbon targets. This he argues would give business greater certainty - although arguably more investment wobbles - and avoid years of “acrimonious niggling” over the existing 100 EU environmental agreements. In fact Spencer goes further, arguing for a new British Environment Act to fill the gaps which the loss of EU regulation leaves behind.

Whether UK business would relish this level of commitment is another matter but it’s fair to say that everyone involved wants clarity - a new green legislation take if you like on Brexit versus Remain. “Where there is uncertainty, there is less willingness to commit to projects. Our role as consultants is to stay on top of an ever changing picture and provide expert advice to clients,” says Toby Parker, CEO of SME consultancy Sustain. He adds: “A major role for consultants will be to advise clients on what regulatory changes may be coming in the next five years so they can prepare themselves.”

Energy and innovation

“The Brexit vote was nothing if not a vote against the Big. Big Brussels. Big London. Big Firms. Big Money,” states Parker. Within the Sustain field of energy management, he cites what he terms the “energy trilemma” of security of supply, affordability and decarbonisation. And despite the £18 billion (minimum) which would be required to build Hinkley Point C, “more people are putting savings and investment into local generation schemes,” notes Parker. “The inevitable rise in the price of energy, along with the crunch in supply will focus minds on efficiencies and sharing of loads and generation resources.”

Haydn Keen agrees that developing a sustainable energy strategy will be an important Brexit priority for the UK. So too, he believes, will be the need for innovation in such areas as brownfield regeneration, construction methods and R&D for new technology. By getting it right in these and other areas, UK companies can help to protect their future trading relationships in Europe, he suggests.

Regarding the future agreements which underpin those relationships “As always, the devil will be in the detail,” notes Keen. “Sterling having weakened against major currencies, I would hope inward investment to the UK will increase.” The Softbank deal is one indicator that this is already happening. Consultants will take comfort in the fact that the UK remains a flexible, relatively stable place to do business.

Trading on UK flexibility

Theresa May and her government colleagues regard UK flexibility as a trump card as they seek to woo the right trade and the right trade deals. Levers such as those emerging from the new Department of Business, Energy and Industrial Strategy suggest a more structured,

strategic approach which departs from the straightjacket prescription which frequently hampers decision-making at EU-level.

Another important Brexit discussion point – almost certain to come up at the forthcoming Environment Analyst Business Summit – is the UK’s commitment to a low carbon future. Before her departure from the now defunct Department of Energy and Climate Change (DECC) Amber Rudd announced the government’s intention to go ahead with a 5th carbon budget, setting targets for 57% reductions in emissions from 1990 levels for the period 2028-2032.

While cynics might argue that in our relentless 24-hour news culture, it’s very nice and easy for politicians to make long-term commitments, the reality though in energy and in other fields is to make these commitments possible through infrastructure development, innovation and leadership. Consultants and the environmental sector as a whole will welcome government action on all three counts.

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Environment Analyst Business Summit 2016

The key themes raised in this special feature provide a framework for more in-depth discussion and engagement at Environment Analyst’s forthcoming event, EA Business Summit 2016, which takes place in London on Wednesday 28 September.

Our expert speakers including Mathew Farrow, Executive Director, Environmental Industries Commission (EIC) will share

insights on a range of topics including: the policy and political landscape following Brexit; impacts on the environmental sector, business climate and national infrastructure pipeline; what it means for environmental firms working in Europe; and how the UK government will address its responsibilities. There will also be interactive roundtable discussions to get answers to your specific questions as well as ample networking opportunities.

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