

The Impact of Brexit on the EU Energy System

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Overview & main findings of study

Overview

- Bruegel completed a study on the possible effects of Brexit on EU citizens and companies in November 2017 on behalf of the European Parliament's ITRE committee.
- The study aims to inform the Brexit negotiations from an EU perspective.
- Eight key issues concerning the potential impact of Brexit on the EU energy system were analysed.

Main findings

- Overall, the energy system related impact of Brexit on EU citizens and companies will be limited.
 - With or without the UK, the EU will be able to complete its market, to achieve its climate and energy targets with feasible readjustments, and to maintain supply security.
- But, a large number of very important details will need to be resolved in a short period of time.
- Special attention should be paid to the impact of Brexit on the Irish energy system

The future of UK access to the European Energy Market

- As a member of the WTO, the UK may be granted the right to import and export energy free of tariffs from and to other WTO members (including the EU).
 - Given their mutual interest, the UK and the EU can likely find arrangements that will enable continued energy exchanges.
- However, if the UK were no longer bound by EU rules and institutions, it could opt-out from the joint optimisation of the linked energy markets in the EU.
 - This would imply substantial efficiency losses in the long term, though most of the burden would fall on the UK and Ireland.
- Brexit will presumably have a limited impact on UK energy taxes as they are not influenced by EU rules.

Availability of EU funds for energy projects

- The UK may have more limited access to funding from the EFSI, CEF, H2020 and EEPR after Brexit.
- In the Brexit negotiation process, there is a strong need to clarify the UK's eligibility for EIB funding.

	EIB	EFSI	CEF	H2020	EEPR
EU Member State (e.g. France)	Access	Access	Access	Access	Access
EEA (e.g. Norway)	Possible access	Possible access	Possible access	Possible access	Possible access
Energy Community (e.g. Ukraine)	Possible access	Possible access	Possible access	Possible access	Possible access
Bilateral Treaty (e.g. Switzerland)	Possible access	Possible access	Possible access	Possible access	Possible access
WTO (e.g. Morocco)	Possible access	Possible access	Possible access	Possible access	Possible access

Participation in regulatory bodies

- Brexit will not substantively impact the voting shares and the functioning of the regulatory bodies of the IEM.
- After Brexit, the status of any UK representatives in ACER, and the ENTSOs will change.

SCENARIO	ACER	CEER	ENTSO-E	ENTSOG
EU Member State (e.g. France)	Membership possible	Membership possible	Membership possible	Membership possible
EEA (e.g. Norway)	Associate member theoretically possible, but agreement with EU necessary*	Membership possible	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*
Energy Community (e.g. Ukraine)	Associate member theoretically possible, but agreement with EU necessary*	Associate membership possible**	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*
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WTO (e.g. Morocco)	Associate member theoretically possible, but agreement with EU necessary*	Associate membership possible**	Membership possible, but agreement with EU necessary	Membership possible, but agreement with EU necessary*

Note: * No such agreement has ever been adopted by the EU with any country; ** Only UK would be part of EFTA or would be an EU accession country.

Revisiting EU energy and climate targets

EU energy and climate targets

- If the UK continues to adhere to EU energy and climate targets, it could possibly be required to participate in the new Energy Union governance structure.
- If the UK ceases to adhere to the EU targets, the EU might decide to readjust its targets.
 - Given that the UK targets were close to the EU average, the resulting shifts will unlikely be dramatic for the EU as a whole.
 - But, they can be still significant for some individual Member States.

EU ETS

- A UK exit from the EU ETS might cause a short-term surplus of allowances, but most likely a tightening in the longer term.

Rules for security of electricity and gas supplies

- In terms of electricity, the EU does not receive any substantive benefits from its trade with the UK.
 - The EU's electricity exchanges with the UK remain well below 1% of its total consumption.
 - In terms of gas, the EU27-UK trade volume is generally rather limited.
 - However, gas trade is an important issue for Ireland, which imports 56% of its consumption from the UK.
- Thus, given the UK's limited energy integration with the Continent, the EU's security of electricity and gas supplies will unlikely be substantially affected by Brexit.

Future relation with Euratom

- The UK has indicated its intention to exit Euratom in its Brexit White Paper.
 - There is therefore a need for setting out in the Withdrawal Agreement clear arrangements on issues like (1) nuclear safety and (2) radioactive waste.
1. On nuclear safety, the UK and EU seem to agree that the Euratom Community should transfer ownership to the UK of equipment and other property on its territory related to the provision of safeguards.
 2. On radioactive waste, the EU and UK seem to agree on the principle that the state in which the spent fuel or the radioactive waste was generated should be responsible.

Impact on energy markets for UK and EU companies

- Many European companies are active in the UK gas and electricity markets.
 - They would be subject to regulatory risks in a post-Brexit environment if the UK were no longer bound by EU rules.
- For the EU, it is important to ensure that UK energy traders active in the EU will have to follow at least as rigorous financial market and transparency rules as their EU counterparts.
- London will likely remain a legal venue for arbitration cases.
 - But, burdensome procedures could increase the cost of enforcement of UK court rulings.
- The UK's NBP can likely retain its status as an important gas trading hub.
 - However, EU trading hubs could gain market shares because of the uniform regulatory environment, safeguarded by the EU combined with no currency risks.

Impact of the UK withdrawal for Ireland

- The energy system of Ireland could be significantly affected by Brexit because Ireland:
 - Operates a joint electricity market with Northern Ireland (NI);
 - Trades electricity with Great Britain (GB); and
 - Buys a significant amount of gas from GB.
- For Ireland:
 1. The first-best solution is if the UK remains inside the IEM;
 2. The second-best option is if NI remains inside the IEM; and
 3. The worst option is if only Ireland remains inside the IEM.
- Ensuring that the SEM continues to function efficiently and that a level playing-field is maintained in the SEM will be important following Brexit.
- It is possible that Ireland might be exempted from certain provisions of EU energy regulation.
 - But, it seems questionable that Ireland could qualify as an 'energy island'.