

NFLA Policy Briefing No.193



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Subject: 'Brexit' – what may be the impact of a 'no deal' on nuclear, energy and climate policy?

i. Introduction to briefing

The NFLA has been monitoring the 'Brexit' issue since the referendum decision that commenced a process of the UK looking to leave the European Union (EU). Each NFLA Steering Committee has been given a detailed update of the 'state of play' with the areas of policy the NFLA is interested in.

The process to leave the EU has been a tortuous one, and even at this point, despite the Prime Minister saying the UK will be leaving on the 31st October, that is by no means certain. Indeed, the UK Parliament has even passed an Act to prevent that action happening and prolong the process for at least another three months, with a likely UK general election also possible. With all this policy confusion, it is difficult to be certain of what may happen, but much information has been placed in the public arena to allow the NFLA to consider what Brexit, whether there is a deal or 'no deal' may mean for the areas of policy it considers. This briefing will consider each in turn.

1. Introduction

The UK Government's environment legislative programme, which is meant to set out much of the post-Brexit environmental governance framework, is in disarray. Earlier this month, bills that were halfway through their passage, including on agriculture, fisheries and trade, were lost as parliament was prorogued. The Environment Bill meanwhile is yet to appear in full. Meanwhile, media reports have confirmed the government is attempting to secure greater freedom to diverge from EU environmental standards as part of on-going negotiations with Brussels.

On the other hand, the UK Government claims that there should not be any disruption to gas and electricity supplies via interconnections with Europe, and no immediate disruption to the Single Electricity Market on the island of Ireland, but there could be significant electricity price increases in the UK.

The UK Government also claims that all the necessary measures are in place to ensure that the UK nuclear industry continues to operate with certainty in all situations after Brexit. All international agreements needed to ensure continuity of civil nuclear trade following Euratom exit are in place. All the legislation needed is in place.

2. Environmental Legislation

Now that the Supreme Court has declared that the proroguing of parliament was unlawful it is unclear whether the bills on the environmental legislative programme, which set out much of the post-Brexit environmental governance framework, will be revived. But the bills on the environment, agriculture and fisheries need to be progressed to provide a stable legal framework after Brexit and, crucially, to address the environmental crisis affecting our wildlife, climate and natural resources. (1)

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The 'Greener UK' coalition of environmental groups published its quarterly Brexit Risk Tracker on 27th September, warning that "*the environment is now under greater threat than at any point since the start of the Brexit process*". The Prime Minister says he wants the UK to have the right to diverge from existing EU rules and regulations after Brexit. His vision is of a low-tax Britain, a more lightly regulated economy on the edge of Europe, more likely to be favoured for investment by US and Canadian business leaders. (2)

Many of the new ministers and advisers are strong advocates of deregulation and a distant relationship with the EU. Many moderate voices within the governing party, who have historically supported green initiatives, have lost the whip for dissenting on Brexit policy. Many green-minded Conservative MPs are standing down at the next election, a considerable blow to the representation of environmental issues in Parliament. (3)

According to Private Eye, the leader of the House of Commons informed departments who pitched ideas for new legislation for the Queen's Speech on 14th October that: "*Many of the measures ask for powers to establish regulatory regimes which do not appear to be consistent with what the UK wants to achieve post-exit*". Also, that a task and finish group would be set up to go through proposed legislation "*in light of speed of anticipated speed of divergence from the EU*". Of course, divergence is not a unidirectional enterprise and could lead to improved and increased standards, but given the deregulatory predilections of many of the new members of the government's inner circle, such reports are highly concerning.

The 'Greener UK' report also notes that the increased risk of a 'no-deal' Brexit brings with it a raft of potential environmental consequences, ranging from harmful stockpiles of waste and lower chemical safety to threats to sustainable fishing levels in the event of potential disputes over access rights, as well as longer term fears that a sharp rupture from the EU would increase the chances of environmental regulations being diluted.

It is clear that if the UK leaves the EU without a deal on 31st October, the environment will be much less well protected in all four UK nations. The European Commission and European Court of Justice will cease to have a role in upholding environmental law, and the interim arrangements proposed so far are inadequate. While the threat of a 'no-deal' Brexit remains, the environment is at severe risk from harmful stockpiles of waste and threats to sustainable fishing levels, to lower chemical safety and an influx of poor quality food imports that would undermine UK farmers. (4)

3. **Climate and Energy**

The UK exiting the EU without a deal remains a critical risk to urgent progress on energy and climate change policy. The key risks include: the potential for a rise in energy bills owing to volatility in wholesale markets with prominent impacts on Northern Ireland; a drop in carbon price relative to the EU and a loss to the exchequer of over £1 billion in foregone auction revenue; and a significant impact on the automotive industry and UK's ability to assemble electric cars cheaply.

Dealing with the ramifications of a no-deal Brexit would dominate civil service capacity and result in further delays in implementing urgent policy to get us on track to net zero. A considerable associated risk is the potential for an indefinite slowdown in investment in clean energy as policy and political uncertainty deters investors to the UK.

The recent spending review failed to match the urgency of the environmental crisis or the rhetoric of government. The paltry sum of £30 million was allocated by the chancellor for net zero preparations, shortly after climate campaigners called for a doubling of the existing public spending to £42 billion annually. (5)

Whatever the future relationship between the UK, its constituent nations, and the EU, it will be vital to maintain close environmental co-operation and high environmental standards not least because of the transboundary nature of so many environmental issues. A mutual and enforceable commitment to non-regression, so that standards will rise, not fall, is essential. In addition, the government must ensure that the UK's future trade agreements guarantee the maintenance and enhancement of environmental standards, minimising the environmental footprint of trade.

Weakened relations between the UK and EU as a result of Brexit could hinder co-operation on tackling the climate crisis. The UK has been a key player in securing strong EU climate regulations but Brexit could give climate denying governments in Central and Eastern Europe more prominence and power to block environmental regulations. In June Hungary, Poland and the Czech Republic blocked an EU climate change target of reaching net zero by 2050 by refusing to support it. The UK has set a good example through domestic policies such as 2050 net zero carbon emissions and the Climate Change Act, which have inspired EU countries to take action. A US trade deal could also threaten UK domestic climate policies and may jeopardise future cooperation with the EU. A 'no-deal' Brexit would also mean the UK could weaken its own climate regulations. (6)

4. **Electricity Markets**

The UK's electricity markets are currently integrated ('coupled') into those of the EU, with common rules governing their operation. Significant cross-border flows of electricity take place between continental Europe and Great Britain; between Great Britain and the island of Ireland; and between Northern Ireland and Ireland. These flows, and the domestic markets, are currently governed through EU legislation relevant to the functioning of the EU's Internal Energy Market.

The Northern Ireland electricity market is separate from Great Britain and different considerations apply. Northern Ireland shares a wholesale electricity market with Ireland, the all-island Single Electricity Market (SEM), an example of North-South cooperation that has benefited consumers and the economies of Northern Ireland and Ireland. The Single Electricity Market involves significant cross-border flows of power between Ireland and Northern Ireland and operates within the framework of common EU rules on electricity markets.

If there is a 'no deal' Brexit, cross-border flows of electricity will no longer be governed by EU legislation. The Government simply says "*alternative trading arrangements will need to be developed. Regulators in the UK and EU have worked closely to ensure that new access rules, which set the terms and conditions for this trade, are in place.*" (7)

The UK's net electricity imports reached their highest ever level in the first quarter of this year. The four high-voltage power cables linking the UK to Europe's energy markets imported a sixth more electricity than the year before, after a new interconnector opened in January. In total, European electricity imports made up almost 7% of the UK's total demand, and the government hopes to increase imports to about 20% by 2025.

The leaked "Operation Yellowhammer" document claims there will not be any disruption to gas and electricity interconnectors, and no immediate disruption in Northern Ireland, but there could be significant electricity price increases if the UK crashes out without a deal. (8) The market price for electricity could climb because of a fall in the value of the pound against the euro, but also because of potentially costly complications of severing ties with EU energy markets. Gas and electricity bills rose by £2bn in the year after the 2016 referendum result because of the plummeting value of the pound, according to a report from University College London. This translated into an average household's bill increasing by £35 for electricity and £40 for gas, and researchers predicted bills would climb by a further £61 every year in the years following the referendum.

It is understood that a pan-European network of energy system operators has agreed a plan for the UK to remain within the internal market on a voluntary basis which would offer the same commercial terms. National Grid says it is "*not anticipating any additional charges for interconnectors in the event of a no-deal Brexit*". However, the plan has not been agreed by the European Commission and could be cast in doubt if the UK leaves without an agreement or without paying the £39bn exit fee. (9)

The island of Ireland faces a "rapid" breakup of its Single Electricity Market should the U.K. leave the European Union without a deal, according to Yellowhammer. The single market covering Northern Ireland and the Republic of Ireland would probably keep working the day after a no-deal exit, yet a "rapid SEM split could occur months or years" afterward. (10)

Exiting the UK's single market for electricity without a deal could "turn back the clock" for Britain and cost consumers up to £270m a year, according to new analysis by the UK Energy Research Centre (UKERC). (11)

5. Renewables

In 2019 alone renewable companies will start construction of over 4GW of new renewable energy capacity, in addition to the 3.3GW currently under construction and 20GW of operational wind and marine capacity. In addition to problems Brexit might cause for the grid connections with European markets and the Irish Single Electricity Market critical issues for the renewables industry include:

- Integrated supply chains across the EU are vital to energy companies and investors in new infrastructure. In offshore wind, for example, there are significant manufacturing facilities in the UK which serve the UK and European markets and utilise components from a domestic and European supply chain. New tariffs, customs procedures or other barriers could disrupt supply chains for manufacturers and risk driving up costs, which would ultimately be borne by consumers.
- A robust carbon price signal is required to support continued investment in low carbon technologies needed to meet our domestic carbon budgets and commitments under the Paris Agreement. The UK's current carbon price is made up of the EU Emissions Trading Scheme price of carbon with an additional GB and power-only element set by the UK Government.
- Maintaining access for skilled labour as the UK exits the European Union will ensure we have the skills we need for short-term construction projects and enable continued export of our talent across the EU.
- Coordination of environmental standards between the UK and EU allows for knowledge and products to be traded whilst maintaining high standards and consistency. (12)

6. Euratom nuclear arrangements

In the most recent quarterly update on progress on the Euratom Exit the UK Government says all the necessary measures are in place to ensure that the UK nuclear industry continues to operate with certainty in all situations. All international agreements needed to ensure continuity of civil nuclear trade following Euratom exit are in place. All the legislation needed is in place, but it is unclear what the impact of 'no deal' Brexit would have on these plans.

A further progress report to Parliament was scheduled for publication in July, but this has not appeared.

A joint guidance from BEIS and ONR on nuclear co-operation agreements was published in June 2019. (13) The House of Commons Library has published a research briefing. (14)

Guidance on civil nuclear regulation if there's no Brexit deal is available here:

<https://www.gov.uk/government/publications/civil-nuclear-regulation-if-theres-no-brexite-deal/civil-nuclear-regulation-if-theres-no-brexite-deal>

7. Conclusions

Government disarray in post-Brexit planning does not bode well for the future, especially as Prime Minister Johnson has promised to make sure the UK leaves by 31st October. The fact that most arrangements for leaving Euratom appear to be in place gives some cause for comfort, although the non-appearance of the July Progress Report is worrying.

A substantial hike in electricity and gas price just prior to the winter months, with some suggestions electricity prices could go up by a third, now looks like a distinct possibility. Already it is estimated that as many as 3,000 people die every year as a direct result of not being able to heat their homes properly. This adds a new twist to the question Dr David Nicholl posed to Jacob Rees-Mogg MP about how many deaths he would accept as a result of a 'no deal' Brexit. (15)

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