

# NFLA Policy Briefing No.210



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**Subject: Post Brexit energy and environmental issues**

## 1. Introduction

Since the UK electorate decided to vote to leave the European Union in 2016 (commonly referred to as 'Brexit'), the NFLA Secretariat has kept a watching brief on how this decision will impact on the policy it engages with. This has included the publication of a couple of reports, and a regular update to members at NFLA Steering Committee. This report seeks to update members just under three weeks before the UK official leaves the EU transition period.

As mid-December approaches, the EU and UK continue to negotiate their future trading relationship. At the time of writing, the BBC is reporting that there is around a '50:50' chance of achieving a trade deal between the UK and EU before the December 2020 deadline. A prominent meeting though between the Prime Minister and the Chair of the European Commission has not led to any breakthrough, with both sides admitting there is some distance between their respective positions. A 'no deal' Brexit is looking increasingly possible. (1)

The UK Government could have requested an extension to the transition period, but it chose not to do so, which means the UK will leave the European Single Market on 31st December 2020, with or without a deal.

Getting genuine insights into the negotiations is not easy but both sides continue to refer to the significant differences remaining between them on both the level playing field for markets and fisheries.

This short NFLA report seeks to focus on the impact of 'Brexit' on energy and environmental policy.

## 2. Environmental legislation

According to the Green Alliance "*the environmental aspects of the level playing field should not be that difficult to agree. The UK government has stated on innumerable occasions that it will maintain environmental standards, although it does not want this commitment to form part of the final deal.*" (2)

In September 2019 the 'Greener UK' coalition of environmental groups warned that "*the environment is now under greater threat than at any point since the start of the Brexit process*", because the Prime Minister wants the right to diverge from existing EU rules and regulations after Brexit. In the coalition's latest Risk Tracker (dated June 2020) it says the Environment Bill has been improved, with strengthened plans for the Office for Environmental Protection (OEP), an extension of the OEP's remit to climate policy, and a framework for legally binding targets. These are significant and welcome steps.

Overall, the Risk Tracker concludes, it is difficult to see a particularly positive outcome for the environment should the current pattern of negotiations continue. (3)

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More recently, UK Environment Minister Rebecca Pow has been referring to the 'triple lock' mechanism, the Environment Bill. This means a requirement for the government to have an environmental improvement plan which is reviewed every 5 years; secondly, the bill requires the government to report on progress towards achieving targets and improving the natural environment every year and finally the Office for Environmental Protection (OEP), will monitor the government's progress towards achieving targets. Environment groups are generally sceptical believing the triple lock is not as safe and robust as Rebecca Pow hopes and the bill frameworks do not yet provide the required level of security that our threatened environment needs. (4)

### **3. Energy Markets**

According to market analysts, a no-deal Brexit is likely to have a limited impact on the UK energy sector, at least initially. The UK energy sector will be faced with a variety of challenges which will make the nation more vulnerable to supply disruption and exposed to rising wholesale energy costs.

Without a deal, the flow of gas and electricity via the interconnectors with the EU is unlikely to experience much in the way of disruption as the operators of the pipelines use a privately owned PRISMA system that delivers services for both EU and non-EU member nations. The EU does not place tariffs on gas and electricity from other World Trade Organisation members, so the flows between the UK and the EU should not have additional tariffs imposed on them.

The biggest issue of a no-deal could be the risk to the UK's energy security. At times of high demand such as in a particularly harsh cold winter, the EU is likely to prioritise supply to its members which could, in turn, put added strain on UK supplies. On the upside, a no-deal Brexit could force the UK government to invest more in the nation's energy infrastructure. (5)

### **4. Gas Supplies**

The UK currently imports more than half its gas. A portion of this is shipped to the UK in the form of liquefied natural gas (LNG), while the majority is carried through pipelines and interconnectors with Norway, the Netherlands and Belgium. Although Norway remains outside the EU, it still uses EU rules and regulations to manage its pipelines. In the event of a 'no-deal' scenario, the mechanisms of cross-border trade are not expected to fundamentally change.

LNG is playing an increasingly important role in our total gas supply and the number of shipments arriving at UK LNG terminals at Milford Haven and on the Isle of Grain have increased significantly during 2019. This additional supply has helped to suppress wholesale gas prices and reduces our reliance on European supplies. The large number of shipments arriving in the UK is driven in part by subdued demand in Asia, resulting in shipments being re-routed, and also by increased exports from new terminals in countries, such as the USA and Russia, but the ability of LNG to be shipped globally means that prices and supply can be less predictable.

### **5. Electricity Imports**

Net electricity imports currently account for around 7.5% of UK total electricity demands, coming from France and the Netherlands. Electricity Interconnectors play an important role in keeping the system balanced and able to accommodate more renewables on the Grid.

However, much of the imported equipment required for constructing and maintaining UK energy networks could see further costs added.

Overall, the initial impact of a no-deal Brexit on the UK energy market is likely to be fairly limited, certainly in comparison with the potential disruption that other sectors may face. However, going it alone could leave us more vulnerable to supply disruption or wholesale price increases. On the other hand, it could provide the impetus needed to overhaul and improve our existing infrastructure. Primarily, the risk of a no-deal Brexit heaps more uncertainty on UK businesses during a period where it is already extremely difficult to accurately predict what is on the horizon for the energy market. (6)

## 6. Irish Single Energy Market

The UK also has both electrical and gas interconnections with Ireland, though these are used mainly to export energy. In a worst-case scenario, leaving the EU Internal Energy Market (IEM) without the right agreement in place could also mean an end to the Irish Single Energy Market (ISEM), the ‘all-island’ market which has been hailed as a great success, which enables efficient and cost-effective energy flow between Ireland and Northern Ireland.

In the event of no deal it’s unclear exactly how the ISEM would continue to exist. The Irish and Northern Irish energy regulators have said the ISEM will continue even if the UK leaves the EU without a withdrawal agreement, but cross-border trade would become much less efficient, That makes Northern Ireland’s electricity supply uncertain and will almost definitely lead to a rise in household bills. In 2018 the UK government said that contingency plans were being drawn up for a separate Northern Ireland power market, but both the UK energy minister and Eirgrid have expressed confidence ISEM could continue post Brexit. (7)

## 7. Emissions Trading Scheme

The UK has been a member of the EU emissions trading system (ETS) since its inception first put a price on CO<sub>2</sub> in 2005, and the rise in the cost of carbon allowances in recent years has played a large role in cutting the UK’s use of coal for power generation close to zero, from 40% in 2012. Carbon allowances are tradeable securities that dictate how much it costs power stations and industry in Europe to emit a tonne of carbon dioxide. But while the government has said it backs plans for a so-called “UK ETS” that could be linked to the existing EU system, allowing the trading of UK carbon allowances in Europe, it has also been consulting on plans for a carbon tax should it end the transition period without an EU trade deal.

In July the UK Treasury said that if “a link cannot be agreed”, the UK would either establish a standalone carbon trading system or a carbon emissions tax from January 1. It has proposed that a carbon tax in its first two years be broadly calculated based on the average EU ETS price in 2021 and 2022. (8)

Some of the U.K.’s biggest emitters are lobbying against a carbon tax, saying it would put them at a competitive disadvantage to EU rivals. They’re more comfortable with an ETS, since they’ve had to deal with the EU system since 2005. (9)

On 1 June the UK’s four administrations agreed to implement a UK Emissions Trading Scheme (ETS). Ideally linked to the EU ETS but showing “greater ambition from the start”, it would be aligned with a net zero trajectory. “Thanks to the opportunities arising as we exit the transition period, we are now able to go even further, faster,” said energy minister Kwasi Kwarteng, who promised a “smooth transition for businesses”. (10)

## 8. Euratom

As part of its preparations for Brexit, the UK Government announced its commitment to leaving Euratom. The Euratom treaty includes the provision of safeguards arrangements for non-proliferation of nuclear materials.

ONR was asked by the government to establish a domestic safeguards regime, setting up a UK State System of Accountancy for and Control of Nuclear Materials in 2017.

As part of the Withdrawal Agreement, existing Euratom laws and regulations will continue to apply in the UK during a transition period until 31 December 2020. All arrangements currently in place will remain until ONR assumes its duties from 1 January 2021.

During this transition period, ONR has continued to build up capacity and capability in nuclear materials accountancy, inspection and assessment and continued working on operational readiness, while undertaking its current role monitoring safeguards performance supporting and intervening as necessary to ensure that safeguards obligations in the UK are met. (11)

Although the Non-Proliferation Treaty (NPT) does not require its five nuclear-weapons states (NWS) parties to adopt safeguards agreements, the states concerned (China, France, Russia,

the UK and US) have each concluded what are known as voluntary offer safeguards agreements with the IAEA. This was partly to allay concerns expressed by non-nuclear weapons states that their nuclear industry could be at a commercial disadvantage.

The UK voluntary offer safeguards agreement with the IAEA and Euratom came into force in 1978 and specifies the UK's acceptance of the application of IAEA safeguards "On all source or special fissionable material in facilities or parts thereof within the United Kingdom, subject to exclusions for national security reasons only." As part of the Withdrawal Agreement, existing Euratom laws and regulations will continue to apply in the UK during the post-Brexit transition period. All arrangements currently in place will remain until ONR assumes its safeguards and nuclear material accountancy duties from 1 January 2021. (12)

Dr David Lowry says "Imagine the British Foreign Office response if North Korea and Iran said they would comply with their nuclear safeguards and verification inspection obligations, but would conduct the inspections themselves!"

The new Safeguards arrangements which will come into effect on 1st January 2021 are 'mark-your-own-homework' safeguards arrangements.

In November 2018 Green MP Caroline Lucas asked the Foreign Secretary "what bodies external to the UK will verify compliance with UK obligations under the Treaty on the Non-Proliferation of Nuclear Weapons (NPT)." In response a Junior Foreign Office minister replied that on 7 June 2018 the UK and the IAEA had signed a new Voluntary Offer Agreement (VOA) and Additional Protocol (AP) to replace the existing trilateral agreements that include Euratom. These will mean that the IAEA retains its right to inspect all civil nuclear facilities, and continue to receive all current safeguards reporting, "thus ensuring that international verification of our safeguards activity continues to be robust." (13)

## 9. Nuclear fusion

For some time, the UK has been one of the core funders to an international project seeking to develop an experimental nuclear fusion reactor in order to make this type of technology available in the future. As part of the Brexit process, the UK Government has decided to leave this project, though it is considering ways it can still support it in the future. The UK Atomic Energy Authority with the UK Government have recently started a process to seek a site in England for an experimental fusion reactor to replace a smaller site in Culham, Oxfordshire. The NFLA has responded to this English consultation and developed a wider policy briefing, NFLA New Nuclear Monitor 62, which argues such a development would be an expensive development to move forward with, and would have no low carbon benefits in the time required to tackle the climate emergency over the next two decades. (14)

## 10. Conclusions

Whatever the issues are around Brexit, the lack of coming to a deal between the UK Government and the European Union has been destabilising for the wider economy, and some of the economic impacts have been hardened by the problems created by the Covid-19 pandemic. This report notes there is a wide range of uncertainties that still exist whether a deal can be struck between both parties or not. There remains concern around a dilution of environmental legislation and issues over the importing and exporting of energy. In terms of the domestic nuclear safeguards regime, while it looks like core structures in place, the UK's influence in the European nuclear debate has inevitably diminished, amidst a renewed push against new nuclear amongst many EU member states. January 2021 is likely to be a very bumpy start to the UK's future relationship with the European Union, and considerable uncertainty remains as to how some of the concerns noted above will play out.

## 11. References

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