Brexit and Energy Policy

Workshop proceedings
Abstract

This document summarises the presentations and discussions of the workshop on “Brexit and Energy Policy”, which was held on 16 May 2018. The impact of Brexit on the EU27 energy systems and the future EU electricity and gas partnership with the UK were assessed. The effects of Brexit on Ireland and the potential impact of the UK’s withdrawal from Euratom were also discussed. This document was prepared at the request of the Committee on Industry, Research and Energy (ITRE).
**CONTENTS**

<table>
<thead>
<tr>
<th>LIST OF ABBREVIATIONS</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>5</td>
</tr>
<tr>
<td>1. WORKSHOP PROCEEDINGS</td>
<td>7</td>
</tr>
<tr>
<td>1.1. Opening Remarks</td>
<td>7</td>
</tr>
<tr>
<td>1.2. Introduction and Overview of the Potential Impacts of Brexit on the EU27 Energy Systems</td>
<td>7</td>
</tr>
<tr>
<td>1.3. Options and Considerations for the Future EU Energy Policy and Gas Partnership with the UK after Brexit</td>
<td>8</td>
</tr>
<tr>
<td>1.4. Effects of Brexit on Ireland and the Future of I-SEM</td>
<td>10</td>
</tr>
<tr>
<td>1.5. Potential impact of UK’s withdrawal from Euratom for the EU27</td>
<td>11</td>
</tr>
<tr>
<td>2. QUESTIONS AND ANSWERS SESSION</td>
<td>12</td>
</tr>
<tr>
<td>ANNEX 1 AGENDA</td>
<td>15</td>
</tr>
<tr>
<td>ANNEX 2 SPEAKER BIOGRAPHIES</td>
<td>16</td>
</tr>
<tr>
<td>ANNEX 3 PRESENTATIONS</td>
<td>17</td>
</tr>
<tr>
<td>Presentation by Simone TAGLIAPIETRA</td>
<td>17</td>
</tr>
<tr>
<td>Presentation by Georg ZACHMANN</td>
<td>23</td>
</tr>
<tr>
<td>Presentation by LAURA BRIEN</td>
<td>28</td>
</tr>
<tr>
<td>Presentation by BERTA PICAMAL</td>
<td>34</td>
</tr>
</tbody>
</table>
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACER</td>
<td>Agency for the Cooperation of Energy Regulators</td>
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<td>CEF</td>
<td>Connecting Europe Facility</td>
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<td>CRU</td>
<td>Commission for Regulation of Utilities in Ireland</td>
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<td>ECJ</td>
<td>European Court of Justice</td>
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<td>EEPR</td>
<td>European Energy Programme for Recovery</td>
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<td>EFSI</td>
<td>European Fund for Strategic Investments</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ENTSO-E</td>
<td>European Network of Transmission System Operators for Electricity</td>
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<td>ENTSOG</td>
<td>European Network of Transmission System Operators for Gas</td>
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<td>EU</td>
<td>European Union</td>
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<td>EU ETS</td>
<td>EU Emissions Trading System</td>
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<td>GB</td>
<td>Great Britain</td>
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<td>H2020</td>
<td>Horizon 2020</td>
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<td>IAEA</td>
<td>International Atomic Energy Agency</td>
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<td>ITRE</td>
<td>Industry, Research and Energy Committee</td>
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<td>NCA</td>
<td>Nuclear Collaboration Agreement</td>
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<td>RES</td>
<td>Renewable energy source</td>
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<td>SEM</td>
<td>Single Electricity Market</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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EXECUTIVE SUMMARY


The workshop, chaired by Mr Kohlíček, built on a study from November 2017 on the potential impact of Brexit on the EU energy system. The study was conducted by Bruegel on behalf of ITRE. The purpose of the workshop was to give Members the chance to explore in detail the legal and economic impacts of Brexit on the EU27 energy systems. The workshop gave a general overview of the potential impacts of Brexit, considered the future EU energy policy and electricity/gas partnership with the UK after Brexit, described the effects of Brexit on Ireland, and outlined the potential impact of the UK’s withdrawal from Euratom. The workshop consisted of four presentations by high level speakers, followed by a question and answer session.

The first speaker, Dr Simone Tagliapietra, Research Fellow at Bruegel, provided an overview of the potential impacts of Brexit on the EU energy system, by summarizing the key findings of Bruegel’s study. Overall, the study found that 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. However, a large number of very important details will need to be resolved in the negotiations. In particular, the impact of Brexit on the Irish energy system deserves significant attention. For Ireland, it is important to ensure that the Single Electricity Market (SEM) continues to function efficiently and that a level-playing field is maintained in the SEM.

The second speaker, Dr Georg Zachmann, Senior Fellow at Bruegel, focused on a section of Bruegel’s study that analysed the impact of Brexit on the EU’s electricity and gas partnership with the UK. He highlighted that an arrangement can likely be made to ensure continued gas flows between the EU and the UK after Brexit, as there is a mutual dependency on the EU-UK gas trade. The most critical issue for the EU was how to ensure that Ireland can continue to enjoy the benefits of the internal energy market after Brexit. In terms of electricity exchanges, there will be a need for coordination after Brexit. If the UK does not agree to the rules and institutions of the Internal Energy Market (IEM), the EU and UK might only trade bulk electricity after Brexit. Since this would imply efficiency losses, both parties would benefit, from a sectoral perspective, from keeping the IEM intact. Dr Zachmann thereafter highlighted three issues of particular concern for the EU. Firstly, the EU should make sure that potential future overcapacities in the UK electricity market do not weaken investment or dispatch decisions in the EU27. Secondly, after Brexit, there is a need to safeguard EU energy companies active in the UK against an uneven playing field. Thirdly, it is important that the UK implements rigorous financial market and transparency rules for energy trading after Brexit.

The third speaker, Ms Laura Brien, Director of Energy Markets at the Commission for Regulation of Utilities (CRU) in Ireland, discussed the effects of Brexit on Ireland and on the future of the SEM. The SEM is a joint wholesale electricity market on the island of Ireland and is expected to couple with the rest of the European market in 2018 in order to comply with the larger EU market and to improve market efficiency. The SEM has provided a number of benefits to Ireland and Northern Ireland, including greater competition and transparency, enhanced security of supply, and increased efficiency of system operations. After Brexit, it will be important to preserve the current electricity network codes and guidelines in both Ireland and Northern Ireland as well as to maintain a level playing field in the

SEM. There is furthermore a need for a common approach to complaints and settling legal disputes after Brexit. In terms of the electricity trade with GB, having a set of trading rules that differ as little as possible from the IEM model will be important.

The fourth and final speaker, Ms Berta Picamal, Executive Advisor to the Director General at the European Atomic Forum (FORATOM), discussed the potential impact of the UK’s withdrawal from Euratom and the key issues to resolve in the nuclear domain. In order to safeguard future EU-UK cooperation, it is important that the UK negotiates a new nuclear regime with the International Atomic Energy Agency (IAEA) similar to the current EU regime. Moreover, the UK will have to establish its own Nuclear Collaboration Agreement (NCA) with the EU in order to continue the nuclear trading with the EU. The validity of existing contracts, as well as the free movement of works, will also need to be ensured. As the UK is currently benefitting from a Euratom research project, the EU and the UK would also be required to agree on how to continue in the field of nuclear R&D to avoid major distributions. Furthermore, a close relationship between the EU and the UK in the field of safety regulations will be important after Brexit. Ms Picamal also highlighted the FORATOM’s five principles for a future EU-UK nuclear arrangement:

1. The free trade of nuclear and non-nuclear materials;
2. The free movement of nuclear workers;
3. The approval of EU-UK fuel contracts and movements;
4. A review of the EU-UK export control licence regime; and
5. International collaboration in nuclear R&D.

Mr Kohlíček thereafter opened the question/answer session. Workshop participants asked questions and made comments on the SEM, the continued membership of the UK in the IEM, Irish electricity interconnectors, nuclear power plants in the UK, the integration of renewable energy in the UK, UK regulation on energy efficiency and renewable energy, UK energy taxes, the overall impact of Brexit on the EU energy system, scientific reactors, coal and coke, oil trading in the UK, and natural gas reserves.
1. WORKSHOP PROCEEDINGS

1.1. Opening Remarks

The workshop was chaired by Mr Jaromír Kohlíček, Vice-Chair of ITRE, who welcomed the participants. Mr Kohlíček highlighted that the UK’s energy system is physically interlinked with the EU through several pipelines and electricity interconnectors. He also noted that the physical energy infrastructure linking GB with the European Continent will likely remain after Brexit.

Mr Kohlíček stated that the Workshop aimed to explore the potential legal and economic impacts of Brexit on the energy policy of the EU.

1.2. Introduction and Overview of the Potential Impacts of Brexit on the EU27 Energy Systems

Dr Simone Tagliapietra, Research Fellow at Bruegel

Dr Simone Tagliapietra presented the findings from a recent study on the impact of Brexit on the EU’s energy system, which was conducted by Bruegel on behalf of ITRE. He highlighted that, overall, the study found a limited impact of Brexit on the EU energy system. With or without the UK, the EU will be able to complete its market, to achieve its climate and energy targets, and to maintain its security of supply. However, Dr Tagliapietra emphasized that many very important details will need to be resolved in negotiations in a brief amount of time. In addition, he highlighted that special attention on the impact of Brexit on the Irish energy system is warranted.

Dr Tagliapietra proceeded by summarizing the findings on eight key issues that formed the basis of the study. In terms of the UK’s future access to the European Energy Market, he stressed that the UK may continue to trade energy free of tariffs with other WTO members including the EU after Brexit. However, Dr Tagliapietra noted that the UK could opt-out from the joint optimisation of the linked energy markets in the EU if the UK were no longer subject to EU rules and institutions. This would imply efficiency losses, especially for the UK. Dr Tagliapietra also highlighted that Brexit will unlikely largely impact energy taxes in the UK since they are not influenced by EU rules.

In terms of the availability of EU funds for UK energy projects, Dr Tagliapietra stated that the UK may have more limited access to funding from the EFSI, CEF, H2020, and EEPR after Brexit. He furthermore stressed the need to clarify the UK’s eligibility for EIB funding after Brexit.

Dr Tagliapietra subsequently discussed the UK’s future participation in the regulatory bodies of the IEM. He indicated that Brexit will unlikely significantly affect the voting shares and the functioning of ACER, CEER, ENTSO-E, and ENTSOG. However, the status of any UK representatives in ACER, ENTSO-E and ENTSOG will change after Brexit.

In terms of the impact of Brexit on the EU’s energy and climate targets, Dr Tagliapietra noted that the UK might be required to partake in the Energy Union governance structure if it continues to adhere to the targets. If, however, the UK does not adhere to the energy and climate targets, the EU might need to readjust its targets. Such an adjustment would likely be small though, since the UK targets were close to the EU average. Dr Tagliapietra also indicated that a potential UK departure from the EU ETS might cause a short-term surplus of allowances, but a tightening of the EU ETS in the longer term.
Dr Tagliapietra thereafter discussed the potential impact of Brexit on the EU’s security of electricity and gas supply. Overall, the impact will likely be small because of the UK’s limited integration with the European Continent. However, Dr Tagliapietra noted that gas trade is an important issue for Ireland and, as such, special attention should be paid to ensure security of energy supply in this country after Brexit.

In terms of the future relationship between the UK and Euratom, Dr Tagliapietra pointed to the UK’s intention to leave Euratom. He highlighted the need for the Withdrawal Agreement to provide for clear arrangements concerning nuclear safety and radioactive waste. With regard to nuclear safety, the UK and EU appear 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. With regard to radioactive waste, the two parties appear to agree on the principle that the state in which the spent fuel or the radioactive waste was generated should be responsible.

Dr Tagliapietra proceeded by discussing the potential impact of Brexit on energy markets for UK and EU companies. Many European companies operate in the UK energy market and could face regulatory risks if the UK ceased to be bound by EU rules. Dr Tagliapietra highlighted the importance of ensuring that UK and EU energy traders active in the EU are subject to the same financial market and transparency rules. He furthermore noted that although London will likely remain a legal venue for arbitration cases, burdensome procedures could increase the cost of enforcement of UK court rulings. Dr Tagliapietra also indicated that the National Balancing Point can likely remain an important gas trading hub. However, EU trading hubs could gain market shares after Brexit due to a uniform regulatory environment and no currency risks.

Finally, Dr Tagliapietra stressed the importance of Brexit for Ireland. He explained that the energy system of Ireland could be significantly affected by Brexit because Ireland:

- Operates a joint electricity market with Northern Ireland;
- Trades electricity with Great Britain; and
- Buys a significant amount of gas from Great Britain.

The best option for Ireland would be if the UK remains inside the IEM; the second-best option would be if Northern Ireland remains in the IEM; and the worst option would be if only Ireland remains in the IEM. Dr Tagliapietra stressed the importance of ensuring that the SEM remains efficient and that a level playing-field persists in the SEM after Brexit. He furthermore highlighted that though Ireland might be exempted from certain provisions of EU energy regulation, it seems questionable that Ireland could qualify as an ‘energy island’.

1.3. Options and Considerations for the Future EU Energy Policy and Gas Partnership with the UK after Brexit

Dr Georg Zachmann, Senior Fellow at Bruegel

Dr Georg Zachmann thanked the European Parliament for the invitation and highlighted his intention to elaborate on one section of Bruegel’s report relating to the impact of Brexit on the EU-UK electricity and gas trading.
Dr Zachmann noted that the UK is a net importer of natural gas from the EU and a gas transit country between the European Continent and Ireland. Since the UK and the EU trade a significant amount of natural gas, it seems likely that an arrangement can be made after Brexit to ensure continued gas trade between them.

In terms of electricity, the UK is a net importer from the EU, but a net exporter to Ireland. Dr Zachmann noted that the electricity trade between the UK and the EU is relatively limited compared to the gas trade. He stressed that electricity trade requires a high degree of coordination and is a particularly pressing issue to resolve in the wake of Brexit. Electricity trading with the UK will likely become increasingly important for the EU, as the EU aims to increase the share of RES and add interconnection capacity with the UK.

Dr Zachmann stressed that national electricity markets in the EU are complex services markets that differ in terms of their RES support schemes, capacity mechanisms, wholesale markets, balancing markets and ancillary services. Dr Zachmann highlighted that the UK can unlikely remain in the IEM if it accepted only some of its rules and institutions. He pointed out that the EU-UK electricity trade could continue, though, even if the UK left the IEM. However, this could likely result in suboptimal dispatch, lower market liquidity, less competitive pressure, and imperfect investment signals. Thus, keeping the IEM intact would benefit both the EU and the UK.

Dr Zachmann thereafter elaborated on three issues of particular concern for the EU. Firstly, he explained that the UK could design its own capacity mechanism if it leaves the IEM. This could mean that UK companies would pay for UK capacities, which could translate into overcapacities. If the wholesale market between the EU and the UK were maintained, this could depress prices, and consequently investment signals, in EU markets. The EU should therefore make sure that any overcapacities in the UK (that are supported through mechanisms that are unavailable for market participants in the EU) do not undermine investment or dispatch decisions in the EU.

Secondly, there is a need to safeguard EU energy companies active in the UK against an uneven playing field. After Brexit, the UK would not be bound by EU state aid rules. As such, EU companies would have to challenge regulatory decisions and state aid in favour of UK competitors in UK courts. This can create a risk that EU companies are treated differently compared to their UK counterparts in the UK market.

Thirdly, if the UK would no longer be bound by the EU’s REMIT regulation after Brexit, data exchanges between the UK and the EU would not be possible unless the two parties agree on a new data exchange regime. Dr Zachmann stressed the importance of the UK imposing rigorous financial market and transparency rules for energy trading after Brexit in order to mitigate the risk that energy trading in the UK can dive under the radar of EU tax, financial supervision, competition and other authorities.

Dr Zachmann concluded by reiterating that, from a sectoral perspective, both the UK and the EU would benefit from the UK committing to EU energy acquis. Two institutional models could allow the UK to remain in the IEM: membership in the Energy Community or in the EEA. If instead the UK left the IEM, the EU and the UK could trade bulk duty-free electricity and gas (though this would imply efficiency losses compared to if the UK remained in the IEM). The alternative if the UK left would be to settle a large number of details in a short period of time in order to preserve the efficiency of the EU’s and the UK’s energy systems, which would be challenging.
1.4. Effects of Brexit on Ireland and the Future of I-SEM

Ms Laura Brien, Director of Energy Markets at the Commission for Regulation of Utilities (CRU) in Ireland

Ms Laura Brien focused her presentation on the impacts of Brexit on the Irish electricity market. She noted that Ireland and Northern Ireland have a joint wholesale electricity market, known as the Single Electricity Market (SEM), that was established in 2007. It is governed by the SEM Committee that comprises members from the electricity regulators of Ireland and Northern Ireland, an independent member, and a deputy independent member. A single set of rules apply to all market participants that operate within the SEM. Dual-currency arrangements and biddings, in Euro as well as in Pound sterling, are possible. The transmission system is synchronized over the entire island of Ireland.

Ms Brien stated that the SEM was established in the context of the EU’s IEM. It is expected to couple with the rest of the European market in 2018, in order to comply with the larger EU market and to improve the efficiency of the electricity trading.

Ms Brien also highlighted that the SEM has approximately 1000 MW of interconnection with Great Britain, of which 500 MW is between Ireland and Wales (East-West Interconnector) and 500 MW is between Northern Ireland and Scotland (Moyle Interconnector). A new interconnector is planned between Ireland and Great Britain. The level of interconnection represents 15-20% of Irish demand. Great Britain currently has 3700-3900 MW of interconnection capacity with the European Continent. Therefore, interconnectors play a much smaller role for Great Britain’s electricity market compared to Ireland. Nonetheless, several interconnectors between Great Britain and the Continent as well as Iceland are planned.

Regarding the Irish electricity balance, Ms Brien highlighted that the SEM was historically a net-importer of electricity from Great Britain. However, since 2016-17, the trend has reversed such that the island of Ireland is currently a net-exporter to Great Britain. The island of Ireland typically imports electricity during daytime and exports electricity at night. Due to an increased production of electricity from renewables, the interconnectors add flexibility and allow the SEM to export electricity generated by wind at night.

Ms Brien highlighted that the SEM brought several benefits to the Irish markets including more competition, efficiency gains, more transparency, and greater security of supply.

With regard to Brexit, Ms Brien stated that the UK would ideally remain in the IEM, although this may be politically unfeasible. She highlighted the positive fact that the importance of the SEM was acknowledged in the current draft of the UK’s Withdrawal Agreement. Ms Brien stressed the importance of the existing network codes and guidelines in the SEM continuing to apply in both Ireland and Northern Ireland after Brexit. Any new EU legislation, for example introduced through the Clean Energy Package, should also be reflected and incorporated in the SEM over time. It is also important that a level playing field is maintained for market participants in the SEM, in terms of financial regulation, REMIT, data sharing and reporting. Finally, to provide certainty for market participants, a common approach to handle complaints and legal disputes should be established, either via the ECJ or an alternative option stipulated in the Withdrawal Agreement.

However, without a final Withdrawal Agreement, it is unclear how future SEM-GB electricity flows will be regulated. After Brexit, the SEM might become isolated from the IEM. It is important for the rules governing future electricity exchanges between the SEM and GB to replicate existing network codes and institutional guidelines of the IEM model. These rules should also define regulatory oversight, oversight over the regulators, updates over times, and the mechanisms to agree on new rules. As other
countries will have to set up new trading rules with GB, it could be sensible to do so on a common basis. Due to the importance and complexity of the topic, negotiations over the new cross-border trading rules should start soon.

1.5. Potential impact of UK’s withdrawal from Euratom for the EU27

Ms Berta Picamal, Executive Advisor to the Director General at the European Atomic Forum (FORATOM)

In her presentation, Ms Berta Picamal stressed the importance of nuclear power for Europe’s economy. Currently, the nuclear industry in the EU28 consists of 127 nuclear reactors, has a turnover of EUR 70 billion, and employs approximately 800,000 people. Around 27% of the EU’s electricity consumption is comes from nuclear energy. Eight nuclear reactors, of which two are in the UK, are currently being constructed. Numerous countries are planning to extend their nuclear capacity. The UK plans to build another four reactors in addition to the two currently being constructed.

Ms Picamal pointed out that the combined value of the planned UK nuclear power plants is EUR 68 billion. For the construction of the nuclear reactor Hinkley Pont C, it is expected that one third of the construction value will be provided by companies of the EU27. On top of the construction value, EU27 firms can profit from the maintenance of (UK) nuclear reactors.

For FORATOM, the following six points are crucial for a beneficial EU-UK relationship regarding nuclear issues. Firstly, in order to safeguard future EU-UK cooperation, it is important that the UK negotiates a new nuclear regime with the IAEA similar to the existing EU regime. Secondly, the UK, as a third country, will have to establish its own NCA with the EU, so that it can continue its nuclear trading. Thirdly, the validity of existing contracts has to be ensured in a post-Brexit environment. Fourthly, the free movement of workers has to be ensured. Fifthly, as the UK is currently benefitting from a Euratom research project (contributing to the international project ITER), it is important that the EU and the UK agree on how to continue in the field of nuclear R&D to avoid major distributions. Finally, a close relationship between the EU and the UK regarding policy and regulation is very important especially in the field of safety regulations.

Ms Picamal also noted that FORATOM’s key principles for a future EU-UK nuclear agreement are:

1. The free trade of nuclear and non-nuclear materials;
2. The free movement of nuclear workers, as this is crucial for a pan-European industry such as the nuclear industry;
3. The approval of EU-UK fuel contracts and movements;
4. A review of the EU-UK export control licence regime; and
5. International collaboration in nuclear R&D.

In addition, Ms Picamal highlighted that FORATOM considers it important that the UK is required to continue to comply with IAEA safety standards and requirements and that the UK is required to maintain standards of physical protection for exchange and transport of materials, goods, and equipment.
2. QUESTIONS AND ANSWERS SESSION

The four presentations summarised above were followed by a Questions and Answers session, in which the speakers were asked by the Members of the Committee to elaborate further on certain questions.

**Question 1 by Seán Kelly:** It makes sense that the ideal solution for the United Kingdom is to remain in the IEM, but where does that fit in the EU’s idea of “no cherry-picking”?

**Response by Georg Zachmann, Bruegel:** The point raised by Mr Kelly is very valid and preventing “cherry picking” is a broader political argument. The question is whether the energy sector is a “cheery” or if there are mutual benefits for both sides. The UK joining the Energy Community would be a possibility, in which the UK would be bound by the rules of the EU IEM and therefore create trust to keep the IEM intact while the UK would not be ruled anymore by the ECJ. Regarding the Irish case, a cooperation between the Republic of Ireland, the UK, and the EU26 would lead to a “win-win-win” situation. Ireland relies on the UK as a transit country for energy, while the UK needs to supply Northern Ireland with energy. But these sectoral questions cannot be treated independently from the wider Brexit negotiations.

**Question 2 by Seán Kelly:** Who actually owns the interconnectors between Ireland and Great Britain? Who has the power to maintain and potentially close them?

**Response by Laura Brien, CRU:** The interconnector between the Republic and Ireland and Great Britain, the East-West Interconnector, is owned by EirGrid, the Irish transmission system operator. The Moyle Interconnector between Northern Ireland and Scotland is owned by a mutual company, a private investment. The interconnectors between UK and the Continent are owned by different private investors. The interconnectors are regulated by that National Regulatory Authority (NRA) where licensing happened. The East-West Interconnector is regulated by the CRU and the license comes with certain obligations such as availability requirements. The crucial points will be the rules, for example, that define access to the interconnector. Those rules are the basis of the IEM and when UK has left the market, new rules have to be in place that are not too far away from the current IEM regulations.

**Question 3 by Seán Kelly:** What are your views on the interconnector between Ireland and France?

**Response by Laura Brien, CRU:** There is a feasibility study carried right now developed by the Irish and French transmission system operators. From the Irish perspective, there are a lot of benefits from that possible new interconnector. That does not only touch security of supply, but also energy diversity and it would Ireland give new opportunities to import or export electricity depending on the Irish and French electricity prices.

**Question 4 by Seán Kelly:** Regarding the SEM, is there already a guarantee or an intention to conclude an agreement?

**Response by Laura Brien, CRU:** CRU welcomes that the SEM has been listed in the withdrawal agreement.

**Question 5 by Seán Kelly:** How many nuclear power plants are in the UK and how many are planned?

**Response by Berta Picamal, FORATOM:** As of today, nuclear reactors are under construction in Finland, France, Hungary, Slovakia, and the UK with 1 or 2 reactors each. Nuclear reactors are planned in Bulgaria, Czech Republic, Finland, Poland, Rumania, Slovenia, and the UK.
**Question 1 by Kathleen van Brempt:** Can the UK switch to 100% renewables energies in due time without being integrated in the IEM?

**Simone Tagliapietra, Bruegel:** Interconnections are one of the various tools that are used to ensure the flexibility of the system to integrate more renewables into the system. Therefore, less interconnection does not necessarily compromise the decarbonization path of the UK, as other tools, such as storage or energy efficiency, are still available. Therefore, Brexit will not affect substantially the decarbonization of the UK. Current interconnections are most likely to keep working.

**Question 2 by Kathleen van Brempt:** Do you have any information or can that explain to me, why the UK is lobbying very strongly at the moment against stronger regulations on energy efficiency and renewable energies?

**Question by Jonathan Bullock:** It is good to hear that UK can continue trading electricity and gas under WTO rules. If UK would reduce taxes on energy, such as VAT, to zero, how would that impact the island of Ireland?

**Response by Georg Zachmann, Bruegel:** Electricity and gas are not typical goods one would trade under the WTO, as those are mainly complex services. One needs (regulated) infrastructure and institutions that ensures that when the winds blows in one country, the power plant in another country is switched off immediately. There is a lot of market design, meaning policy, and long-term investment on both sides needed. One cannot simply trust the day-to-day trading to get the right investment decisions. Therefore, without a framework build on trust and joint institutions, it is hard to see how welfare-enhancing energy trade between UK and EU can happen.

**Response by Laura Brien, CRU:** VAT affects only retail bills and therefore different VAT regimes are not detrimental to competition or a level playing field. A change of the UK VAT would mostly likely not have a significant impact on Ireland or the IEM.

**Question by Angelika Niebler:** Is the main take-away of the presentation that, expect for the Irish case, the issues in the energy sector emerging from Brexit are solvable for the EU and that there no other major problems expect Ireland?

**Response by Simone Tagliapietra, Bruegel:** The EU will be able to manage the various sectors of the energy system quite handily. The major issue is indeed Ireland

**Response by Georg Zachmann, Bruegel:** The Irish case is the big critical issue, which needs to be solved. The rest is a lot of very complex and tremendously detailed issues. A lot work has to be done to redesign a completely new relationship between the EU and the UK in the energy sector.

**Question 1 by Jaromír Kohlíček:** What about scientific reactors? What about this sector?

**Response by Berta Picamal, FORATOM:** There are around 20 research reactors in the EU. It is important that is ensured that the EU and the UK have a continued cooperation in research and development. Maybe some ideas could be taken from Switzerland and Ukraine that signed recently agreements with the EU.

**Question 2 by Jaromír Kohlíček:** What about coal and coke? What is the balance of UK in these sectors?

**Response by Simone Tagliapietra, Bruegel:** Oil and coal markets are global markets. While gas and electricity due to the certain physical characteristics rely on infrastructure, oil is a global market and
very fluid and there is now way that Brexit can impact these markets. The same also relates to coal. For these energy source, Brexit will most likely not have a major impact on EU27.

Question 3 by Jaromír Kohlíček: What about oil and other sources of energy?

See response to Question 2.
ANNEX 1 AGENDA

Workshop on

Brexit and Energy Policy

Organised by Policy Department for Economic, Scientific and Quality of Life Policies at the request of the Committee on Industry, Research and Energy (ITRE)

European Parliament, Brussels
16 May 2018, 14.30 -16.00
Room Paul-Henri Spaak 3C050

Introduction by Jaromír KOHLÍČEK, ITRE Vice-Chair

Presentation #1 | Introduction and overview of the potential impacts of Brexit on the EU27 Energy Systems
Dr Simone Tagliapietra, Research Fellow at Bruegel

Presentation #2 | Options and Considerations for the future EU energy policy and gas partnership with the UK after Brexit
Dr Georg Zachman, Senior Fellow at Bruegel

Presentation #3 | The effects of Brexit on Ireland and on the future of an Integrated Electricity Single Market (with Northern Ireland)
Ms Laura Brien, Director of Energy Markets at the Commission for Regulation of Utilities (CRU) in Ireland

Presentation #4 | Potential impact of the UK’s withdrawal from Euratom for the EU27
Ms Berta Picamal, Executive Advisor to the Director General at FORATOM (association for the nuclear energy industry in Europe)

Questions and Answers with Members

Closing remarks by Jaromír KOHLÍČEK, ITRE Vice-Chair
Dr Simone Tagliapietra, Research Fellow at Bruegel

Simone Tagliapietra, an Italian citizen, joined Bruegel in April 2015. He is also Senior Researcher at the Fondazione Eni Enrico Mattei and Lecturer at the Università Cattolica del Sacro Cuore. He is an expert in international energy and climate issues, with a record of numerous publications covering the international energy markets, the European energy and climate policy and the Euro-Mediterranean energy relations, with a particular focus on Turkey.

Before joining Bruegel he spent a year in Istanbul as Visiting Researcher at the Istanbul Policy Center at Sabanci University. Previously, he also completed a traineeship at the Sustainable Energy Division of the United Nations Economic Commission for Europe (UNECE) in Geneva.

He is a Member of the Editorial Board of the European Energy Journal (EEJ) and a Senior Expert Member of the Euro-Med Economists Association (EMEA).

Dr Georg Zachmann, Senior Fellow at Bruegel

Georg Zachmann is a German citizen. He joined Bruegel in September 2009. He is also a member of the German Advisory Group in Ukraine and the German Economic Team in Belarus and Moldova. Prior to that he worked at the German Ministry of Finance and the German Institute for Economic Research in Berlin.

Georg Zachmann’s work at Bruegel focuses on energy and climate change issues. He has worked on the European emission trading system, the European electricity market and European renewables policy. In addition, he covers fuel and commodity markets to some extent. Upcoming works will deal with market concentration, the effectiveness of the EU ETS, electricity market design and transmission system investment as well as the economic perspectives in the southern Mediterranean countries.

Georg holds a doctoral degree of the Technical University Dresden as well as a diploma in economics from the Humboldt University Berlin. In Berlin and Dresden, as well as during research and study visits to the London Business School and the Université Val d’Essone, he specialized in empirical microeconomics and energy economics.
Ms Laura Brien, Director of Energy Markets at the Commission for Regulation of Utilities (CRU) in Ireland

Laura Brien was appointed Director of Energy Markets in 2014. Laura has over 20 years’ experience in the energy sector, having advised on energy policy at both national and international level.

She previously held economic consulting roles across both public and private utility companies, providing advice to government departments, regulators and private equity firms relating to the deregulation and privatization of electricity industry in several US states, Mexico, Ireland, Spain, Brazil, Thailand and Canada.

She acted as a senior economic advisor to Comreg until she joined the CRU in 2014 to take up her current role, which is responsible for overseeing all aspects of competition and consumer protection in the energy retail markets in Ireland and the wholesale all-island electricity market (SEM) in cooperation with the Utility Regulator in Belfast.

Ms Berta Picamal, Executive Advisor to the Director General at FORATOM

Berta Picamal started working for FORATOM in June 2004. Since then, she has been in charge of the Radioactive Waste Management and Decommissioning Financing issues, Transport of RAM and Nuclear New projects in the EU.

In May 2012, she started as an executive advisor to the FORATOM Director General. She is also now responsible for analysing consequences of Brexit for the nuclear industry.

She started her professional career in 1996 as Task Manager in the European Commission’s AIDCO Unit dealing with Nuclear Safety in the former Soviet Union countries.

In 2000 she moved to the EBRD in London where she worked in the European Commission’s office and was in charge of analysing the Bank’s proposals for investment and to ensure compatibility with EU’s policies. She dealt with major investment projects also in the nuclear sector (ie Chernobyl Shelter Fund and Nuclear Safety Account).
ANNEX 3 PRESENTATIONS

Presentation by Simone TAGLIAPIETRA

Presentation #1 | Introduction and overview of the potential impacts of Brexit on the EU27 Energy Systems

The Impact of Brexit on the EU Energy System

Simone Tagliapietra (Research Fellow at Bruegel)
16 May 2018
European Parliament
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.

<table>
<thead>
<tr>
<th></th>
<th>EIB</th>
<th>EFSI</th>
<th>CEF</th>
<th>H2020</th>
<th>EEPR</th>
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</thead>
<tbody>
<tr>
<td>EU Member State (e.g. France)</td>
<td>Access</td>
<td>Access</td>
<td>Access</td>
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<tr>
<td>EEA (e.g. Norway)</td>
<td>Possible access</td>
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<td>Possible access</td>
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<tr>
<td>Energy Community (e.g. Ukraine)</td>
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<tr>
<td>Bilateral Treaty (e.g. Switzerland)</td>
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<tr>
<td>WTO (e.g. Morocco)</td>
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<td>Possible access</td>
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</table>

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.

<table>
<thead>
<tr>
<th>SCENARIO</th>
<th>ACER</th>
<th>CER</th>
<th>ENTSO-E</th>
<th>ENTSO-C</th>
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<tbody>
<tr>
<td>EU Member State (e.g. France)</td>
<td>Membership possible</td>
<td>Membership possible</td>
<td>Membership possible</td>
<td>Membership possible</td>
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<tr>
<td>EEA (e.g. Norway)</td>
<td>Associate membership possible, but agreement with EU necessary”</td>
<td>Membership possible, but agreement with EU necessary”</td>
<td>Membership possible, but agreement with EU necessary”</td>
<td>Membership possible, but agreement with EU necessary”</td>
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<td>WTO (e.g. Morocco)</td>
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<td>Membership possible, but agreement with EU necessary”</td>
<td>Membership possible, but agreement with EU necessary”</td>
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</table>

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'.
Presentation by Georg ZACHMANN

Presentation #2 | Options and Considerations for the future EU energy policy and gas partnership with the UK after Brexit

Options and Considerations for the future EU electricity and gas partnership with the UK after Brexit

Gustav Fredriksson
Alexander Roth
Georg Zachmann
Gas trade: UK a net importer and transit country to continent and Ireland

**Figure 1:** (Gross) UK natural gas imports and exports (gaseous state, in bcm)

- Mutual dependency on gas flows makes it likely that an arrangement is found to continue those.

Electricity trade: UK a net importer, but exporter to Ireland

**Figure 4:** UK (gross) electricity imports and exports (in GWh)

- electricity trade value (€1.2 bn) is only about 10% of gas trade, but electricity not storeable -> more coordination needed
- Importance of electricity trading set to increase with new lines (doubling current capacities) and more renewables
Without EU rules and institutions trade partners might only export/import bulk electricity

- Electricity markets are complex service markets — not simple commodities markets
  - RES support
  - Capacity Mechanism
  - Wholesale Market
  - Balancing
  - Ancillary services
  - ...

- Without EU rules and institutions trade partners might only export/import bulk electricity
  - Suboptimal dispatch
  - Lower market liquidity
  - Less competitive pressure
  - Imperfect investment signals

-> Keeping IEM intact would make both sides better off

Issue: Capacity mechanism

- If the UK leaves the internal energy market it would also not participate in any cross-border exchange of capacity.
- Increasing capacity investments into the UK (paid for by UK consumers)
- Overcapacities → might depress prices in regional wholesale markets.

-> the EU should make sure that UK-overcapacities (that are supported through mechanisms that are unavailable for market participants in the EU27) do not undermine investment or dispatch decisions in the EU27
**Issue: Treatment of EU companies in the UK electricity and gas market**

<table>
<thead>
<tr>
<th>MARKET SEGMENT</th>
<th>ELECTRICITY</th>
<th>GAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale Market (market shares in</td>
<td>EDF (24 percent), RWE (16 percent),</td>
<td>No data</td>
</tr>
<tr>
<td>brackets, 2016)</td>
<td>Uniper (6 percent), ScottishPower* (4 percent)</td>
<td></td>
</tr>
<tr>
<td>Retail Market (market shares in</td>
<td>EDF (12 percent), E.ON (14 percent),</td>
<td>EDF (8 percent), E.ON (10</td>
</tr>
<tr>
<td>brackets, Q1 2017)</td>
<td>RWE npower (9 percent), ScottishPower* (11</td>
<td>percent), RWE npower (8</td>
</tr>
<tr>
<td></td>
<td>percent)</td>
<td>percent), ScottishPower*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(9 percent)</td>
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</tbody>
</table>

- Post-Brexit, the UK would not be bound to EU state aid rules
- Hence, EU companies would have to challenge regulatory decisions and state aid in favor of UK competitors in a UK court.

\[\text{-> Hence, after Brexit, EU companies might need some safeguards against an uneven playing field.}\]

**Issue: Remit**

- Electricity and gas trading settled in the UK would be treated as financial instruments implying higher capital requirements
- Data exchange between UK and EU will not be possible after Brexit unless EU and UK decide on a new regime of data exchange
- EU needs to address the risk, that energy trading in the UK can dive under the radar of EU tax, financial supervision, competition and other authorities

\[\text{-> London needs rigorous financial market and transparency rules for energy trading}\]
Conclusion

- From a sectoral perspective, both, the UK and the EU would benefit if the UK could commit to the EU energy *acquis*
- The *Energy Community* and the *EEA* provide two institutional models
- Otherwise,
  1. the EU and the UK would fall back to duty-free exchanges of bulk amounts of electricity and gas under the WTO
  2. or a frustrating number of details will need to be settled in a short period of time, to make sure that energy exchanges continue to contribute to the efficient operation of both systems
Effects of Brexit on Ireland and the Future of I-SEM

Laura Brien – Director Energy Markets
16 May 2018
The Single Electricity Market

Initial SEM design operation (November 1 2007 – May 22 2018)

- Single market for buyers and sellers of electricity in Ireland and Northern Ireland
- No implicit capacity allocation or congestion management at the border
- Dual-currency arrangements
- Single, synchronised electricity system

Interconnection

- Historically SEM a net importer of electricity from GB
- In 2016-17 the trend flipped from export to import
- Higher levels of exporting expected under the revised market design which will integrate the SEM with EU more closely
Benefits of the SEM

Initial SEM design operation (November 1 2007 – Oct 2018)

- Larger market provided efficiencies of single market and system operation
- Greater competition and transparency for generators and suppliers provide benefits to consumers
- Security of supply in both jurisdictions ensured through stable capacity mechanism
- Integration of 2000MW of additional renewable generation
- Increased effectiveness of regulatory institutions

Two key issues to focus on

- Continuation of the SEM
- Future trading relations with GB
Continuation of the SEM

- Best answer is for the UK to remain in IEM
- Withdrawal Agreement text is positive
- Key Features for SEM to work going forward
- Electricity network codes and guidelines must apply across both Ireland and Northern Ireland;
- Level playing field
- Financial regulation, REMIT, data sharing and reporting;
- Continued role of ACER in oversight of all-island regulatory functions, where appropriate;
- Common approach to complaints and legal dispute resolution – the ECJ, or other option that is specified in the Withdrawal Agreement

Only half the issue...
Alignment is key

- No clarity on SEM-GB cross-border flows
- Based on recent Notice to Industry on IEM, SEM becomes isolated from the rest of the European market
- Important to have a set of trading rules that facilitates electricity continuing to flow in a way that ideally differs as little as possible from the IEM model, set out in CACM, GLEB etc.
What do these rules need to contain?

- What are the rules?
- What institutions implement the rules?
- Who oversees or regulates those institutions?
- How are the arrangements updated over time?
- How do we agree those new arrangements? when?
- All takes time to identify and implement!

Wider context

Not simply a Brexit issue

- Consistency across all connected countries is vitally important
- Common issues arising for all, efficient solution is to identify solutions on a common basis
- Currently no common basis for Third Country trading; Time is needed to do this however, need to start now!
Presentation by BERTA PICAMAL

Presentation #4 | Potential impact of the UK’s withdrawal from Euratom for the EU27

Potential impact of UK’s withdrawal from Euratom for the EU27

Berta Picamal
Executive Advisor FORATOM

16 May 2018
Who we are

FORATOM acts as the voice of the European nuclear industry in energy policy discussions with EU Institutions and other key stakeholders.

What does nuclear contribute to Europe's economy?

- 127 nuclear reactors in operation in the EU
- €70 billion/year
- 800,000 jobs
- 27% electricity production
Nuclear energy in the EU – current status

127 Operational nuclear reactors in the EU

- 32% France
- 19% Russia
- 12% Belgium
- 10% Hungary
- 8% Sweden
- 6% Bulgaria
- 6% Slovenia
- 5% Finland
- 4% Czech Republic
- 3% Spain
- 3% UK
- 2% Romania
- 2% Germany
- 1% Netherlands

ELECTRICITY PRODUCTION
27%

LOW-CARBON ELECTRICITY
50%

New build in the EU – construction & plans

Nuclear power plants under construction
- Finland: 1 reactor - 1 600 MW
- France: 1 reactor - 1 630 MW
- Hungary: 2 reactors - 2 400 MW
- Slovenia: 2 reactors - 800 MW
- UK: 2 reactors - 2 200 MW

Countries preparing or considering new build:
- Bulgaria
- Czech Republic
- Finland
- Lithuania
- Poland
- Romania
- Slovenia
- UK

*Source: European Commission’s PING, May 2017
Brexit & its consequences for nuclear

FORATOM’s PP on the “Brexit impact on nuclear energy” highlights key issues:

1. Safeguards
2. NCAs
3. Validity of contracts
4. Free movement
5. R&D
6. Policy & regulation

https://www.fornatom.org/publications/

Euratom/UK - NCA

FORATOM’s PP on key principles for a Euratom/UK agreement:

1. Free trade in nuclear/non-nuclear materials
2. Free movement of nuclear workers
3. Approval of EU/UK fuel contracts/movements
4. EU/UK export control licence regime
5. International collaboration in nuclear R&D

https://www.fornatom.org/publications/
Post-Brexit

FORATOM considers it important to ensure that:

1. The UK is required to continue to comply with IAEA safety standards and requirements.

2. The UK is required to maintain standards of physical protection for exchange/transport of material/goods/equipment.
This document summarises the presentations and discussions of the workshop on “Brexit and Energy Policy”, which was held on 16 May 2018. The impacts of Brexit on the EU27 energy systems and the future EU electricity and gas partnership with the UK were assessed. The effects of Brexit on Ireland and the potential impact of the UK’s withdrawal from Euratom were also discussed. This document was prepared at the request of the Committee on Industry, Research and Energy (ITRE).