

# What a no-deal Brexit would mean for Britain's energy markets



*Given what is happening at a macro political level, a no-deal Brexit looks increasingly possible. It's the worst-case scenario for the UK's energy markets, writes **Alex Harrison (Hogan Lovells)**.*

UK electricity and gas trade with the EU27 is worth approximately €6bn annually. Eighty percent of that trade is natural gas. The UK imports gas from the EU27, but the country is significantly more reliant on imports of gas from Norway and liquid natural gas (LNG) – historically from Qatar. The UK also imports electricity from the EU27 (currently from France, Ireland and the Netherlands) with net imports equal to about 7.5% of total UK consumption. This is expected to increase if planned new interconnector capacity is delivered.



Pylons in Cheshire. Photo: [Terry Kearney](#) via a [CC-BY-NC 2.0 licence](#)

The UK exports some gas to Belgium and a significant amount to Ireland (56% of its consumption) as well as electricity to France, Ireland and the Netherlands (although electricity exports are usually lower than electricity imports from these countries, as UK wholesale electricity prices tend to be higher than those in the EU27).

London had a leading role in electricity, gas, coal, oil and emission rights trading in Europe. Approximately 25% of global oil trading is conducted in London and the UK hosts one of the most liquid gas and electricity markets in the EU – covering physical trading, energy derivatives and clearing services. The London-based InterContinental Exchange (ICE) is one of the leading global energy exchanges and a main trading place for European energy futures. London also plays an essential role in determining essential energy market reference prices such as “Brent oil” and “NBP gas”.

If the UK leaves the EU and Euratom on 29 March 2019 without a deal on transition or future trading arrangements (and unless both sides agree otherwise), all EU rules in the field of energy market regulation will cease to apply to the UK; UK based operators will cease to participate in the rules that allow for physical interconnection of our electricity and gas markets: UK Guarantees of Renewable Origin will no longer be recognised by the EU27; and the UK will need to agree a new nuclear safeguarding regime to replace Euratom.

A Brexit crash landing will have a number of impacts for energy. It's unlikely to mean that the lights go out, but it may well result in an increase in wholesale electricity prices and wholesale electricity price volatility. Interconnectors are not expected to stop flowing, but they will no longer do so on a frictionless basis. The UK will be free to choose its decarbonisation trajectory and pathway. The EU may allow some level of access to the Internal Energy Market, but this is likely to be on a rule-taker basis.

The EU has no tariff on electricity or gas imports from other WTO members, and as such flows of electricity and gas between the UK and the EU27 would be tariff-free. However, this does not automatically extend to the supply of energy plant and materials across EU/UK borders, which would be subject to tariff barriers. The continuation of London's leading role in European electricity, gas, coal, oil and emissions trading will depend on whether a market access solution can be agreed for financial services, but in the event of no deal the immediate consequence is that UK authorised firms may be unable to trade freely in the EU Single Market.

A bespoke solution will be needed for Ireland: gas will need to continue to flow, given Ireland's high historic dependency on imports of UK gas, and a solution will need to be found to avoid the collapse of the Single Electricity Market on the island of Ireland.

*This post represents the views of the author and not those of the Brexit blog, nor the LSE. It first appeared at the [Hogan Lovells Brexit blog](#).*

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