The Economic Consequences of Brexit: Energy

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Michael G. Pollitt

The UK is heavily integrated into global oil and gas markets with substantial imports of pipeline gas from Norway. In contrast to many other strategic sectors the UK has relatively little dependence on the EU for either its exports or imports. This immediately suggests that even a ‘hard’ exit from the EU single market in energy will have little overall impact on energy trade and/or on prices, independent of general macroeconomic effects.

In this paper we raise a number of issues that are important for the UK to consider in the light of its decision to leave the EU. The first of these is the nature of the EU Single Market in Electricity and Gas and the UK’s role within this. The second is the nature of UK energy policy in the light of Brexit, and the opportunities for changing this. And third, we consider some of the key issues to be addressed in a negotiating position with the EU.

We conclude that the EU energy system is highly integrated and the UK has fully participated and, indeed, led the way in promoting this integration. This suggests that it is unlikely to be contentious as to what an economically sensible end-point of negotiations might look like.

However the energy sector in the UK is less exposed than many to EU (rather than global) energy market trends. This is likely to put energy low down the priority list for any UK government, given much more pressing issues in other sectors.
If this is the case, an agreement on energy post-Brexit could be agreed early but be held back to the end (to be added back in) when the more contentious issues are settled.

We identify opportunities presented by leaving the EU in energy. These include rationalising the subsidy regime, reconsidering the smart meter rollout, redesigning the wholesale market for a high renewable electricity supply (RES) future, relaxing vertical unbundling rules and promoting further integration with Ireland, Norway and North America. It is therefore possible that the UK will be freed up to lead the way globally on a new round of electricity market reforms, in a way that might not have been possible under continued membership of the EU.