

Brexit and energy: the only certainty is uncertainty

Blog post by Adviser Matthew Duhan, 30 June 2016

In the midst of some of the most tumultuous events ever seen in UK politics, Energy Minister Andrea Leadsom's appearance yesterday before the Energy and Climate Change Committee received little attention. But Leadsom, now a Tory Party leadership contender, trailed today's decision by the government to back the Committee on Climate Change recommendation for the Fifth Carbon Budget of a 57% cut in emissions from 1990 levels by 2032 and thus confirmed a major pillar of UK energy policy. With DECC estimating that the UK needs around £100 billion of investment in energy infrastructure by 2020, this will be a welcome point of clarity and continuity at a time when much else in UK politics and public policy looks deeply uncertain.

Overall Leadsom was keen to play down the impact of Brexit, stating "I don't believe anything will change". Such belief is not entirely unfounded. As an area of shared competence, jealously guarded by member states, the most important UK energy and climate policy decisions of recent years have been made in Westminster not Brussels. Amber Rudd touched on many of these in her own speech yesterday, emphasising the government's commitment to capacity markets, coal phase-out by 2025, 4GW of offshore wind in the 2020s and the new nuclear programme, although a comment on the UK's participation in the EU-ETS was however conspicuous by its absence. With voices in the energy sector already calling for on-going participation in Europe's internal energy market (IEM) it is worth considering that regulatory convergence with the EU is likely to be a necessary condition, suggesting policy continuity over disruption.

The Leadsom prognosis of business as usual may however be challenged by the high degree of uncertainty exacerbated by a rapidly changing political landscape. Siemens and Dong Energy, both high-profile investors in UK offshore wind, have suggested that there will be a pause in their investment plans while the UK's relationship with the EU is reset. They will not be the only ones, not least due to the on-going weakness and volatility of sterling. Although only an indicator, post-Brexit uncertainty could see the UK fall further in EY Renewables Investment Attractiveness index after ranking 13th globally in May; its lowest position ever.

The Conservative leadership race now looks to be between Theresa May and Michael Gove, neither of whom have a track record on energy and climate issues by which to assess them. Meanwhile climate activists are anxious because some of the strongest Eurosceptic voices are also hostile to action on climate change and renewables. This anxiety may be overdone, but in any case David Cameron's successor is unlikely to be an advocate of greater ambition on climate change policy. Meanwhile, George Osborne's likely departure from the post of chancellor would see Hinkley Point and new nuclear builds lose one of their most enthusiastic supporters. Despite Leadsom's words of reassurance, for now many will conclude that the only certainty in the UK is uncertainty.