



BREXIT:

CRITICAL ISSUES FOR THE OIL AND GAS
INDUSTRY
AND THE ENERGY SECTOR



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INTRODUCTION

The Irish Offshore Operators' Association (IOOA) submitted a report '*Brexit: Potential Impact on Irish Oil & Gas Industry*' to DCCAE in early November 2016, approximately four months after the UK referendum to leave the EU. This reviewed IOOA's observations and questions regarding the potential impacts the UK exit could have on the oil and gas industry in Ireland. It identified issues, challenges, questions and potential solutions that IOOA believed needed to be addressed by DCCAE and Government. IOOA considered it imperative to highlight key issues and plan for mitigation of adverse effects, as well as exploiting potential opportunities. Among the issues raised were the physical isolation of Ireland from mainland Europe, the heavy reliance on the importation of energy sources to drive our economy, and the general uncertainty regarding the outcome of the exit talks and any subsequent trade agreement between the UK and the EU. In view of these issues, IOOA regarded it as essential that exploration and development of Ireland's offshore natural energy resources continued to be supported in order to provide energy certainty and security in all post-Brexit scenarios.

The 2016 document identified potential adverse impacts on the Irish oil and gas industry in five broad areas:

1. Energy security.
2. Freedom of mobility for workers.
3. Loss of an experienced advocate at EU energy policy level.
4. Collaboration and information sharing.
5. Investment uncertainty for Irish Exploration & Production and major infrastructural projects.

The document had five key industry messages, the first two being as follows:

- A. The withdrawal of the UK from the EU will increase Ireland's vulnerability in terms of energy import dependency. Ireland will then have no physical energy connection with the EU's energy network as our only gas interconnectors are to Scotland. An obvious route to energy security and independence is through the exploration and development of indigenous offshore natural resources - oil and especially gas. This would also provide substantial economic benefits to Ireland. The challenge is how to continue to foster the momentum of offshore exploration. Encouragement and support for hydrocarbon exploration and development, through appropriate fiscal and regulatory framework, can lead to energy security, help build a low-carbon society through the increased use of indigenous gas, and exploit opportunities for attracting new foreign direct investment.
- B. Clarity is required around the issue of access to the EU energy market; both in terms of importing and exporting hydrocarbons.

In the four years that have elapsed since the IOOA 2016 report, there have been profound changes at national and global level. These include the global challenges of the COVID-19 pandemic and climate change. They have placed Ireland in a very different and more challenged environment while still facing the issues involved in Brexit.

This report re-examines some of the main challenges discussed in the 2016 report, highlights some of the relevant developments in the past four years and identifies key issues and risks that still

require attention, critical thinking and urgent action if Ireland, and our energy sector, is to avoid the most severe and adverse consequences resulting from the UK withdrawal from the EU.

2016-2020: A CHANGING IRISH OIL AND GAS E&P ENVIRONMENT

At the time of the publication of the IOOA 2016 report, Ireland had a thriving and growing offshore oil and gas exploration and production (E&P) sector. The Corrib gas field had been in production for almost a year, dramatically reducing gas import dependency from 88% to 69% and saving €1.2 billion of Ireland's annual energy import bill. A very successful offshore licensing round had resulted in record numbers of awards with 28 Licensing Options granted to consortia involving 17 companies. Revenue was flowing to the State through licensing and other payments; seismic surveys were charting the detailed structure of the Irish offshore basins and exploration wells were being planned.

However, in 2018, with a minority government in power, opposition parties supported a Bill to ban the granting of any further new oil and gas licences in the Irish offshore. While the Bill did not complete the passage through the Oireachtas to become law, a speech by the Taoiseach at the United Nations in 2019, announcing that Ireland would not grant any new licences for oil exploration, led to a major policy change by the government in late 2019. This resulted in a ban on the granting of future licences for oil while still allowing applications for licences to explore for gas which was seen as an important part of the energy transition. However, the new multiparty government that came to power in 2020 changed the policy further and banned the granting of new licences for gas. While existing licences and other authorisations are exempt from the oil and gas bans, many licences were subsequently surrendered, and most of the major multinational E&P companies have now exited Ireland with a loss of licensing revenues to the State. In July 2020 the Kinsale area gas fields ceased production after 44 years, leaving Corrib as the only producing gas field in the Irish offshore.

With the withdrawal of the UK from the EU, Ireland is now more reliant of imported energy than in 2016. Energy independence is further from our reach and the recent policy changes have severely curtailed our ability to develop indigenous natural energy resources which offer lower greenhouse gas emissions and greater energy security than the imported sources on which we are increasingly reliant.

2016-2020: BREXIT-RELATED DEVELOPMENTS

Many reports have highlighted the increased Brexit-related energy security issues that were identified in the IOOA 2016 report. These include, for example, in the ESRI Research Note (2017) on re-evaluating Irish energy policy in light of Brexit¹; the House of Lords' Brexit: Energy Security Report (2018)²; the International Energy Agency (IEA) 2019 Review of Ireland³; the Government's 2019 National Risk Assessment report⁴, and the SEAI Energy Security in Ireland 2020 report⁵.

¹ Lynch, M.A. (2017). *Re-evaluating Irish energy policy in light of Brexit*. ESRI Research Notes 2017/1. 17 pages. <https://www.esri.ie/publications/re-evaluating-irish-energy-policy-in-light-of-brexit>

² House of Lords. (2018). *Brexit: energy security*. European Union Committee. 10th Report of Session 2017-19. HL Paper 63. 66 pages. <https://publications.parliament.uk/pa/ld201719/ldselect/ldecom/63/63.pdf>

³ International Energy Agency. (2019). *Energy Policies of IEA Countries: Ireland 2019 Review*. 170 pages. <https://webstore.iea.org/energy-policies-of-iea-countries-ireland-2019-review>

⁴ Government of Ireland. (2019). *National Risk Assessment 2019. Overview of Strategic Risks*. 92 pages. https://merrionstreet.ie/en/News-Room/20190804_National_Risk_Assessment.pdf

⁵ SEAI. (2020). *Energy Security in Ireland. 2020 Report*. 93 pages. <https://www.seai.ie/publications/Energy-Security-in-Ireland-2020-.pdf>

Ireland has embraced the EU climate ambition of achieving carbon neutrality by 2050, and is putting in place the framework, roadmap and targets in order to achieve this. IOOA is fully supportive of this ambition and will continue to work constructively through the energy transition. We believe that the ambition of emissions reductions can only be achieved by utilising and integrating all available technologies, and that hydrocarbons will continue to play a major role, combining with emerging renewable technologies, in the decades to come in ensuring the delivery of sustainable, reliable and affordable energy for all.

Brexit will impact on Ireland's energy transition and relevant aspects of the interplay of Brexit with Ireland's energy transition are highlighted below. The report highlights remaining key Brexit-related issues related to energy security and to emissions reductions.

ENERGY SECURITY

Mitigation measures to protect against potential periodic interruptions of oil and gas supply need to be planned (c.f., the oil crises/shortages of 1973 and 1977; the 2009 Russia-Ukraine gas dispute which cut off supplies to southeastern Europe for 13 days). Many of the underlying factors leading to those interruptions still exist and Ireland remains one of the most vulnerable EU countries in terms of energy security. This will be compounded from 31st December 2020 when the UK leaves the EU, further increasing Ireland's vulnerability to interruption in supply. These risks were highlighted in the Government's 2019 National Risk Assessment⁴ stating *"In terms of energy-related risks, disruptions to the supply or price of oil, gas, or electricity could have significant economic, social or competitive impacts, and our geographic position renders us particularly vulnerable to such disruptions. Brexit poses a particular risk as Ireland imports the vast majority of its energy requirements, oil, gas and transport fuels, from or via the UK"*. They were also commented on in the IEA (2019) review of Ireland's energy policies³ where it reported that *"the vote of the United Kingdom to leave the European Union poses unique challenges, although the full impact on the energy sector of Ireland cannot yet be determined"*. The risk was also highlighted from a different perspective in the UK House of Lords' Brexit energy security report (2018)² which noted that the UK cannot presently meet its own heat and power demands with existing indigenous supply and concluded that, post-Brexit, the UK may be more vulnerable to supply shortages in the event of extreme weather or unplanned generation outages. As Ireland's increasing gas imports, originating from Europe and beyond, come through the UK, this is likely to add further uncertainty and risk to Ireland's energy security.

Current major energy security aspects are reviewed here in terms of (a) oil, (b) gas and (c) electricity. As IOOA is representative of the oil and gas exploration and production sector, this report focuses mainly on oil and gas.

Oil

Ireland imports all its oil requirements (equivalent to c. 137,000 barrels per day). One third of crude for the Whitegate refinery (which supplies 30-40% of the Ireland's demand), comes from the UK which is now itself a net oil importer. The remainder of Ireland's demand is met from imports of refined products, with 64% of this coming from the UK⁵.

As a contingency against supply interruptions, EU Directive 2009/119 obliges member states to maintain minimum oil reserves corresponding to at least 90 days of average daily net imports or 61 days of average daily inland consumption, whichever is the greater. The directive also requires member states to maintain their emergency oil stocks within the EU. Ireland currently holds approximately 9% of its stocks in Northern Ireland and 11% in Great Britain and is therefore in breach of the Directive.

Key Questions:

- Can uninterrupted oil supplies (crude and refined products) be guaranteed following Brexit and what contingency plans are in place to find substitute sources?
- How is the non-compliance with EU Directive 2009/119 being addressed?

Gas

Approximately 48% of the UK's gas demand in 2018 was met by imports with most coming via pipeline from mainland Europe⁵. Overall, in 2018, the EU imported 88% of its gas, with approximately one third of Europe's gas coming from Russia. Ireland is increasingly reliant on the interconnectors from Moffat in Scotland. The IEA (2019)³ review commented on the risk of reliance on the Moffat interconnector concluding that *"there is high reliance on a limited amount of gas infrastructure, raising concerns for security of gas supply in Ireland"*.

Brexit poses challenges for Ireland in terms of EU Regulation 2017/1938 relating to the N-1 infrastructure standard. Prior to Brexit, Ireland was able to comply with the standard as the Regulation permitted it to be treated regionally alongside the UK. With Brexit, Ireland will fail to comply with the standard. Furthermore, although the provisions of the EU-UK Trade and Cooperation Agreement of December 2020 contain a provision to ensure the security of energy supply, the UK is no longer be legally bound by the measures encompassed in the solidarity principle in the Regulation and hence Ireland's gas supply vulnerability will be increased.

Key Question:

- What steps is Ireland taking to comply with the terms of EU Regulation 2017/1938 relating to N-1 infrastructure standard?

In its Contingency Plan 2019⁶, the Government stated that contingency plans for the Irish electricity and gas wholesale and network sectors have been prepared. It also reported that emergency plans are in place to minimise supply disruption in Ireland in the event that gas and electricity interconnectors cease flowing. While a disruption scenario is not anticipated, it clearly cannot be ruled out as the UK ultimately controls the supply of gas through the interconnectors from Scotland to Ireland. Causes of concern in this regard, including the recent Ofgem decision refusing to grant Ireland Security Discount⁷, and related questions remain, These include:

⁶ Government of Ireland. (2019). *Preparing for the withdrawal of the United Kingdom from the European Union. Contingency Action Plan Update. July 2019.* 117 pages. <https://www.dfa.ie/media/dfa/eu/brexit/keydocuments/Contingency-Action-Plan-Update.-July-2019.pdf>

⁷ Ofgem. (2020). *Uniform Network Code 678A – Amendments to Gas Transmission Charging Regime.* 33 pages. https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678_-_decision_0.pdf

Key Questions:

- The UK, being itself a net gas importer, has gone close on occasions to being unable to meet its own gas demand. If an extreme event resulted in the UK being unable to meet its own demand, would it reduce the gas supply to Ireland?
- As the UK has already indicated its intention to break international law by implementing the UK Internal Market Bill that breaches the binding Withdrawal Agreement, can it be relied upon to honour all other agreements including that to supply natural gas to Ireland?
- Despite the EU-UK Trade and Cooperation Agreement of December 2020 promising to ensure the security of energy supply, particularly to Ireland, could the UK likely use the supply or the pricing of gas to Ireland as a future negotiation lever with the EU? It is noted that in May 2020 the UK gas regulator (Ofgem) refused to grant an Ireland Security Discount and disagreed with the argument that the Moffat interconnector was built specifically to end the isolation of EU member states, including part of the UK. Ofgem stated that the proposed Ireland Security Discount does not serve the purpose of increasing security of supply and were not prepared to make a special case for Ireland.

Electricity

Brexit poses challenges for Ireland's electricity security and the full extent of these challenges is not yet clear⁵. One of these challenges related to the Integrated Single Electricity Market (I-SEM). A key objective of I-SEM was to improve the efficiency in which electricity interconnectors with Great Britain are operated. The Irish and UK governments, and the European Commission, have stated their commitment to maintaining I-SEM. The IEA³ has also recommended that Ireland should continue working to maintain the beneficial structures and efficiencies of the single market. If, following Brexit, there is regulatory divergence between the UK and the EU this could have detrimental implications for the operation of I-SIM as it was designed to operate within a framework of common EU rules on electricity markets. The UK's departure from the EU has implications for Ireland's integration with the EU energy market as Ireland will have no electricity (or gas) interconnection with other EU member states and will therefore fail to achieve the 10% interconnection target by 2020. While this may be rectified with the proposed Celtic interconnector with France, this will not be in place for some years.

The UK played a leading role in the development of the EU's Internal Energy Market (IEM) and, in leaving the EU, appears to be pursuing its policy of also leaving the Single Market. The UK House of Lords 2018 Brexit energy security report² notes that the SEM on the island of Ireland has been a key dividend of the peace process, reducing energy prices across the entire island and helping to achieve decarbonisation targets. The complexity of maintaining the I-SEM will increase significantly if the UK leaves the IEM. It raises the question as to how Northern Irish organisations would be able to interact with the IEM as a non-member and also the process for dispute resolution. In the event that EU energy legislation continues to apply in Northern Ireland post-Brexit, the UK government will need to consider whether to devolve additional powers to the Northern Ireland Assembly.

The SEM and its successor (I-SEM) are established by Irish and UK law and not by EU law, and are supported by Northern Ireland and Republic of Ireland policy. This suggests that even if there is UK withdrawal from the EU IEM legally this would not necessarily constitute a withdrawal from the Irish arrangements. However, as the UK withdrawal is very much in the political realm and beyond the normal legal sphere, there is likely to be a dependency of the I-SEM on the wider EU IEM. Without

access to the IEM then it is possible that the I-SEM will not function. This is clearly an area of remaining uncertainty.

Key Question:

- What plans are being prepared and what, if any, legal changes are required in Irish and UK legislation to ensure the continued operation of I-SIM in the light of the issues identified?

EMISSIONS REDUCTIONS

While Ireland is making significant advances in increasing its renewable energy generation capacity, secure supplies of oil and especially gas will continue to be needed for the foreseeable future. These are required both as a reliable backup for intermittent renewables like wind and solar, and for the many areas where renewables are not yet in a position to provide the scale of energy, e.g. transport. The latest SEAI 'low demand' forecast for gas in 2030 is only slightly lower than the present demand⁵, indicating the continued need for gas into the future. In addition, oil and gas will continue to be needed to meet the growing demand for petrochemicals to make the materials to allow electric cars to be lighter and run further, for fertilisers, medicines, medical supplies and clothing feedstocks. Sustainable replacements for these petrochemicals are unlikely to be available for the foreseeable future. The IEA predicts that petrochemicals, one of the key 'blind spots' in the global energy debate, will account for nearly half of the growth in oil demand to 2050⁸.

In increasing our energy and petrochemical feedstock security in the short to medium term, Ireland needs to diversify its oil and gas supplies while at the same time lowering and minimising their emissions footprint. In order to combine the maximisation of energy security with lowering emissions in the context of the Brexit uncertainties discussed above, IOOA suggests, as we did in the 2016 Brexit report, that exploration and development of indigenous offshore natural resources – oil and especially gas – is an obvious route to achieving these twin objectives. Gas contains less than half the emissions of coal and has negligible particulate matter emissions. Petroleum (oil and gas) imported from outside Europe has emissions up to 30% higher than that produced within Europe. Emissions increase with distance from the source of production and locally-produced oil and gas offers significant reductions in emissions. While government policy does not allow the granting of any new licences, there are both hydrocarbon accumulations and also prospects, in the remaining licenced blocks and IOOA believes that these should be pursued and supported.

Development of offshore petroleum resources, and of other renewable technologies both onshore and offshore, require access to specific skills, expertise and equipment from abroad. Much of this will be required from the UK. In view of likely tariffs and barriers to free movement following Brexit,

Key Questions:

- What analysis, cost/benefit analysis and scenario planning has been conducted to compare the carbon footprint of all indigenous forms of energy, especially gas and oil, with those imported from a range of other countries?
- What plans are in place to ensure the unimpeded transfer of appropriate skills and equipment between the UK and Ireland, with the minimum of additional bureaucratic delays and additional costs?

⁸ International Energy Agency. (2018). *The Future of Petrochemicals*. 11 pages.
<https://webstore.iea.org/download/summary/2310?fileName=English-Future-Petrochemicals-ES.pdf>

there are likely to be challenges and barriers to the timely access to the necessary technological and personnel supports to drive the energy transition.

CONCLUSIONS AND KEY MESSAGES

1. Since the UK referendum in June 2016 to leave the UK, many reports have highlighted the risks and uncertainties of Brexit to Ireland's energy security. Despite the basic EU-UK Trade and Cooperation Agreement of late December 2020 containing some provisions regarding energy cooperation, a number of uncertainties remain regarding energy and energy security issues resulting from the withdrawal of the UK from the EU's internal energy market and its withdrawal from the EU's Emissions Trading System.
2. Since the IOOA Brexit report of November 2016, highlighting key Brexit-related issues of concern to the petroleum exploration and production industry in Ireland, the risk of potential interruption to Ireland's energy supply have increased significantly. Ireland now only has one indigenous source of gas (Corrib, which is now in decline) since the cessation of gas production in the Kinsale area fields in 2020. Many of the licences/licensing options held in the Irish offshore in 2016 have been relinquished and most of the major multinational exploration companies have left Ireland following the government's decision not to grant any new oil or gas exploration licences. Ireland will no longer be connected to the EU gas or electricity grids after the end of 2020, and will be increasingly reliant on gas imports from the UK via the gas interconnectors. The latest SEAI 'low demand' forecast for gas in 2030 is only slightly lower than the present demand, indicating a significant future gas requirement even with increasing renewable energy capacity.
3. Ireland will be in breach of a number of EU Directives on oil and gas security of supply from the end of 2020 when the UK leaves the EU.
4. The impact of Brexit will further compound the challenges facing Ireland in meeting the energy transition challenges of achieving carbon neutrality by 2050. Increasing energy imports, in addition to the risk of higher tariffs from the UK, will result in higher greenhouse gas emissions that increase with distance from their source. Encouraging a switch from imported to indigenous oil and gas, and supporting acceleration of exploration, appraisal and development of Ireland's offshore hydrocarbon resources, would assist greatly in the twin objectives of increasing Ireland's energy security and independence while lowering greenhouse gas emissions.

15th January 2021