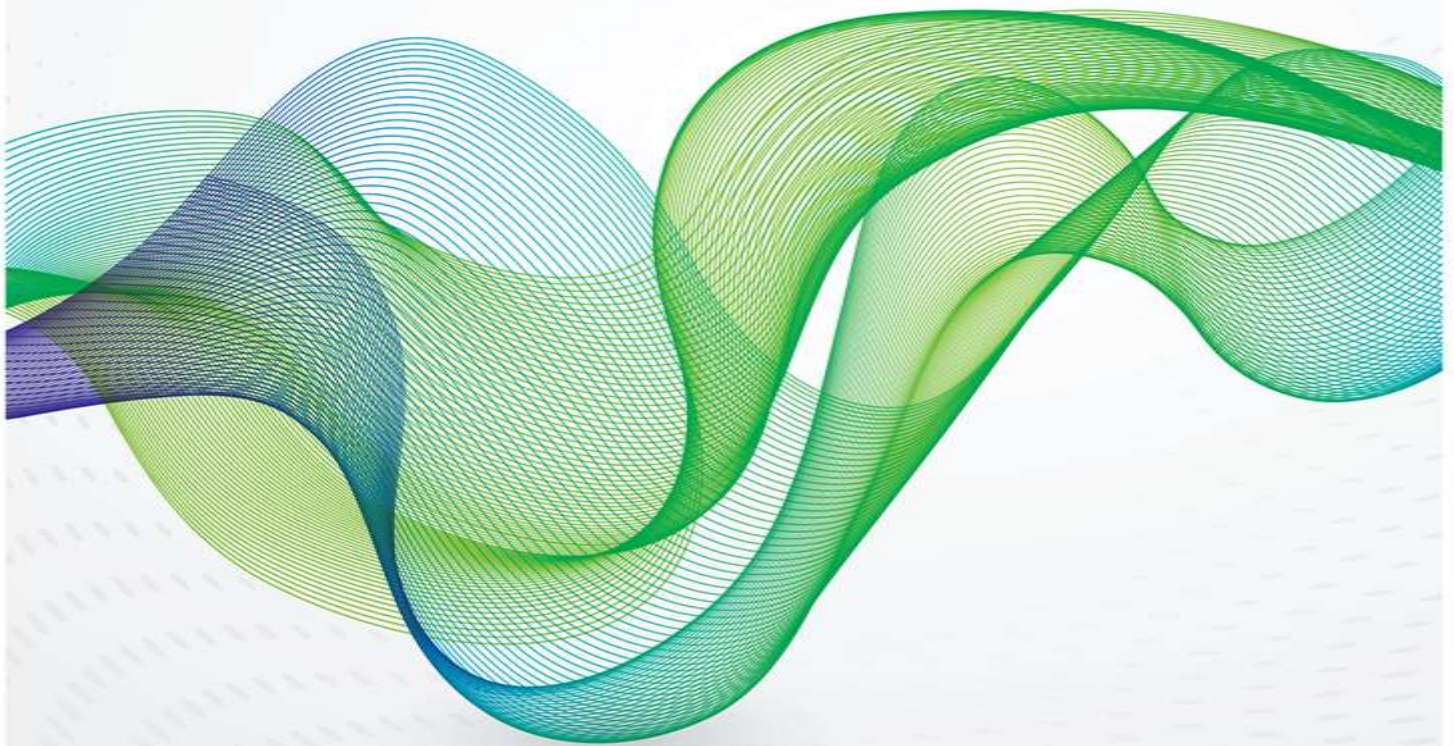
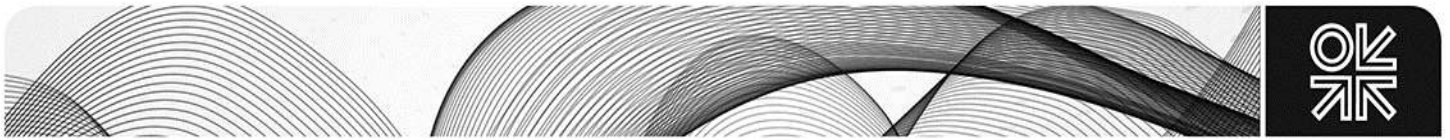


February 2019

French gas customers face a real risk from a No Deal Brexit





Much is reported in the press on the UK government's struggle to negotiate the withdrawal agreement, setting out the terms for the United Kingdom to leave the European Union in a managed way at 23:00 GMT on 29th March 2019.

The main focus as we approach the deadline has been on the potential impact of a so-called No Deal Brexit on the UK economy and the news stories have become ever more sinister¹, even comparing a no deal outcome to the outbreak of WWII².

However, it has come to the authors' attention that a No Deal Brexit could have very serious and immediate consequences for the French economy with a direct impact on the lives of its citizens.

Article L443 of French energy law³ specifies that only companies based in the EU may be granted an authorisation to supply gas in France. This authorisation is needed when using transport⁴ and storage operators' services in France. The aim being that the French State is better able to control its gas market in order to manage security of supply.

Unless a specific agreement on this issue can be reached before the withdrawal of the United Kingdom from the European Union, all shippers on the French network based in the UK will, on the 30th March, automatically lose their authorisation to supply and their contracts with the GRTgaz⁵, Storengy⁶ and / or Teréga⁷ will stop. For LNG the supply contract can still be owned by any company, but the injection of the gas into the grid can only be done by a company that has the French license to supply (i.e. no longer a UK company post-Brexit). This situation concerns some 10 or so shippers⁸, who set up their trading desks in the UK, as the British fiscal regime was far more conducive to their activities than that in France.

The French State is not willing, nor is it actually able,⁹ to fast track a change in the law to accommodate UK companies post-Brexit. It could, if it wished to do so, provide a limited time extension until such time that new post Brexit rules can be drafted. France has already enacted¹⁰ ministerial decrees in five other specific areas.

Nevertheless, as companies based in the UK will not be able to operate in France, they will need to find alternative solutions that cause minimum disruption. If they were to change the entity owning the contract from a UK to an EU one, they would face the risk of the other partner wanting to enter into endless renegotiations. The only option could be to keep the contracts as they are and to request a license to supply for a European based company that would only deal with the logistics and would have to re-sign all of the regulated contracts.

¹ The Independent, 12th February 2019: "Brexit: UK could be days from crashing out of EU before MPs vote again on Theresa May's deal, says cabinet minister": <https://www.independent.co.uk/news/uk/politics/brexit-no-deal-theresa-may-vote-commons-andrea-leadsom-eu-summit-delay-a8774946.html>

² BBC, 12th February 2019: "No deal Brexit: 'Food businesses facing extinction'": citing the CEO of the Food and Drink Federation who said that a disruptive no deal Brexit is "the biggest threat businesses have faced since 1939": <https://www.bbc.co.uk/news/av/business-47211931/no-deal-brexit-food-businesses-facing-extinction>

³ Article L443 states : "Afin d'alimenter leurs clients, sont reconnues comme fournisseurs les personnes installées sur le territoire d'un Etat membre de l'Union européenne ou, dans le cadre d'accords internationaux, sur le territoire d'un autre Etat, qui sont titulaires d'une autorisation délivrée par l'autorité administrative". For the full text, see: https://www.legifrance.gouv.fr/affichCode.do;jsessionid=782095AFA894AA3F0F15889888E44489.tplgfr34s_1?idSectionTA=LEGISCTA000023987033&cidTexte=LEGITEXT000023983208&dateTexte=20190210

⁴ For example, article 12 of the GRTgaz clearly states that shippers must have this authorisation; For the full text, see: http://www.grtgaz.com/fileadmin/clients/fournisseurs/acces_contrats/fr/1_Section-A-CG-01112018.pdf

⁵ GRTgaz owns and operates the longest high-pressure natural gas transmission network in Europe. In France it owns and operates the majority of the French grid (except the South West part owned by Teréga).

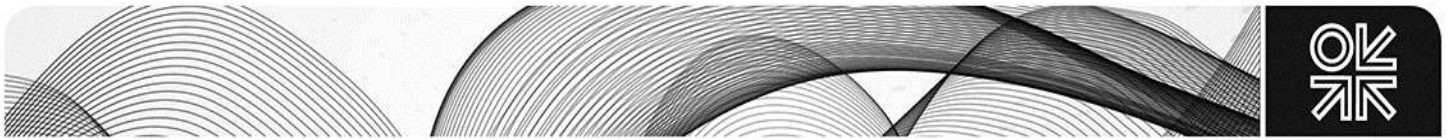
⁶ Storengy owns and operates the storage facilities in France: <https://www.storengy.com/en/>

⁷ <https://www2.terega.fr/en/who-we-are/our-mission/development-prospects.html>

⁸ Including some of the largest suppliers, such as BP, EDF, Equinor, Gazprom, Total.

⁹ It cannot change EU companies into EU and UK companies as no Member State is allowed to negotiate with the UK on a stand-alone basis and would have to change it from EU to all, non-EU, companies, thereby allowing Russian, Qatari or US companies to get an authorisation, reducing *de facto* their control on Security of Supply.

¹⁰ Communiqué issued by the Prime Minister's office, Paris, 17th January 2019: "Prime Minister sets out no-deal Brexit contingency plans": <https://uk.ambafrance.org/Prime-Minister-sets-out-no-deal-Brexit-contingency-plan>



The irony is that a law supposed to increase French security of supply could in fact place that security of supply at risk on 30th March. After many attempts by the French regulator (CRE¹¹) to increase liquidity by merging different zones into a single French hub¹² (that Patrick Heather's methodology¹³ still qualified as only "poor" in 2016), we could see the reverse happening in 2019 with traders leaving and liquidity drying up, at the expense of the TTF. This would be a major blow to the TRF hub and would lead to increased volatility and in turn to higher prices that ultimately filter down to higher costs for consumers.

This situation shows how much still needs to be ironed out in a very short time because the consequences are potentially major. Firstly, the affected shippers will have a stark choice between setting up a logistics company as stated above with all the contractual and administrative costs that entails; or, defaulting on their long term physical contracts by declaring Force Majeure or having a balancing mismatch on their spot EFET contracts. Neither of these two options is viable as the first involves serious reputational risk and the second is both costly and also carries a reputational risk.

Secondly, the impact on France and French consumers is considerable as the amount of gas 'at risk' is substantial, possibly up to 30 per cent of French demand, or even as much as 40 per cent when taking LNG imports into account. Therefore, *in extremis*, the French consumer stands to lose out both directly, due to possible gas shortages, and indirectly, due to increased utility bills.

What is certain is that both the government and the shippers need to agree a way forward and very soon. We will continue to monitor this and other Brexit related issues and their consequences and research and comment on them where appropriate in a time sensitive manner.

¹¹ La Commission de Régulation de l'Energie.

¹² The Trading Region France (TRF) was created on 1st November 2018.

¹³ See "European traded gas hubs: an updated analysis on liquidity, maturity and barriers to market integration", May 2017 available at: <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/05/European-traded-gas-hubs-an-updated-analysis-on-liquidity-maturity-and-barriers-to-market-integration-OIES-Energy-Insight.pdf>