Grant Thornton
An instinct for growth™

Assessing the impact of Brexit on your energy and natural resources business

Published: 15 July 2016

The people of the UK have made a decision to leave the EU. What happens next and the implications for businesses operating in the UK or EU markets are unclear.

The most immediate impact of the Brexit vote is uncertainty, but the energy and natural resources industry is well used to that. Just look at the Middle East. Or the difficulties in introducing the EU ETS. Not to mention the turbulence caused by previous political changes in the UK.

It is too soon to say exactly how the Brexit uncertainties will manifest themselves, but it's worth remembering that the UK energy market is largely domestic. UK policies are often more relevant than EU ones. And it is not all doom and gloom. Uncertainty brings opportunity too - especially in an industry that is already in need of investment. Combine this with the likelihood of lower asset prices, at least short term, and the UK energy sector could well be of interest to investors, post-Brexit.

With this in mind, it is important to stay calm, review contingency plans and assess the possible implications for your organisation and the risks and opportunities this creates.

The UK will first have to negotiate its exit terms with the EU's remaining 27 member states, which might take until 2018/2019. Separately, the UK will want to negotiate its future trading relationship with the EU. The EU will likely also undergo significant change in the coming months and years.

At Grant Thornton we see our role as helping you navigate and shape this environment. Our international advisers are well placed to help you achieve your ambitions and we have set out some considerations in this viewpoint. We will be sharing further insights over the coming months as the UK's path to exit from the EU and its implications become clearer.

Kevin Schroeder
Global leader of energy and natural resources
Grant Thornton

Assessing the impact

The impact of Brexit will be different for every organisation. Strategists at some firms will be most concerned about their access to the EU's single market. Other risk managers will worry about access to capital or talent. And others still will be eyeing the challenges – and opportunities – that regulatory change might bring.

Policies relating to the energy and natural resources industry are largely the remit of the UK Government, rather than the EU. This may dilute the impact of Brexit on the sector, but there are still some issues to watch out for:

Oil and Gas

Investment was already a problem for oil and gas pre-Brexit and the referendum result merely reinforces this. In fact, it might actually help by increasing the pressure for Government action.

Other implications for the sector are:

- **Sufficiency of supply** – long-term, the UK may be more inclined to look at alternative energy sources, such as fracking, to avoid over-reliance on EU pipelines.
- **UK reference hub** – the UK reference hub for gas pricing may be dropped in favour of an EU-based entity, with implications for liquidity in the UK market.

Power

The UK, a leader in climate change, is unlikely to change its sector policy objectives as a result of Brexit. One possible exception is nuclear. A rethink of the Hinkley Point proposal is now possible, given ongoing concerns over subsidies and the level of risk EDF should take.

Renewables

The UK Government recently reiterated its commitment to tackling climate change, but hinted at a more cost-sensitive approach in future, using renewables where cost-efficient. This is unlikely to change post-Brexit.

Implications for the industry as a whole

The most immediate general impact of Brexit is likely to be currency devaluation, resulting in increased costs for fuel and energy, at least in the short term.

Other ramifications include:

- **Scrapping VAT on energy bills** – this is possible in future, particularly for poorer households, but will not happen until the UK has left the EU.
- **Emissions Trading System** – it is unclear whether Brexit will result in the UK leaving the ETS, but such a move would impact on carbon budgets.
- **Slower deals** – Brexit has already had an impact on existing deals. Shell has said its divestment plans following its takeover of BG Group will be delayed. Siemens has indicated projects may be on hold until the UK/EU relationship is clarified. Some of the plans for increased interconnectors with Europe may also be delayed.
- **Single Energy Market** – it is not yet clear whether the UK would be part of a Single Energy Market or Energy Union post-Brexit.
- **Access to EU funding** – UK projects may be deprioritised as a result of Brexit and the EU funding allowance for transition to low carbon is unlikely to apply after leaving the EU.
- **Free movement of people** – Brexit could reduce access to skilled international labour within the sector. However, given the impact such restrictions would have on delivery of projects and investment, the Government may try to avoid this.
- **Regulatory change** – UK energy regulation is largely the responsibility of the UK. Some legislation and initiatives are EU-based, however, and it will take time to untangle these. Even so, the need for operational efficiency may reduce discrepancies between the two regimes.
- **All Ireland electricity market** – it is not yet clear how this will be affected.
- **State Aid** – the future EU/UK relationship is unlikely to permit state aid if the UK enters a similar deal to Norway and Iceland.

Considerations

To keep moving forward in the post-Brexit environment, companies must anticipate the changes it will bring and adapt to meet them. In looking at the threats and opportunities the Brexit poses for your business, and in planning how you can create and protect value, you should consider:

People and talent

Short term:

- Assess how many of your UK employees are of EU or non-EU origin
- Consider what to communicate to them and what reassurance you can give
- Assess the impact of exchange rate fluctuation on global talent.

Medium term:

- Review employment contracts and take steps to protect your non-UK talent working in your UK operations
- Assess the impact on any outsourcing or teams in other EU jurisdictions.

Long term:

- Consider your current location. Where is the best place to operate from?
- Plan for the long-term impact on talent recruitment, development and pensions.

Strategic ambitions

Short term:

- Consider what to communicate to stakeholders
- Review your existing strategy and immediate impacts.

Medium term:

- Review M&A transactions and due diligence
- Identify transitional market and customer opportunities.

Long term:

- Identify new markets and commercial opportunities
- Assess the opportunities for organic growth, joint ventures and acquisitions.

Finance growth

Short term:

- Consider what to communicate to investors
- Assess the impact on any immediate refinancing.

Medium term:

- Review the impact on sources of capital
- Assess the opportunities and risks around re-financing.

Long term

- Assess the funding requirements for future strategy
- Identify future capital markets and investors.

Master risk

Short term:

- Consider which customers or suppliers might be affected by short-term volatility
- Review the risks and opportunities across the organisation.

Medium term:

- Assess the impact on business risks including issues such as working capital management and financial reporting
- Legal:
  - Assess the impact on existing legal contracts and mandates, and cross border data management and residency
  - Identify what documentation will need to be changed.

Long term:

- Assess the long-term plans for business risks including tax structure and pension structures
- Review your strategies for mitigating fraud, bribery and corruption risks.

Optimise operations

Short term

- Consider what to communicate to customers and suppliers
- Identify your current and future exposure to interest rate and foreign currency exchange rate fluctuation.

Medium term:

- Assess the impact on processes and control
- Future regulatory compliance
  - Identify which regulations critically impact your business
  - Consider the likely timescale for any change in these business-critical regulations.

Long term:

- Review your operational effectiveness and efficiency including back office and manufacturing/cost base
- Identify opportunities for developing supply chain value in different trading relationships.

Contact us

As you face a more uncertain environment we can help you work through the implications and develop the best plans for your organisation.

Global leader of oil and gas

Kevin Schroeder	United States	+1 405 415 3550	kevin.schroeder@us.gt.com

Global leader of mining

Holly Stiles	Australia	+61 2 8297 2400	holly.stiles@au.gt.com

Global leader of energy and environment

Colin Johnson	United Kingdom	+44 (0)20 7728 2103	colin.johnson@uk.gt.com

Global leadership team

Yerzhan Dossymbekov	Kazakhstan	+7 727 311 1340	yerzhan.dossymbekov@gtkaz.com
Fernando Fucci	Argentina	+54 (0)11 41 05 0000	fernando.fucci@ar.gt.com
Ngozi Ogwo	Nigeria	+234 8 474 0660	ngozi.ogwo@ng.gt.com
Martin Festerling	Germany	+492 11 9524 8555	martin.festerling@wkgt.com
Siddhartha Nigam	India	+91 12 4462 8000	siddhartha.nigam@in.gt.com
Mike Read	United Kingdom	+44 (0)113 200 1528	mike.read@uk.gt.com

Visit www.grantthornton.global for more information.