

EXPLANATORY MEMORANDUM ON A UK/EU WITHDRAWAL AGREEMENT OR TRADE AND COOPERATION AGREEMENT GOVERNANCE DOCUMENT

COM(2025)804 + Annex

Recommendation for a COUNCIL DECISION authorising the opening of negotiations between the European Union and the United Kingdom of Great Britain and Northern Ireland on the participation of the United Kingdom in the internal electricity market of the Union and on the financial contribution of the United Kingdom towards reducing economic and social disparities between the regions of the Union.

Submitted by Cabinet Office on 4 February 2026.

SUBJECT MATTER

On 22 December 2025, the European Commission published a recommendation authorising the opening of negotiations between the European Union (EU) and the United Kingdom (UK) on the United Kingdom's participation in the internal electricity market of the Union and on a financial contribution of the United Kingdom towards reducing economic and social disparities between the regions of the Union.

The recommendation follows the commitments made as part of the UK-EU Common Understanding on 19 May 2025, where both parties agreed to explore the parameters for the United Kingdom's participation in the Union's electricity trading platforms, and the conclusion of exploratory talks in December 2025. The [outcome of exploratory talks](#) confirms that the United Kingdom and the EU should work towards the participation of the United Kingdom in the EU's internal electricity market and sets the parameters for technical negotiations.

Neither the May 2025 Common Understanding nor the December 2025 outcome of exploratory talks make reference to a financial contribution from the United Kingdom to support the relevant costs associated with the European Union's work in this policy area. On 13 November 2025, the Council and Commission adopted a statement noting that any agreement providing for the UK's participation in parts of the Union's internal market should reflect an appropriate financial contribution to the Union's economic and social cohesion.

This recommendation has not yet been adopted by the European Union and will need to be agreed by the Council of the European Union, subject to the procedures set out below. The Council's adoption of the mandate is currently anticipated in early 2026, which would allow for formal negotiations to begin shortly thereafter.

SCRUTINY HISTORY

This will be the first time this issue will have been the subject of an Explanatory Memorandum.

MINISTERIAL RESPONSIBILITY

The Minister for the Constitution and European Union Relations will have the primary responsibility for the negotiations with the EU, working with other Ministers as appropriate.

Electricity agreement

The Secretary State for Energy Security and Net Zero will have the primary responsibility for Implementation of the Electricity Agreement, working with other Ministers, including in the Devolved Governments, as appropriate

INTEREST OF THE DEVOLVED GOVERNMENTS (DGs)

While the UK government is responsible for international relations under the devolution settlements and it alone has the power to enter into treaties or other international agreements binding on the UK in international law, under the devolution settlements, the Devolved Governments are responsible for observing and implementing international obligations that relate to devolved matters.

The Electricity Agreement will apply to the United Kingdom and be appropriately articulated with the relevant provisions of the Windsor Framework.

In accordance with the Concordat on International Relations, the UK government is consulting the Devolved Governments regarding the formulation of the UK's position, as the majority of policy areas within scope, including the promotion of renewable energy, environmental protection, and retail market regulation, relate to devolved matters.

Devolved Governments have been consulted on the preparation of this Explanatory Memorandum.

LEGAL AND PROCEDURAL ISSUES

i. EU Legal Base: Treaty on the Functioning of the European Union, and in particular Article 194(2) for the electricity agreement and Title XVIII, Part Three for any financial contributions agreement, in conjunction with Article 218(3) and (4) thereof.

ii. Voting procedure: The Council will adopt the decision under the Qualified Majority Voting procedure.

iii. Timetable for adoption and implementation: The Council decision will be adopted in due course.

POLICY AND LEGAL IMPLICATIONS

Electricity agreement

Since 1 January 2021, the UK and EU have operated separate electricity markets, with the exception of Northern Ireland, which applies certain EU rules for wholesale electricity under the Windsor Framework to maintain the Single Electricity Market on the island of Ireland.

On 19 May, the Prime Minister and the President of the European Commission held the first UK-EU Summit, which saw the publication of a Common Understanding setting out a renewed agenda for our bilateral relationship. This included announcing a joint intention to explore in detail the necessary parameters for the United Kingdom's possible participation in the European Union's internal electricity market.

On 22 December the UK and EU published the outcome of exploratory talks on the UK's participation in the EU internal electricity market. This included a shared commitment to work towards the participation of the United Kingdom in the European Union's internal electricity market, by way of a European Union-United Kingdom Electricity Agreement. The recommendation for a Council Decision broadly reflects this outcome document.

In line with the outcome of exploratory talks, the draft EU mandate specifies that the agreement should cover both wholesale and retail markets, including participation in the Union's trading platforms in all timeframes and involvement in relevant bodies such as ENTSO-E, the EU DSO Entity, and the Union agency ACER. It further states that the agreement should ensure the application of the same rules by providing for timely dynamic alignment of wholesale and retail electricity market rules, while giving due regard to the United Kingdom's constitutional and parliamentary procedures. Within this framework, the UK will maintain the ability to adopt policy measures to ensure affordable electricity prices, security of supply, and grid stability in the same way as EU Member States.

The draft EU mandate states that the agreement should require the integration of Union rules on wholesale energy market integrity and transparency and their application to financial instruments that qualify as wholesale energy products under EU rules. The draft mandate clarifies that the agreement would not provide for UK participation in the Union's financial services market nor require parties to alter existing rules on financial instruments and financial services.

The draft EU mandate states that the agreement may allow for a phasing-in period and a limited number of objectively justified technical adaptations, provided they do not negatively affect the functioning of the EU's electricity market, affect or distort cross-border electricity exchanges, or put the UK in a more advantageous position than a Member State.

In line with the outcome from exploratory talks, the draft EU mandate states that the agreement should ensure the dynamic alignment of UK law with Union rules on the promotion of renewable energy. It states that the agreement should set an indicative global target for the share of renewable energy in the UK's gross final consumption of energy, which should be comparable to that of the Union and based on shared definitions, requirements, and methodologies. In setting this target, due regard is to be paid to the United Kingdom's Climate Change Act 2008 obligations and Nationally Determined Contributions. Sectoral sub-targets in transport, buildings, heating and cooling, and industry remain outside the scope of the Electricity Agreement. It states that the agreement may contain a limited number of technical adaptations to the renewable energy acquis, provided they are justified by objective criteria and do not put the UK in a more advantageous position than a Member State.

In line with the outcome from exploratory talks, the draft EU mandate provides that, under the agreement, the UK should ensure, dynamically and at all times, at least the same level of environmental protection in law as set out in the relevant Union rules on the protection of the environment in so far as they relate to the electricity sector. This obligation would apply to each right and obligation in those Union rules. Under the agreement, the UK determines how to achieve this result and maintains the possibility to adopt measures providing for a higher level of environmental protection.

In line with the outcome of exploratory talks, the draft EU mandate provides that, under the agreement, the UK will apply at all times the same substantive and procedural State aid rules to any aid that specifically targets the electricity sector or has a particular material effect on the electricity market, giving due regard to the UK's constitutional and parliamentary procedures. This would not apply to affect the validity of aid already granted to individual beneficiaries, for example in the form of legally binding commitments pre-dating the entry into force of the agreement. The draft EU mandate states that under the agreement State Aid control should be carried out by an independent UK authority with powers equivalent to those of the European Commission, covering transparency, *ex ante* control, and the recovery of incompatible aid. The EU's draft mandate acknowledges that an adequate transition period should be provided for the implementation of these new rules. Furthermore, the UK would be involved at an early stage in the decision-shaping process for

EU legal acts in fields covered by dynamic alignment, though this will not extend to participation in the Council or its preparatory bodies.

The EU mandate goes beyond the outcome of the exploratory talks in specifying that the Electricity Agreement will complement and, where necessary, disapply or suspend specific energy provisions of the TCA.

The details of a UK-EU Electricity Agreement are subject to negotiation following the completion of EU and UK internal processes.

Financial contribution towards reducing economic and social disparities

Regarding a financial contribution, the EU's draft mandate sets out that any agreement on a financial contribution for the UK's participation in parts of the Union's internal market would establish a permanent, legally binding mechanism to reduce economic and social disparities between regions. The level of this contribution would be adjusted to reflect the relative size of the UK economy and the proportion of the internal market to which the UK participates. The agreement would be subject to a dispute resolution mechanism with an independent arbitration tribunal where the Court of Justice of the European Union serves as the ultimate authority for all questions of EU law.

CONSULTATION

The Government will continue to consult stakeholders as appropriate throughout the negotiations and implementation process.

FINANCIAL IMPLICATIONS

The UK has agreed that the UK's participation in the internal electricity market of the Union will require the UK to provide an appropriate financial contribution to the costs of relevant European Union agencies, systems and databases within the policy area.

Financial contribution towards reducing economic and social disparities

While the draft EU mandate would seek a financial contribution from the UK in respect of participation in the internal electricity market and any potential future internal market-related agreements, this remains subject to EU internal processes and formal negotiations. This proposal, as currently drafted, goes beyond the outcome of exploratory talks. Noting this context, we will discuss in detailed negotiations with the EU how to ensure any and all financial contributions are appropriate.

MINISTERIAL NAME AND SIGNATURE

A handwritten signature in black ink, appearing to read 'N. Thomas-Symonds', with a long horizontal flourish underneath.

**RT HON NICK THOMAS-SYMONDS MP
MINISTER FOR THE CABINET OFFICE
HIS MAJESTY'S PAYMASTER GENERAL**