

QUARTERLY UPDATE TO PARLIAMENT ON THE GOVERNMENT'S PROGRESS ON THE UK'S EXIT FROM THE EURATOM TREATY

Department for Business, Energy & Industrial Strategy

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Executive Summary

This report is the first quarterly update to Parliament setting out overall progress on Government's implementation of its Euratom strategy, including EU negotiations, domestic operational readiness, legislation and international agreements, as set out in the in the Written Ministerial Statement of 11 January 2018 by the Secretary of State for Business, Energy & Industrial Strategy.

As of March 2018:

- Substantial progress has been made in relation to Euratom as part of the 'separation issues' (phase I) negotiations with the European Union. The UK and European Union have also agreed an implementation period running from 30 March 2019 until 31 December 2020. As outlined in the draft Withdrawal Agreement, such a period includes the provisions of the Euratom Treaty.
- On 22 March the Government notified the International Atomic Energy Agency (IAEA) that the UK will be taking legal responsibility for its own nuclear safeguards regime in the long term and started the process of seeking final IAEA agreement to a new Voluntary Offer Agreement and accompanying Additional Protocol for the UK.
- The Government is on track to conclude and then to secure third country and UK ratification of all four of the priority Nuclear Co-operation Agreements with third countries in advance of March 2019.
- The Government is also moving swiftly to establish the legislative and regulatory framework for a domestic safeguards regime – the Nuclear Safeguards Bill is scheduled to have its third reading in the House of Lords, and the Government has published pre-consultation draft regulations setting out proposals for how a domestic nuclear safeguards regime will work.
- The Government continues to work closely with the ONR to ensure it is ready to meet the UK's international non-proliferation and safeguards commitments once Euratom arrangements no longer apply to the UK. The ONR continues to regulate nuclear safety and security in the UK in the same way that it currently does.
- The Government continues to demonstrate its commitment to international collaboration on fusion and fission research, through ensuring ongoing participation in the current EU research programmes until their conclusion; a close association with the Euratom Research and Training Programme, including the Joint European Torus (JET) and the International Thermonuclear Experimental Reactor (ITER) projects; and providing support for UK organisations in seeking funding opportunities as well as access to international programmes and facilities.
- The Department remains in close contact with a wide range of stakeholders, including those from industry, trade unions, academia, the NGO community and devolved administrations.

Further details on these points and wider issues are set out in subsequent sections of this report. The next quarterly update to Parliament will be provided in June 2018.

1. EU negotiations

There has been good progress in relation to Euratom as part of the 'separation issues' (phase I) negotiations with the European Union. As set out in the draft Withdrawal Agreement published on 19 March the UK and EU negotiating teams have reached agreement on the legal text for all but one of the Euratom separation issues that were set out in our position papers. The final issue, relating to special fissile material, will be discussed further prior to the conclusion of the Withdrawal Agreement negotiations. The European Council on 23 March welcomed the progress made by the negotiators in agreeing the legal text of the Withdrawal Agreement.

The UK and EU negotiating teams have also agreed the terms of an implementation period running from 30 March 2019 until 31 December 2020. As outlined in the draft Withdrawal Agreement published on 19 March, such a period will include the provisions of the Euratom Treaty. This will mean that existing Euratom arrangements will continue during this period. It also means that businesses will be able to trade on the same terms as currently until the end of 2020.

In relation to the UK's future relationship with Euratom, the Government reiterated its intention to seek a close association with Euratom as part of its response to the BEIS Select Committee in February. This was also set out in the Prime Minister's speech at Mansion House on 2 March. The negotiations on the future relationship between the UK and EU, including on Euratom, are yet to begin.

2. International agreements

The Government has emphasised its continued commitment to the IAEA and to its international commitments for nuclear safeguards and nuclear non-proliferation.

Good progress has been made in preparing the UK to assume legal responsibility for its own nuclear safeguards regime once the Euratom arrangements no longer apply in the UK. This includes the negotiation of bilateral safeguards agreements with the IAEA. These new agreements – a Voluntary Offer Agreement and an Additional Protocol – will replace the current, trilateral, safeguards agreements between the UK, the IAEA and Euratom.

Both the UK and IAEA are clear that the new agreements should follow the same principles and scope as the current trilateral agreements. The Government will continue to offer a comprehensive facilities list to the IAEA, enabling them to designate and inspect their chosen sites for the purposes of international verification. It is this oversight that underpins the independence of nuclear safeguards regulatory regimes around the world.

This Government has committed to a future domestic regime that delivers a regime that is equivalent in effectiveness and coverage to that currently provided by Euratom. The speed with which the ONR is able to move the domestic regime from meeting international commitments to a level that is equivalent to Euratom is dependent on a wide variety of factors including the progress of on-going technical discussions between the ONR and Euratom. The Government has committed to

allocate the ONR the funding necessary to establish the new domestic civil nuclear safeguards regime.

In order to ensure continuity for the nuclear sector, on 22 March the Government notified the IAEA that the UK will be taking legal responsibility for its own nuclear safeguards regime in the long term and started the process of seeking formal IAEA agreement to a new Voluntary Offer Agreement and accompanying Additional Protocol for the UK. We expect these agreements to undergo UK ratification later this year. The agreements will only come into force once existing agreements no longer apply – i.e. after the Implementation Period.

We will continue to seek a close association with Euratom, including the possibility of future co-operation on nuclear non-proliferation and safeguards. The provisions of the draft Withdrawal Agreement commit the EU to assisting the UK in its implementation of a safeguards regime in the UK from the end of the implementation period, and technical discussions between the ONR and Euratom are now on-going.

The Government has also prioritised putting Nuclear Cooperation Agreements (NCAs) in place with those countries which have a domestic legal or policy requirement for an NCA to be in place before civil nuclear trade with other countries can be permitted. IAEA Board agreement is an important milestone in this regard.

The UK Government has held positive discussions with Australia, the US, Canada and Japan and remains on track to ensure these agreements will be in place when Euratom's agreements no longer apply to the UK. In summary:

- All sides recognise the mutual interest in having these agreements in place, to replace the current Euratom agreements in respect of the UK.
- Officials from BEIS have been regularly engaging with all of these countries and in total have taken part in more than 50 meetings or calls with these countries to discuss draft text, and to discuss the logistics for concluding new agreements.
- Formal negotiating rounds have been held in London and overseas over a number of days, in addition to regular video conferences and calls.

The Government has made good progress, including on draft texts and ensuring respective ratification processes and timetables have been taken into account in project planning. Discussions have been constructive; and significant progress has been made on the substance of the new agreements with the vast majority of text finalised. These agreements will follow the principles and provisions of the existing Euratom NCA. The timeline for each of these agreements differs slightly in terms of third country ratification processes. For UK ratification, our intention is to present the NCAs to Parliament in the second half of 2018 before the Government then ratifies them.

The European Commission has been kept fully informed of our progress and is supportive of our discussions with these third countries.

There are other countries with which Euratom or the UK have NCAs in place which do not have a legal or policy requirement for an NCA to be in place to facilitate civil

nuclear trade. Therefore the UK will be able to continue to trade and cooperate in the civil nuclear sector with these other states without an agreement in place following the UK's withdrawal from Euratom. We will, however, engage with countries that do not require NCA's to ensure appropriate arrangements are put into place.

3. Domestic safeguards regime

The Nuclear Safeguards Bill is scheduled to have its third reading in the House of Lords. We will be considering the implications of the latest developments at Report Stage held at 20 March.

The Government published pre-consultation draft regulations on 19 January, to provide Parliament with early sight of the current proposals for the domestic nuclear safeguards regime. In developing these draft regulations, the Department is working closely with the Office for Nuclear Regulation (ONR). The draft regulations outline the approach that the UK will take in operating as an independent and responsible nuclear state once Euratom arrangements no longer apply to the UK.

Early engagement with industry has indicated broad support of the approach set out in the draft regulations and we welcome the input that we have received during this engagement. The regulations, accompanied by an impact assessment, will be subject to a formal public consultation, which is expected to be published by June 2018.

4. Implementation

The Government has been working closely with the ONR to ensure it is ready to meet the UK's international non-proliferation and safeguards obligations once Euratom arrangements no longer apply to the UK. The ONR will continue to regulate nuclear safety and security in the UK in the same way that it currently does.

To deliver these safeguards responsibilities the ONR requires a multi-disciplinary team. The ONR has estimated that a total of 20-25 staff will be required to meet international obligations, including nuclear material accountants, information management and reporting specialists as well as safeguards inspectors. The precise number of safeguards inspectors needed is subject to the exact requirements of the domestic regime, but the ONR's current estimates suggest a requirement for at least nine nuclear safeguards inspectors to meet the international level of safeguards.

As of March the ONR have 13 safeguards officers in post, all of whom are undergoing training to be nuclear safeguards inspectors by 29 March 2019. Furthermore, it has run two recruitment exercises during 2017/18 to recruit staff into safeguards roles. The second exercise has closed for applications, but shortlisting and interviewing has not yet concluded. As of 1 March 2018, across both recruitment exercises a total of 112 candidates have applied for these roles; six applicants have been offered, and accepted, appointments. The Government is confident that, based on ONR progress to date, it will be able to deliver a UK safeguards regime that meets international safeguards obligations upon our withdrawal from Euratom.

The Government currently covers the cost of nuclear safeguards through EU budgetary contributions. The cost of all Euratom Exit-related preparatory work is being paid to ONR direct from BEIS budgets. The Department will allocate to the

ONR the funding necessary to establish the UK State System of Accountancy for, and Control of, Nuclear Material.

As outlined in the explanatory notes to the Nuclear Safeguards Bill re-published on 24 January 2018 when the Bill was brought to the House of Lords, the necessary funding is estimated at potentially up to £10 million. As the first part of this funding, the Department has secured a contingencies fund advance to the amount of £2.275 million to provide financial cover to the ONR for its project activities until the end of financial year 2017-18. This includes: financial commitments towards recruitment and asset purchases, establishing and running a project team; procuring a Safeguards Information Management and Reporting System (SIMRS); recruiting and training inspectors; drafting the regulatory framework; and providing technical support to BEIS in its international negotiations relating to nuclear safeguards. Decisions about how the on-going costs of running the regime will be covered in future will be subject to public consultation, and close engagement with industry and key stakeholders.

Further to this, the Government is committed to ensuring that all necessary safeguards equipment will be in place to comply with its international obligations. As part of this, the UK and EU negotiating teams have agreed that the UK will take ownership of existing Euratom-owned safeguards equipment in the UK at the end of the implementation period. The ONR and Euratom will now work closely on the detailed handover arrangements for the equipment to ensure that it can be used effectively in the future UK safeguards arrangements.

5. Research & Training

The Government is committed to maintaining and building on the UK's leading role in this important field. In June 2017, the Government guaranteed its share of funding for the Oxfordshire-based Joint European Torus (JET) fusion reactor until the end of 2020, subject to the EU extending the JET operating contract beyond 2018. In December 2017, we committed £86m to establish a National Fusion Technology Platform – demonstrating our continued commitment to international collaboration in this field.

As set out in our Written Ministerial Statement of 11 January, the Government intends to seek a close association with the Euratom Research and Training Programme, including JET and the International Thermonuclear Experimental Reactor (ITER) projects. We are working closely with the UK Atomic Energy Authority (UKAEA) and the Nuclear Innovation and Research Office (NIRO) to engage constructively with our EU partners to determine the best way forward for the UK's nuclear R&D sector. These discussions will constitute part of Future Relationship negotiations between the UK and EU, once commenced.

An EU Council vote on the legal instrument to provide funding for the 2019-2020 extension to the Euratom Research and Training Programme is expected in the coming months. The Government fully supports the proposal for the 2019-2020 extension to the programme and we are working with our EU partners to that end. Agreement of this legal instrument will allow for further discussions on extending the JET operating contract up to the end of 2020. This extension is important for securing the future of JET, supporting the EU's wider fusion R&D programme and the success of the ITER project, and ensuring the UK continues to lead the world in nuclear fusion research and development.

In the area of nuclear fission research, the Government recognises the opportunities that the EU provides for international collaboration and mutual access to facilities. We will work to support UK organisations in seeking funding opportunities as well as access to international programmes and facilities.

6. Stakeholder engagement

The Department remains in close contact with a wide range of stakeholders, including those from industry, trade unions, academia, the NGO community and devolved administrations to inform them of our progress on preparations to leave Euratom. The Government has a highly productive relationship with its stakeholders, welcomes their input on key issues, and meets their representatives on a regular basis to discuss their specific concerns.

Richard Harrington, Minister for Energy & Industry, held an introductory meeting with the new CEO of EDF SA (FR) on 8 March. As part of its stakeholder engagement strategy, BEIS is organising a series of industry forums in 2018-19. The most recent of these was held on 5 of March, where representatives from industry were provided with an update on recent progress made in international negotiations, the Nuclear Safeguards Bill, and ONR's capacity-building work. This event follows the first industry stakeholder forum which Richard Harrington, Minister for Business & Industry, addressed in September 2017. Richard Harrington and BEIS senior officials also engaged with industry at the NIA Annual conference in December 2017 and most recently, engagement took place with the NIA New Build Group on 22 March.

The Government is also working closely with industry through attendance in industry EU-exit working groups, such as those of the Nuclear Industry Association (NIA) and URENCO.

The team held a first technical workshop with operators on the nuclear safeguards regulations on 9 February and will arrange further workshops during the consultation. Alongside this, we are working closely with other Government Departments to ensure that a wide spectrum of the nuclear stakeholder community is engaged on EU exit and Euratom-related matters. This has included participation at the Department for International Trade showcase event held in February 2018 and meetings with the Department of Health, NHS and HMRC and health sector organisations to discuss ongoing trade in medical radioisotopes.

7. Wider Issues

There are also a number of wider EU-exit issues which also have some bearing on or have been linked to our withdrawal from Euratom. These include trading and customs arrangements, mobility and migration, and medical radioisotopes.

The Government has been clear of the need to ensure that industry sectors in the UK including nuclear have access to the necessary skilled workforce. We have introduced measures aimed at investing in education and training for the domestic workforce, and we are carefully considering a range of options for the future immigration system and will set out initial plans in the coming months. We will ensure that businesses, communities and Parliament have contributed views before any decisions are made about the future system.

Regarding our future trading and customs arrangements, there are two components to the Government's work: (i) negotiating an agreement with the EU; and (ii) domestic preparations for a new customs regime. The Government's customs objectives were set out in the Future Customs Arrangement Partnership Paper published in August 2017 and reiterated in the Customs White Paper published in October 2017. They present two approaches which most closely meet our objectives: a highly streamlined customs arrangement, and a new customs partnership. The government is on course to have a functioning customs system that enables trade to flow, HMRC to collect revenues, and the UK to have a secure border under all scenarios.

Lastly, the supply of medical radioisotopes has been raised as a concern by Parliament and stakeholders. We have made clear that our withdrawal from Euratom, including direct involvement in the European Observatory on the supply of medical radioisotopes, will not affect our ability to import medical radioisotopes. Nevertheless, as stated in the Written Ministerial Statement of 11 January 2018, the Government will be seeking a close and effective future association with Euratom. The precise nature of this association including discussions with the EU and Member States on how best to continue cooperation in the work of the European Observatory, remains subject to future negotiations.

We recognise concerns around the impact of potential changes to customs and border processes as a result of withdrawal from the EU. The Government considers it vital for the NHS to continue to receive a steady and reliable supply of medical radioisotopes following our withdrawal from the EU. The Department of Health and Social Care (DHSC) is progressing work to assess the impact of EU exit on the supply chain for all medicines and medical radioisotopes used by the NHS.

A cross-Government steering group has been established to oversee and contribute to this work. Medical radioisotopes are a key focus of the project and DHSC will engage critical stakeholders from the clinical community as part of its work. It is expected that the initial phase of work will be concluded this spring, and will inform the Government's approach to EU exit planning. This topic will continue to be a priority for the Government in both our domestic preparations as well as in our negotiations on our future relationship with the EU to ensure that the NHS can continue to secure access to medical radioisotopes.