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Directed by:

Elvire Fabry and Gaëtane Ricard-Nihoul, Notre Europe

Towards a New Energy Policy for Europe: the Need for a New Framework

Sami Andoura Research Fellow, Notre Europe



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ENERGY

Towards a New Energy Policy for Europe: the Need for a New Framework

Sami Andoura Research Fellow, Notre Europe¹

The energy issues faced by the Union today and in the future are numerous and unprecedented in scale. Whereas many constraints affect the energy situation in Europe today and increasingly so until at least 2030, the European Union must guarantee the energy supply to its consumers, while simultaneously preserving and improving the competitiveness of its economy and promoting sustainable development both internally and externally. The numerous factors blocking the creation of a genuine common energy policy, together with doubts over the current capacity of the EU and its member states to meet the challenge, lead us to ask whether the Union disposes of the necessary legal foundations to conduct such a common policy. The SBH Trio Presidency has a role to play in launching short-term initiatives tackling the most pressing issues, while launching a wider debate on the mid- to long-term perspectives for the European energy policy.

A worrying global energy picture severely impacting the EU

The challenge of energy security

Humankind consumes more resources than nature can provide. Europeans, who represent 7% of the world population, use 17% of world natural resources each year. In general, demand for energy should continue to grow markedly over the next 20 years. At a global level, primary energy consumption is due to increase by 45% by 2030. The needs of developing countries alone will account for 87% of this rise, with China and India taking half (*World Energy Outlook 2008*, IEA). The European Union's consumption will increase by 11% (*Trends to 2030 – European Energy and Transport*, DG TREN, 2007). Fossil fuel energy will continue to dominate the energy mix across the world (80%) and Europe (78%) during this same period. The complete substitution of fossil energies by alternative sources remains unlikely in the near future, in particular due to delays in developing the necessary new technologies and

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the persistent difficulty of connecting sources to the electricity network (*Trends to 2030 – European Energy and Transport*, DG TREN, 2007).

Fossil fuel resources are also becoming increasingly rare. Given proven resources, current technologies and the coming increase in consumption, the current extrapolated lifetimes are 40 to 50 years for oil, about 65 years for natural gas, and about 250 years for coal (*World Energy Outlook 2008*, IEA). The exhaustibility of these resources is paralleled in the European Union, where the production of primary energy has fallen considerably in the last 10 years, causing increased reliance on imported energy. Whereas the Union already imported 54% of its energy needs in 2006 (*EU Energy and Transport in figures*, DG TREN, 2009), its imports will reach 67% in 2030, with a relative 95% of its needs in oil and 84% in natural gas (*Trends to 2030 – European Energy and Transport*, DG TREN, 2007). The European Union's dependence on external sources for its energy supply should therefore increase. International competition for these fossil fuel resources has become a major issue for the years to come.

This competition has a particular impact in Europe, where the increasing vulnerability and dependence of EU member states are causing intra-European rivalries which undermine the solidarity principle at the heart of European integration. For example, the gas crises between Russia and Ukraine (repeated between 2006 and 2009) have shed light on the acute vulnerability of certain member states (essentially in Central and Eastern Europe) as well the patent lack of solidarity between members of the Union. A Russo-Ukrainian crisis can thus hide another crisis – an intra-European one.

Environmental factors

The nefarious consequences of the advanced scenario of global warming oblige our societies to reduce carbon emissions in order to guarantee the sustainable development of the planet. Such warming would have disastrous effects for nature, humankind, society and the planet in general, sparing no place but affecting poor countries the most. The necessary action will involve radical changes in production and consumption. Confronted with this situation, the Union has demonstrated its capacity to play a leading role in the fight against climate change at international level. The global governance of such a system is a major issue. It means associating all states – developed, emergent and developing – with a new and complex institutional architecture which accommodates the particularities of each country. In this respect, the EU's position must rest on a solid internal strategy in which it respects its own commitments – to reduce its GHG (greenhouse gas) emissions by 20%, to increase renewable energy's share to 20% of the total, and to increase energy efficiency by 20%, all by 2020.

In addition, the Union will not be credible unless it is able to act on its own energy consumption. It has become imperative to make progress on energy efficiency and to take action on the demand (consumption) of energy, as well as on the development and financing of low- or zero-pollution new technologies. Neither will European action be credible if the Union lets its

citizens believe that they can continue not to pay for energy at its real price. This price must take account of the fact that resources are rare and that their consumption has a negative effect on the environment. That will mean being able to harmonise taxation in energy matters, and channelling the resulting resources to a common fund which can finance useful actions for controlling consumption, developing alternative energy sources and reducing greenhouse gas emissions.

Economic and social issues

Energy is a major economic and social issue for the future of our societies. The priority must be to guarantee consumer access to energy at low and stable prices, and to protect these prices, but also to guarantee the competitiveness of European industry and develop green technologies. The Union faces numerous constraints in this domain.

The construction of an efficient Europe-wide network of infrastructure is indispensable if consumers are to be guaranteed secure access to energy. To this end, the Union must give itself a capacity for collective action in order to invest in energy transport networks and other infrastructure (e.g. oil and gas pipelines, electricity networks, storage facilities for liquefied natural gas (LNG), etc.). Member states' ageing infrastructure must be renewed, developed and completed by the interconnections and other facilities which currently lacks (trans-European infrastructure). These diverse projects necessitate major investments and a serious financial commitment on the part of the Union. According to the European Commission's Priority Interconnection Plan (2007), at least 30 billion euros will need to be invested in Europe's energy networks before 2013, comprising 6 billion for the transmission of electricity, 19 billion in gas pipelines and 5 billion in LNG storage facilities.

At the same time, the Union must give itself the means to finance research programmes and encourage the emergence of new technologies (especially renewable energies) which take into account the above mentioned factors – energy security, environmental, economic and social factors – involved in building a 27-countries network, assuring low-carbon energy transport and distribution, and guaranteeing energy security. These new 'green' or 'sustainable' technologies must allow the European Union to respond to demand and to advance towards greater energy efficiency by helping consumers to change their habits. According to a recent European Commission communication, the European Union should invest an extra 50 billion euros in low-carbon technologies over the next 10 years. This implies a tripling of annual investments – from 3 to 8 billion euros – (Press release IP/09/1431, 07/10/2009).

The Union's current position in relation to these factors

Among the main obstacles and weaknesses preventing the EU from responding effectively and coherently to the above-mentioned energy challenges are: a national sovereign-

ty on the choice of energy resources used (energy mix); the preference given by member states to national and / or international (non-EU) solutions to the late 20th century's energy crises, and preference accorded to bilateral relations with producer countries in the name of national interest; and a certain reluctance of member states to share natural resources with neighbours. To these various obstacles can be added the absence of a legal basis in the treaties permitting the Union to develop a genuine overarching energy policy, and the timidity of European institutions in promoting such a policy.

Concerning the internal energy market, the fragmented opening of gas and electricity markets in the 27 member states, along with weak transnational competition and weak added value for consumers in terms of reduced energy prices have obscured the potential benefits of a true Europe-wide liberalisation of energy markets. Recent legislative initiatives adopted in the framework of the internal market (Third Legislative Package) appear insufficient to build a single internal market. Such a market needs rules and authority, in the form of a single regulator of the gas and electricity markets which guarantee that the operators will supply, in good time and at the best price, the energy necessary to satisfy demand.

The Union also suffers from a damaging lack of credibility. It remains incapable of speaking with a single voice on the international energy scene, either within the relevant forums or, even more so, *vis-à-vis* producer and transit countries. This prevents it from exerting its full weight (economic, commercial and political) in its relations with interlocutors. The realisation of a true internal energy market would also make the Union a weighty partner in negotiations with producer countries. This lack of credibility is linked to the absence of energy solidarity between members, in practice and in law. To meet the challenge of energy security, the member states face a little-diversified range of sources; increased dependence on Russian gas; a lack of necessary infrastructure for the creation of a Europe-wide energy network; limited storage capacities; and persistent technical difficulties (for example, in allowing the direction of pipe flow to be switched between countries when supply is broken) which prevent states from helping neighbours in times of crisis.

Finally, the capacity of the Union to finance the necessary projects is at stake. One can regret the small size of the sums allocated to the energy issue in the European budget, which doubtless can be explained by the belated emergence of the energy issue in European debate. On average, the share of the annual European budget allocated directly to energy policy in the 2007-13 financial perspectives is around 20 million euros. Until now this budget has only allowed the financing of feasibility studies for energy projects, and not the realisation of the projects themselves. But given the figures mentioned and the need for increased investment in infrastructure, along with new technologies and alternative energies, this amount seems decidedly low if the Union is to bring any added value to the financing of such projects.

What strategy for the Union?

In light of the current situation and to meet these major challenges, national solutions are no longer sufficient. In general, the Union must above all develop a common policy in the field of energy and equip itself with a capacity to act collectively in order to invest in energy transport networks and other infrastructure, to finance research programmes and to conduct a common policy with regard to producer countries and transit countries. On these subjects, no added value comes from competition between member states. The Union cannot accept that the supply of energy to a member state be compromised. It must therefore ensure that solidarity can function, with the help of adequate interconnections, and that no third-party country can reduce supply in a targeted manner. The Commission has made proposals but the difficulties of decision-making lead one to ask whether the Union has at its disposal today the necessary legal foundations to conduct such policies.

Faced with these challenges, the current Trio Presidency envisages to undertake action in the field of energy and climate change, especially with regards to the results of the December 2009 Copenhagen Summit, the legislative progression of the energy and climate change package, in particular of the internal energy market and to the Energy Action Plan 2010-2012 on energy security, efficiency and diversification. The Trio initiatives seem to be promising but limited in terms of concrete propositions. Therefore, in order to move forward the integration in the field of energy, we address the following recommendations to the Trio Presidency.

On short-term:

- The building of an internal energy market and free competition are the two instruments given priority by the Union in order to guarantee that consumer demand is satisfied in the best conditions. These conditions must be fulfilled if the Union is to act effectively, both internally *vis-à-vis* the energy operators and externally *vis-à-vis* producer countries and transit countries. In that respect, the implementation of the Third Energy Package aimed at the creation of wide, contestable and liquid energy market throughout Europe, ensuring effective competition and therefore contestable markets between various suppliers, combined with the creation of an Agency for Coordination of European Regulators (ACER) for gas and electricity markets are a valuable step in that direction. However, it is the responsibility of the Trio with the European Commission to make sure that the package is implemented correctly and on time, and that the rules it contains is properly enforced by the competent authorities.
- Since the existing EU system is not suitable for delivering a coordinated response to an acute supply crisis, in order to prepare future supply crises, directives concerning safeguard security measures need to be revised.
- Compared to the required amount of investments, the part of the EU budget devoted to energy projects (infrastructures, new technologies, research programmes, etc.) is very limited. The share of the Community budget allocated to this issue in the new financial perspectives of 2014-19 should be significantly increased.

- In the implementation of the institutional innovations in EU's foreign policy brought by the Lisbon Treaty i.e. a new Permanent President of the Council (PPC) with a High Representative for CFSP / CSDP helped in its task by a European External Action Service (EEAS) the Trio Presidency should try to promote the capability for the EU to project its interest externally and to speak with one voice in the field of energy. The Trio could also push for better coordination of the Union's external action on energy through the new European External Action Service. In this respect, the EEAS should have a clearly defined and strong energy component.
- With regards to climate action, the Trio Presidency should try to guarantee that the EU's position must rest on both a solid internal strategy in which it respects its own commitments and a global one in which it supports the involvement of developing countries by taking the necessary financial commitment to allow these societies to adapt.

On medium to long-term:

- In light of the structural deficiencies that the EU energy policy is suffering (as explained above), it has become necessary to proceed to a real introspection on the way the EU energy policy has developed so far. This exercise would enable the EU to realise that it lacks the sufficient and necessary legal foundations to develop energy as a core policy and launch a process capable to deliver concrete and tangible results in achieving the three objectives (accessibility, sustainability and reliability) altogether. This analysis should not take too much time, and could be launched straight after the release, in June 2010, of the report of the González Group of Reflection on the Future of the EU.
- Once such analysis done, the Trio could launch a real debate on the various options on the way forward the creation of such a new dynamic and flexible process. Some of those main options can already be identified: using the existing Union structures and the framework of the current treaties and / or the Lisbon Treaty; creating a new framework and a genuine European Energy Community based on a new European Treaty dedicated to the energy question; and a partnership of a few member states (following the examples of Schengen or Prüm) at regional level.