

FECER ANSWERS TO 13 QUESTIONS ON SECURITY OF ENERGY SUPPLY IN EUROPE

1. Can the European Union accept an increase in its dependence on external energy sources without compromising its security of supply and European competitiveness? For which sources of energy would it be appropriate, if this were the case, to foresee a framework policy for imports? In this context, is it appropriate to favour an economic approach: energy cost; or geopolitical approach: risk of disruption?

Security is one of the major objectives of European energy policy. However, this objective must be balanced with other objectives such as competitiveness and the sustainability of its environmental impact, without giving priority to any of them vis-à-vis each other. Any increase in dependence on exterior supply sources from the current levels will be in detriment to security. Theoretically, the maximum level of security of supply would only be reached if our own energy sources were exclusively used. This, in fact, is impossible due to the fact that these sources are not available in all the member States, nor is this recommendable because of its undeniable impact in competitiveness because of its high cost. This means that energy imports constitute an important base for European energy structure from an economic point of view and it is difficult to avoid this dependency.

Therefore, the European union should make the necessary efforts to limit its exterior dependency on energy basically by using energy saving schemes and the use of renewable energy sources. Those energy sources should also be diversified, thus reaching a balance between all of them, always keeping in mind that some of them have a great capacity for storage. This means that a certain level of domestic production must be maintained, limiting dependency on exterior energy even at the cost of sacrificing some economic factor.

There are obvious differences between the situation of oil supply in the world and other more diversified energy sources. A few countries are greatly dependent and some of them have very little stability. It is thus advisable, according to this, to have a coordinated import policy for the entire European Union, especially when it comes to oil and gas and, to a lesser extent, coal. It seems that this policy is not as necessary in the nuclear field do to its greater capacity for storage and its dependency on political factors. However, this energy must not be forgotten if the Kyoto agreements are to be complied with.

We have to try to combine the economic focus with the geopolitical, if this is at all possible, without favouring one over the other. It would be a grave error to only consider the economic factor in the short-term as the risk of a lack of supply would be very high and could even lead to an uncontrolled increase in prices when dependency is very high. On the other hand, making decisions while only considering the security of supply factor could take away competitiveness from the European Union and would put economic growth and the creation of wealth at grave risk.

2. Does not Europe's increasingly integrated internal market, where decisions taken in one country have an impact on the others, call for a consistent and co-ordinated policy at Community level? What should such a policy consist of and where should competition rules fit in?

Economic interdependence in the member countries of the European Union demands common policies for energy supply. These policies must be clear, well defined and lasting in all the energy production and supply sectors, making possible a political and economic guarantee of continuity. Likewise, liberalisation must have a similar rhythm in all the member states and amongst all types of energy. This integrated policy and the coordinated process of liberalisation will generate great benefit to the entire Community, if it is stable and oriented towards the long-term.

Nonetheless, within this common framework, member states should be given the possibility to assume greater energy costs at the internal level in order to increase their security of supply. All of this depends on the characteristics of self-supply and social factors such as employment, change in regional structures, industry competitiveness and general health of the population. However, everything related to the exchange of energy between countries must remain within a common EU framework.

3. Are tax and state aid policies in the energy sector an obstacle to competitiveness in the European Union or not? Given the failure of attempts to harmonise indirect taxation, should not the whole issue of energy taxation be re-examined taking account of energy and environmental objectives?

The selective use of taxes on different types of energy has an appreciable effect in the control of the greenhouse effect due to gas emissions. Therefore, this must be maintained as world climate change is an important problem and the EU must comply with its Kyoto commitments. On the other hand, the different economic level of each member state must be taken into consideration in order to avoid imposing, in absolute terms, equal tax levels.

Taxes on energy are an acceptable measure for promoting energy saving schemes, the use of certain energy sources or for other objectives within a coordinated policy both on a national level as well as on the EU level. Of

course, there is an effect on the competitiveness among countries with different tax levels. Therefore, the European Commission should continue its efforts to harmonise, at least in relative terms, tax levels regarding energy matters.

The European Commission should also make sure that the industries competing with countries outside the EU have tax levels equivalent to those of their competitors, thus allowing for a reduction of this effect.

In conclusion, there is no doubt that the European Commission should re-examine and try to harmonise all tax policy regarding energy matters.

4. In the framework of an ongoing dialogue with producer countries, what should supply and investment promotion agreements contain? Given the importance of a partnership with Russia in particular, how can stable quantities, prices and investments be guaranteed?

Agreements with producer countries must achieve stability in prices for energy products, co-operation and offer development aid for these countries. We consider the creation of mixed companies, with the participation of the corresponding producer country and EU countries, an interesting tool.

Producer countries outside the EU in general and Russia in particular, have an urgent need for capital investments in the energy sector, not only oriented towards exports, but also the energy industry oriented towards internal needs and, therefore, should receive EU assistance. This concerns production plants that often operate with very low efficiency or low levels of security, like, for example, the nuclear industry in eastern countries.

EU investments can help to improve these levels which, on a global scale, is more efficient than investing the same amount of money in improving the already high levels of efficiency and security in the EU. At the same time, this should be linked to the signing of supply agreements in the long-term, which would lead to a greater level of stability and security of supplies.

5. Should more reserves be stockpiled -as already done for oil - and should other energy sources be included, such as gas or coal? Should the Community take on a greater role in stock management and, if so, what should the objectives and modalities be? Does the risk of physical disruption to energy supplies justify more onerous measures for access to resources?

It seems obvious to us that, in view of the crises of the 70's, 80's and even 90's, it is absolutely necessary to develop common stockpiling policies of energy reserves to assure supply and, in some cases, help to stabilise the energy prices in Europe. But the treatment of these reserves must be different for each type of energy. The need for an oil and gas reserve is clear, along with the consideration of increasing the level of these reserves, something similar to what is done in the United States of America. However, in the nuclear field,

relatively small reserves guarantee a lot of production time and therefore the current reserves could be enough.

Coal is a different case, where the difficulty of restoring extraction activity of abandoned operations demands the design of a revolving conservation method that will allow access to the reserves and operational production equipment with a limited amount of miners. This guarantees that, if need be, production start up of the oilfields will be carried out in a reasonably short period of time.

Another entirely different problem is who should pay for the cost of these stockpiles as, for example, the liberalisation of European electricity markets has led to an increase in competition, lower prices and therefore, an increase in pressure on companies to reduce costs. Therefore, producers will try to reduce the stockpiling of raw materials for the production of electricity in order to reduce costs and be competitive.

So, it does seem reasonable to follow a coordinated policy of energy products reserves in the EU. Perhaps a system that could join stockpiling in one country and domestic energy production subsidies in another could be developed.

6. How can we ensure the development and better operation of energy transport networks in the European Union and neighbouring countries that enable the internal market to function properly and guarantee security of supply?

The European commission could provide financial aid for the creation of connections between countries, particularly for electricity and gas, as the capacity of these connections is a fundamental element for security of supply. Frequently, the obstacle to build these connections is not, however, the difficulty in financing but the receiving process from the pertinent authorities. The European commission should provide a framework to ease the authorisation process.

Another way of improving construction and use of trans-national connections is by means of co-operation between companies from the different countries to be connected and including mergers between them. With regards to mergers between companies of different member states, it seems that the Commission's strict and rather restrictive attitude in the approval process is one of the reasons why, up to now, many of these mergers have not been developed; something which would have been beneficial.

The promotion of competitiveness and the liberalisation of the market should go hand in hand with a more open attitude towards company mergers from different countries. This would have a strong and positive effect on security of supply.

7. The development of some renewable energy sources calls for major efforts in terms of Research and Technological Development, investment

aid and operational aid. Should co-financing of this aid include a contribution from sectors, which received substantial, initial development aid and which are now highly profitable (gas, oil, nuclear)?

It is very positive that renewable energy sources can benefit from the most important R+D efforts, and receive economic aid from the Member States and the European Commission. Taxes on energy can be partially used to finance this research but making sure that this aid does not have the nature of a long-term subsidy. If the growth of a new sector in the field of renewable energy sources is subsidised, then the prospect of it becoming economically profitable must be continuously supervised.

Generally, the use of renewable energy sources must be promoted and must receive economic aid because they play an important role in the balanced structure of energy supply. This means that, even at greater costs, renewable energy sources are of great importance due to its contribution to a greater level of security of supply -- as they are always domestic -- and with less environmental impact.

However, the additional cost should not be paid by other energy sectors. This type of energy is important for the Commission's and each State's energy policy and the general public, that is to say, the consumers.

It is important to also add that the first thing to be done is to select and separate those renewable energy sources that constitute a real alternative from those that will contribute nothing important to the future.

8. Seeing that nuclear energy is one of the elements in the debate on tackling climate change and energy autonomy, how can the Community find a solution to the problem of nuclear waste, reinforcing nuclear safety and developing research into reactors of the future, in particular fusion technology?

FECER favours the use of nuclear energy for the generation of electricity with European security standards, as this type of energy plays an important role in a balanced structure of energy supply. The substitution of this type of energy for any other source that is available today would modify this balance. Germany should therefore reconsider its decision to close down its nuclear power plants because its decision has consequences for the future of this type of energy in the entire European Union. Moreover, the German decision will have a negative effect on the continuity of research in this sector and in the development and export of technologies with even higher levels of security than are currently used.

Nuclear energy companies in the United States play an important role in the improvement of such standards in many countries outside the EU. However, they can only play this role outside if they can prove they use the same technology in their very own country.

R+D in the nuclear sector is geared towards the long-term, and many countries, like Germany, are facing a bleak future without nuclear power. In the face of the situation, the European Commission can provide a framework under which R+D activities can continue. This includes funding to carry out research and also the creation of a discussion forum, measures to improve the image of nuclear energy, and of course, finding acceptable solutions for the treatment of nuclear waste. A wide and open discussion of this topic at the EU level and beyond can help to explore the different options available and the general public's acceptance of this energy.

9. Which policies should permit the European Union to fulfil its obligations within the Kyoto Protocol? What measures could be taken in order to exploit fully potential energy savings, which would help to reduce both our external dependence and CO2 emissions?

Again, a balanced structure of energy supply combined with energy saving schemes should allow us to comply with the Kyoto Protocol. As far as energy saving schemes are concerned, increasing energy prices will have a positive effect in the application of measures and technologies that favour energy saving. Nonetheless, education of the general public on the possibilities that each individual has with regards to energy saving must be encouraged.

Energy production companies frequently promote energy saving amongst their clients but since economising reduces their income, the interest in promoting this type of saving is limited. Governments and the European Union have a key interest in energy saving schemes and therefore, must play a fundamental role.

Regarding R+D funds for developing more efficient ways of producing, transporting and using energy, this area should receive additional support from the European Commission as it has a direct effect on compliance with our Kyoto obligations. The potential for energy saving is enormous but it must be available to each individual at a reasonable cost. In this field, R+D financed by national governments and the EU is one of the fundamental keys to success.

10. Can an ambitious programme to promote biofuels and other substitute fuels, including hydrogen, geared to 20% of total fuel consumption by 2020, continue to be implemented via national initiatives, or are co-ordinated decisions required on taxation, distribution and prospects for agricultural production?

FECER's opinion is that no. We have to take into consideration that bio fuels have a global cycle of production much more expensive (in energy and in money) than other conventional fuels. Nonetheless, they can be useful on a small-scale to help the security of supply, energy saving and even to solve certain agricultural overproduction problems.

We must also keep in mind its impact on the gases that provoke the greenhouse effect, to which they might be harmful.

Therefore, we do not believe that they can be a solution to the problem on a large-scale but can help in energy saving on a small-scale.

11. Should energy saving in buildings (40% of energy consumption), whether public or private, new or under renovation, be promoted through incentives such as tax breaks, or are regulatory measures required along the lines of those adopted for major industrial installations?

FECER considers that energy saving in buildings is important and, therefore, supports the establishing of incentives that promote this. Working from data between 1975 and 1985, where an improvement in energy efficiency in buildings of 24% was achieved, and that between 1985 and 1999 that improvement was only 10%, then we can deduce that there still exists a great potential for energy saving.

But we believe that incentive is not enough and that construction norms must be established to ensure certain types of obligatory measures that guarantee a minimum efficiency.

12. Energy saving in the transport sector (32% of energy consumption) depends on redressing the growing imbalance between road haulage and rail. Is this imbalance inevitable, or could corrective action be taken, however unpopular, notably to encourage lower use of cars in urban areas? How can the aims of opening up the sector to competition, investment in infrastructure to remove bottlenecks and intermodality be reconciled?

Rail transport, when well planned and with efficient infrastructure, can significantly help to solve the problem and therefore must be promoted. It is important that it be efficient, thus the inconveniences that make it less attractive (economy, flexibility, speed and manoeuvrability) must be analysed in detail. Achieving more energy efficient trains, where electricity can play an important role, could mean that great part of the transportation that now takes place on roads will change over to rail. And this can be so not only with people but also with merchandise. If this is linked to electricity production with fuel that helps to lower those gases that cause the greenhouse effect, it can also help to comply with the Kyoto requirements.

Measures must be established that discourage the use of private vehicles in big cities, promote the use of public transport and even prohibit the circulation of this type of vehicles in city centres. In this sense, a different organisation of work with flexible schedules, encouragement of certain type of telephoned based work, etc. All of this could help to avoid the collapse that the public transport systems presently suffer at certain rush hours as well as the traffic jams that occur at the same time.

13. How can we develop more collaborative visions and integrate the long-term dimension into deliberations and actions undertaken by public authorities and other involved parties in order to evolve a sustainable system of energy supply. How are we to prepare the energy options for the future?

Communication can provide an answer to that question. Even if energy policy remained under the responsibility of Member States, the European Commission could provide a forum to debate this policy, the differences between countries, the long-term challenges and the objectives to cover, the necessary balance between security and competitiveness, possible improvement measures, etc.

An example of this is the current discussion on Security of Supply in Europe and the creation of institutions such as The Energy Consultation Committee, which gathers opinions from very different groups and from all the member countries. FECER itself, although to a lesser degree, a comparable example, where professionals and executives of the different energy sectors from the different member countries have drawn up a great number of documents, thus formulating a vision of energy policy themes accepted by everyone.

A permanent dialogue between these types of organisations and the public authorities is necessary, both at the European level as well as at the level of each member state, and with the general public, so as to obtain acceptance and the greatest possible consensus in any solutions adopted.

We believe that the Commission's role in this matter must be more active and political agreements must be reached to promote that role as coordinator. But the Commission must also make any and every necessary effort to explain to governments and the public opinion, the measures it adopts and, even more important, the reasons that support these measures.

The general public's involvement and that of all the social agents depends on a transparent policy and exquisite care in communication, in dialogue and in participation.

When organisations committed to dialogue and discussion are created, it must be done giving the greatest possible participation to all those who have something to contribute, since it is with high participation that you get the greatest amount of involvement from the general public.

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