

**CBI response to the European Commission Green Paper
'Towards a European strategy for the Security of Energy Supply'
(COM 2000-769)**

BACKGROUND

1. The CBI – with a direct company membership employing over 4 million and a trade association membership representing over 6 million of the workforce – is the premier organisation speaking for business in the UK.
2. Our membership consists of energy producers and suppliers, energy intensive industries and small and medium sized energy users. Whilst these individual CBI members will be making sector specific comments on the detail of the green paper, the following response will focus on the general principles of security of supply.

INTRODUCTION

3. The CBI welcomes the opportunity to comment on the Green Paper '*Towards a European Strategy for the Security of Supply*', which is an important first stage of a debate on the inter-linked issues of energy policy, economic growth and the environment.
4. We have noted, the Green Paper seeks to explore the debate in relation to two fundamental objectives:
 - ❑ To ensure the uninterrupted physical availability of energy products on the market which is affordable for all consumers;
 - ❑ To respect environmental concerns and look towards sustainable development, as enshrined in articles 2 and 6 of the Treaty of the European Union.
5. The CBI recognises that security of supply cannot be looked at in isolation from other policy goals and inevitably there will be tensions between conflicting goals relating to supply security, the environment and competitiveness. However, we believe that these tensions are best resolved through the operation of the free market within a stable and predictable regulatory and legal framework. A persuasive case for centralised EU policies relating to supply security has yet to be made.
6. Theoretically the main risks to security of supply could arise from a potential lack of diversity in energy sources, their geographical distribution and the number of potential suppliers coupled with inadequate investment in infrastructure and energy production within the EU and from potential suppliers and investors outside the EU. Failure to address these issues could result in higher prices, limited sources and suppliers and disruption to physical continuity of supply.

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KEY POINTS

7. Managing the risks associated with security of supply can be addressed by giving priority to three fundamental issues:

- ❑ The liberalisation of European energy markets
- ❑ Encouraging access to diverse sources of fuel both by type and geographical location, including sources of fuel available within the EU.
- ❑ Demand side responses which encourage energy efficiency

It is important that each of these broad issues also takes into consideration social, economic and environmental implications.

8. In managing these issues, the EU has an important contribution to make by ensuring the proper function of the energy market through its role in delivering energy liberalisation across the EU.

9. The delivery of a well-functioning market for all energy providers and users will also entail an additional role for the EU in improving the security of fuel imports by using international diplomacy to encourage appropriate investment conditions and to facilitate a range of new import routes into Europe for diverse and additional fuel sources.

10. However, regarding the implementation of new policies and measures aimed at delivering the fundamental objectives of the green paper, the CBI takes the view that these should primarily be applied via the principle of subsidiarity, thereby reflecting geographical and economic variations between Member States.

The Liberalisation of European Energy Markets

11. The CBI considers the liberalisation of energy markets an important step to safeguarding future supplies. Competitive markets provide price signals to keep supply and demand broadly in balance and promote investment in innovative technologies and improvements in the level of service to consumers. Around this, a properly constructed regulatory framework will provide incentives for efficient investment in infrastructure and development of risk management mechanisms aimed at securing energy supplies.

12. The Commission recently published proposals to bring forward the timetable for full energy liberalisation in the EU. The CBI supports the aim of the proposals which are broadly consistent with the views of CBI members. These include:

- ❑ Unbundling vertically managed operations – thereby eliminating discrimination between different network users
- ❑ Ensuring access to all current monopoly services is fair and broadly reflects costs
- ❑ Ensuring that national and cross border tariffs are consistent and transparent (to all stakeholders)
- ❑ Maintaining non-discriminatory access to physical capacity and providing the necessary incentives to encourage the development of new capacity.

13. If decisions on the harmonisation of taxes are made they must not distort the competitive market for energy supply.
14. Competitive markets will have an important role to play to contribute to efficient energy production and resource usage but neither they nor centrally planned markets may necessarily deliver outcomes that are consistent with security of supply or other broader policy objectives. Therefore, it is the view of the CBI that Governments do have a role in supervising the operation of markets and in creating a regulatory framework which addresses security of supply concerns.

Encourage access to diverse sources of fuel

15. We welcome the Commission's conclusions that '*no one sector can meet the energy requirements of the present or an enlarged European Union*'. It illustrates that there are advantages and drawbacks, to varying degrees, with each energy source. The objective must therefore be for a balance across the options in order to achieve an acceptable energy mix. Consideration should be given fairly to all energy resources and barriers such as distortionary economic incentives, that could hamper the development of other innovative sources or innovative uses of current sources for the future should not be applied.
16. However, whilst the market for indigenous power supplies should be allowed to operate under an efficient regulatory system, it cannot be emphasised strongly enough that the key to security of supply is that access to a sufficient diversity of energy products exists. This would allow fuel switching to take place and thereby enabling physical availability and price disruptions to be smoothed out.
17. Therefore, the CBI welcomes the Commission's desire for a dispassionate debate on each energy source, including nuclear energy, at a time when the consequences of climate change cannot be ignored. It is essential that this debate engages the public and is informed by comparative life cycle analysis, sound science, risk assessment and cost benefit analysis.
18. There are opportunities and challenges for the use of all fuel sources. Coal remains an important fuel source for power stations, and can, if the appropriate technologies are applied to satisfy environmental considerations, be extremely beneficial if other fuels are in short supply.
19. We recognise that renewable energy is generally currently more expensive than conventional energy sources. However at this early phase in the development of this market the Community has a role to play to ensure that market distortions and additional costs are kept to a minimum by using market based mechanisms to develop renewable energy sources.
20. Finally, timely administrative arrangements for land use and planning must address the need to manage diversity of supply.

Demand side responses which encourage energy efficiency

21. Energy efficiency has an important role to play in ensuring that the Commission meets the climate change targets agreed under the Kyoto Protocol. However, it is important that demand side measures are not only targeted towards business but also address rising energy consumption from both the domestic and transport sectors.
22. The CBI believes that policies and measures which attempt to address energy efficiency should aim to:

- ❑ Be cost-effective and applied across all sectors
- ❑ Encourage changes in behaviour
- ❑ Promote competitiveness (in the context of business)
- ❑ Target sectors, which lack the incentives to improve energy efficiency

23. Finally it is imperative that the EU and Member States recognise that there are lots of cost-effective energy conservation opportunities which are not taken up for a variety of reasons (lack of capital, high internal discount rates, scarce management resources etc). As such, the CBI believes that there is a role for the EU in raising awareness and encouraging best practice.

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Responses to the questions in the green paper

Q1. 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 geographical approach; risk of disruption?

CBI supports a market-driven energy policy which seeks to give consumers a free choice. In principle, no energy provider should be excluded out of political considerations. CBI does not support the need for an import policy at EU level, provided the appropriate moves are made in wider international diplomacy. The basic objective should be to have a well functioning market for all participants.

CBI favours a pragmatic and economic approach to minimise the risk of disruption

Q2. 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 coordinated policy at Community level? What should such a policy consist of and where should competition rules fit in?

There is no evidence to suggest that a centrally planned policy could necessarily deliver security of supply. Policies on those energy issues which may need to be addressed at the EU level should be consistent with the operation of the internal energy market and the EUs competition rules. The principle of subsidiarity must also be respected.

Q3. 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?

Research to examine the complexity of Member States energy taxes in the context of other taxes and incentives and their effectiveness in delivering sustainable development may inform the debate but is unlikely to provide a solution to the challenge. Recent initiatives in the area of energy taxation (Community framework proposal COM 97-30) have not addressed environmental concerns and have created serious threats for the competitiveness of the European manufacturing sector. CBI believes that measures should be aimed at improving the general climate for the competitiveness of business and stimulating innovation. Market led initiatives such as emissions trading schemes and incentives for improving energy efficiency may produce more focused positive results than the use of energy and environmental taxation for the pursuit of environmental objectives in the energy sector.

Q4. 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?

Business has had to live with the reality that there are no guarantees, but risks of disruption of supply of energy resources can be minimised by ensuring that there is greater participation or control by operators based in Europe:

- in ownership of energy reserves situated outside the EU;

- in exploitation of these resources;
- in possession and operation of the related logistics;
- in the sharing of profits of joint ventures.

The European institutions should develop dialogue with all producing countries to improve the rules to achieve the above and have effective political sanctions for failure of agreements

Q5. 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?

Member States should evaluate their own situation and their current arrangements for the management of stockpiles and storage capacity. Intervention at the European level is inappropriate, the role of the European Commission is to monitor and co-ordinate information.

Q6. 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?

Management and development of energy transport networks is primarily a matter for the businesses active in energy markets. Their decisions for investment should not be distorted by state aid.

Q7. The development of some renewable energy sources calls for major efforts in terms of research and technological development, investment 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 energy)?

Oil and gas have not received any subsidies. Nuclear energy long since returned subsidies received to consumers in the form of low electricity prices. Traditional energy providers already help directly and indirectly to finance renewables, through high energy taxation. Any further measures to promote renewables should be market-based. As it is largely companies that are active in other energy sectors that are also promoting renewables the proposal to tax them or their profits is counter productive.

Q8. 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?

The first priority should be to make it clear to the public that nuclear energy in the framework of an energy diversification policy which should also encompass renewables is an option that is important for tackling the climate change problem. This emerges from numerous studies, including scenarios developed by the Commission itself for the horizon of 2020. The CBI believes that it would be sensible for well informed debate at EU and Member State level to discuss the relative risks linked to global warming and those linked to nuclear energy as it is exploited in the EU

Q9. 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?

Any EU strategy designed to control greenhouse gas emissions must start from the consideration that control of climate change calls for carefully co-ordinated progress at the societal, environmental and economic levels.

Economic policy must in particular support and build on companies' own initiatives (innovations, investments, etc.) which have already been a decisive source for making progress in climate change control.

Both the environmental effectiveness and the economic efficiency of the Kyoto mechanisms will depend upon establishing open and transparent global markets, with equivalent emission reduction units being fully tradable between all three of the mechanisms, and without artificial or arbitrary constraints being placed on trading.

Emissions trading by companies should be encouraged on a voluntary basis, since the most cost effective reduction of emissions will come from encouraging trading on the widest possible basis, ensuring greater liquidity and price transparency.

The financial resources needed for investments should not be extracted from companies, e.g. through energy taxes: investment is the most important condition for the introduction of energy-saving technical progress.

Q10. 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?

Some co-ordinating efforts at EU level in the framework of EU promotion programmes may be helpful but they should only be contemplated after extensive evaluation of the desirable and aberrant effects. Such efforts should not be supported by additional taxation on business. There are serious doubts about the technical feasibility of achieving a 20% market share and this figure should be regarded as an aspirational goal.

Q11. 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?

Energy-saving measures in buildings are marked by highly divergent national particularities. We do not believe that EU-wide and uniform provisions for buildings are the right route.

Q12. 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?

General

The question of energy-saving in the transport sector requires initiatives which are balanced and well co-ordinated from the economic, environmental and societal angles, notably because of:

- ❑ the important role played by transport and logistics in maintenance of European companies' international competitiveness. Europe suffers from a serious handicap as compared with the USA in terms of total logistics costs which represent 12% of GDP in Europe against 10% in the USA
- ❑ the significant impact of transport on the environment
- ❑ the key role that some policies for societal development (territorial development, urban planning schemes, etc.) exert on flows of persons and goods.

Broadly speaking, the line of thought in the green paper and other Commission documents is that:

- ❑ market prices for products, resources and services are often largely responsible for the unsustainable trends observed
- ❑ public action aimed at "getting the prices right" constitutes a powerful remedy for correcting these unsustainable trends.

The possibilities envisaged by the Commission for influencing prices in the transport sector are of two types:

- ❑ transport infrastructure charging
- ❑ charging for external costs (linked to the environment).

Regarding the coverage of infrastructure costs, the CBI considers that application of principles such as those advocated in the High Level Group Report on infrastructure charging is theoretically appropriate, but that any concrete measure must be adapted not only to the theoretical framework but also to cut-throat global competition and industrial structural change.

The concept of "getting the prices right" through internalisation of external costs can be defended on a purely theoretical level, but there are very serious concerns about: its practical implementation (particularly because of uncertainty about the real level of external costs and concerns in the light of a competitive international environment); and, its efficiency. The academic approach aimed at reflecting external costs in transport prices via taxation scores very poorly in terms of environmental effectiveness and economic efficiency. It is much more effective to develop more targeted measures, for instance:

- ❑ drafting more stringent emission standards, in liaison with industry, and encouraging industry's efforts to innovate and invest to meet these standards
- ❑ encouraging technological progress in other relevant areas (telematics, materials technologies, etc.)
- ❑ reactivating investment in infrastructures

- promoting interoperability of networks
- injecting greater managerial and commercial dynamism into rail by further opening this sector to competition.

Practical comments on use of the price mechanism (goods transport)

The CBI has very serious reservations about the view that the current pricing structures are causing the “imbalance between road haulage and rail” and that more active intervention on transport prices (cf. quoted green paper COM 95-691 “Towards fair and efficient pricing in transport”) could easily bring about major progress in the goods sector, especially if making road transport more expensive were to be considered.

Price is far from being the only factor that transport users take into consideration when they choose a mode of transport. The aspects of punctuality and quality of service also play an extremely important role in these choices and therefore in the use made of the various infrastructures available.

The fact that the utilisation rate of some infrastructures (rail, for instance) is not optimal may also result from insufficiently sophisticated management of these infrastructures. Work involving rail operators and users in the Netherlands has shown that a more creative dialogue between the two parties, together with the use of innovative scheduling models, could increase utilisation of the rail infrastructure by 30 to 40% (with the current state of the art).

If the introduction of additional taxes or differentiated rates (as proposed in green paper COM 95-691) results in an overall increase in the cost of road transport, there is every reason to fear a general increase in the prices of non-road transport, bearing in mind the monopolistic or oligopolistic structures of the sectors concerned.

Q13. 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?

The Commission can initiate a structured debate without pre-ordained conclusions to look at the future role of existing fuels and the future role that technology can play in developing a competitive renewable energy sector. It should be noted that government plays a less dominant role in a liberalised energy market. An ever-growing number of stakeholders in the market will shape the future energy supply, with the help of adequate regulation and a proper market structure. Government, and less so the EU, should not try to “pick winners”.