

IGE RESPONSE TO THE GREEN PAPER: 'TOWARDS A EUROPEAN STRATEGY FOR THE SECURITY OF ENERGY SUPPLY

INTRODUCTION

Three main conclusions are highlighted in the Green Paper:

- ♦ The European Union will become increasingly dependent on external energy sources; enlargement will not change the situation; based on current forecasts, dependence will reach 70 % in 2030.
- ♦ The European Union has very limited scope to influence energy supply conditions; it is essentially on the demand side that the EU can intervene, mainly by promoting energy saving in buildings and the transport sector.
- ♦ At present, the European Union is not in a position to respond to the challenge of climate change and to meet its commitments, notably under the Kyoto Protocol.

In the opinion of the IGE a fourth could be added - namely the need to ensure that any strategies adopted consider environmental concerns and contribute to the goal of sustainable development, as enshrined in Articles 2 and 6 of the Treaty on European Union.

RESPONSE TO THE COMMISSION'S QUESTIONS ON SECURITY OF ENERGY SUPPLY

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?

The response to the first part of this question is largely governed by the fact that given current energy reserves within the EU and projected energy demands, there is little choice other than to supplement internal sources with external supplies.

However as outlined in the Eurogas response to the Green Paper, dependence on external gas supplies may be offset both by existing and new reserves from the North Sea and other probable additional reserves.

Where external resources are necessary the EU has already set a precedent for a methodology for increased security of supply, namely the EU-Russia Energy Dialogue whereby:

'Russia is prepared to work towards improving the Union's long term security of energy supply and that, for its part, the EU is prepared to act as a facilitator to mobilise investments in the energy sector'

(Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission).

i.e. the pursuit of common interests resulting in mutual benefits which serve to enhance interdependence and reduce the probability of disruption..

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

The Green Paper provides evidence of the diverse approaches to energy policy and supply security operating within member countries. In an ideal world such differences would not exist and the consistency that this would afford would place the EU in a position of strength when negotiating with external suppliers.

Differing patterns of energy use, varying levels of associated infrastructure and different energy needs within member countries serve to emphasise that such an all encompassing policy may be difficult to formulate and it may be even more difficult to achieve a meaningful consensus of member states. However given the benefits that could accrue from a consistent and co-ordinated policy further research should be undertaken with the aim of a progressive integration which examines and builds upon existing good practice in member states.

Competition rules should aim to ensure an open market for energy practitioners within the EU. However lessons should be learnt from the example afforded by the power shortages currently occurring in California, which demonstrates that liberalisation does not necessarily lead to security of supply.

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?

Tax and State Aid policies can provide an obstacle to competitiveness and where they subsidise energy use may have a negative environmental impact both in terms of release of pollutants and increases in greenhouse emissions. In such cases they should be phased out.

In addition increased taxation is a possible (albeit contentious) route to reducing unnecessary energy usage. However any energy tax could act to reduce the competitiveness of affected industries and this is not a step that should be undertaken lightly, as has been demonstrated within the UK where taxation on motor fuel led to industrial action by road hauliers and considerable national disruption.

Of greater value may be the use of tax incentives to favour the development and use of more environmentally sustainable fuels enabling them to compete more effectively in the energy market, whilst taxing those fuels known to be more environmentally damaging i.e. internalisation of external pollution costs.

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?

As indicated in the answer to question 1, the current approach to partnership with Russia offers stability of quantities, prices and investments. However whether such goals can ever be guaranteed is doubtful.

The EU should therefore seek to diversify its supply sources as far as is reasonably possible so that it is not dependent upon any one fuel or producer to the exclusion of others.

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?

The concept of stockpiling oil/gas/coal would seem to represent one way of securing supply. However it is only a short term solution and carries with it environmental implications - particularly in the case of coal.

Given the different patterns of energy use and infrastructure operating within member countries, an EU role in stock management could fail to respond to local conditions. It would therefore seem more appropriate to encourage greater storage capacity at national level. This will be encouraged by liberalisation of the energy market and greater capacity for energy trading between member states.

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 key to the development of energy transport networks is a sufficient return on investment for the operators. The role of the European Union is to construct a regulatory framework which encourages development whilst ensuring safe and environmentally secure construction and operation to recognised standards.

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 energy)?

The issue of co-financing renewables development based upon initial development aid offered to other industries is a contentious one which is covered in the Eurogas response to the Green Paper.

However if renewable energy sources are to be competitive some form of financial support/incentive is necessary. This could be in the form of direct subsidy, possibly

financed by the type of windfall tax on energy profits instituted by the UK, or a system which taxes energy supplies on the basis of their pollution potential i.e. internalisation of external pollution costs. The latter also has the potential to reduce use of those energy sources which make the greatest contribution to the Greenhouse Effect.

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?

The problem of the disposal of nuclear waste is an emotive one and the public perception of all aspects of nuclear power generation is coloured by the events surrounding the Chernobyl incident. Therefore any technological solution to the problems, however sound will fail unless the public can be persuaded of its long term safety.

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?

The greater use of natural gas for power generation and in industrial applications will reduce greenhouse gas emissions and contribute to the fulfilment of the EU's obligations under the Kyoto Treaty.

However this supply side solution is clearly insufficient and all member states need to act to reduce demand. This will require a greater examination of all aspects of energy use and the development of strategies which will include:

- ♦ improved energy efficiency - a recognised 'win-win' scenario whereby both the energy user and the environment gain benefit.
- ♦ greatly improved consumer awareness - including research into where the greatest household energy savings could be made.
- ♦ a taxation regime which discourages the use of consumer goods which use energy for luxury purposes only.
- ♦ a recognition that large energy savings can result from small actions if they are repeated often enough across all member states- the classic example being turning off lights in an empty room.

All of the above will require confirmed commitment from each member state and as indicated in the EuroACE response to the Green Paper the need 'to generate political momentum to remove the obstacles blocking serious energy efficiency policies'.

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?

Promotion of biofuels and other substitute fuels depends on issues other than taxation, distribution and production prospects - namely development of the appropriate technologies, many of which are still in their infancy. It would therefore seem most appropriate for the EU to play its major co-ordinating role in the area of research and development so that the new technologies can be made available to all member states with costs shared across the whole of the Community.

With respect to the development of renewable resources the benefits of methane capture and use should be considered. Either in the form of biogas generation from solid waste or municipal/industrial wastewater or methane from abandoned mine workings. Whilst mine gas is not classified as a renewable source, both sources have the advantage of reducing methane emissions, therefore making a significant contribution to the reduction of greenhouse gas emissions. (Each tonne of methane that is released to the atmosphere has a 100 year global warming potential equal to 21 tonnes of carbon dioxide). In addition reinforcement of the contribution to limiting emissions is achieved where the energy derived from the methane displaces energy from coal or oil fired power generation. Methane produced in this way can be supplemented by natural gas if there is any shortfall in supply, therefore making this a flexible option.

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?

The IGE supports the EuroACE response to this question.

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?

The problem of the imbalance between road haulage and rail should not be seen as inevitable - it is clear that in the long term it is not sustainable and the EU must take corrective action.

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?

In publishing the Green Paper the EU has already taken the first step in the development of a collaborative vision. The responses of concerned parties should

enable this vision to be carried forward into actions which will enable long-term planning for the achievement of a sustainable energy supply.