

Contribution to the debate on the Green Paper  
Towards a European strategy for the security of energy supply

Name	
Organisation	<b>BDI e.V – Bundesverband der Deutschen Industrie</b>
What are you areas of interest?	Federation of German Industries
Contact person	
E-Mail	w.muelkens@bdi-online.de
Telephone	49-(0) 30- 20 28-14 29
Fax	49-(0) 30- 20 28-24 29
Address	<b>Breite Str. 29, 10178 Berlin</b>

Please add your answers after the question(s) which deal most closely with the subject(s) on which you wish to comment so that the Commission can deal with the remarks efficiently and swiftly.

1.	<p>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?</p> <p><b>A. General comments:</b></p> <p>The superiority of markets for coordination of supply and demand is undisputed. Accordingly, the aim should be for additional political requirements on market results to be achieved through market-based measures and instruments. Measures which are not in conformity with the market are detrimental to macro- and micro-economic performance.</p> <p>By contrast with unilateral national action, only instruments coordinated internationally in the framework of OECD or at least of the EU allow individual economies to flourish in their effective performance.</p> <p>In line with the Rio conclusions, all energy policy measures must take account of the principle of sustainable development.</p> <p>This means that equal attention must be paid to the global economic, ecological and social aspects.</p>
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Each energy source, whether deployed on a centralised or decentralised basis, has its specific advantages and drawbacks, and is therefore also legitimate against the background of competition and for the aspects of security of supply, efficiency and environment-friendliness; energy sources are not alternatives but complement each other.

In principle, further development of the energy mix should be left to market forces, on the basis of a reliable policy framework.

- For security of energy supply, all technical and economic possibilities with a view to sustainable development should be used:
  - improved efficiency in energy production, transmission and use;
  - greater use of renewable energies;
  - diversification of the supply structure including all energy sources and geographical sources, and thereby also diversification of environmental and technical risks;
  - use and further development of nuclear energy are necessary. Even in countries with exit scenarios, the option of use and further development of nuclear energy should be left open;
  - a coordinated strategy for energy research projects.

#### **B. Security of supply is not jeopardised by increasing energy imports**

On the basis of the global distribution of energy resources on the one hand and the long-term need for energy on the other, the European Union will continue to be a region that imports energy on a long-term perspective. With increasing globalisation and ever greater interdependence between world markets, this is not a fundamental problem.

Against this background, in order to secure energy supply over the long term and under competitive conditions:

- well functioning markets for all energy sources should be the fundamental objective;
- no energy source should be excluded out of political considerations;
- the aim should be for a broader energy mix.

A selective energy import policy on the part of the European Union would put price pressure on the competitiveness of the European energy supply and should therefore be avoided. Europe's energy markets must remain open for energy imports. Over and above the availability of indigenous energy sources, security of energy supply is essentially dependent on an adequate supply of energy sources on world markets. And this will be achieved principally if investments in energy production promise to be adequately profitable. Policy-makers should seek to have a positive influence on the profitability and risk of investments in global energy supply, for instance through international trade agreements, investment and export guarantees, an attractive business and tax climate in the EU, and additional support for energy technologies.

The idea of a national indigenous primary energy pillar of 10 to 15% could be useful if state intervention is restricted exclusively to this market segment and the other energy markets are assigned to undistorted competition. The decision-making power for this

	<p>pillar should be given to national governments. Public financing of the indigenous energy pillar via surcharges on the price of competitive energy sources should be ruled out. In addition, the creeping extension of the primary energy pillar should be effectively prevented, for instance via indirect national support measures such as a renewable energy law and a law to promote co-generation. Otherwise, private-sector investments in the energy sector will be jeopardised, which would run counter to the security of energy supply.</p>
<p>2.</p>	<p>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?</p> <p>In the view of German industry, energy policy is a component of general economic policy. For that reason, market economy principles must also apply for energy policy. The internal market for energy should function in accordance with the general internal market rules including competition rules and without sector-specific provisions or exceptions.</p> <p>The most important task of the European Union is to complete the internal market and to ensure the efficient functioning of the internal market for energy. This task requires establishment of market economy structures, harmonisation of framework conditions and elimination of trade barriers between Member States of the European Union. Once the European internal market for energy is complete, the same rules as on other markets should in principle apply. There is no need for a special Community policy in this area.</p> <p>The proposals discussed in the green paper for a stockpiling of strategic oil and natural gas supplies together with the creation of a European decision-making body for release of these supplies should be rejected. All attempts by policy-makers to stabilise prices with such instruments have failed in the past. If the EU Commission wants its own competence for obligatory stockpiling, it should explain to the European public what principles it plans to apply for the use of this competence, how the scope for manipulation and abuse should be curbed and, above all, who will pay the additional costs. Only the fuel supply for nuclear energy plants can secure requirements for years without imports or expensive stockpiling, thanks to small volumes in conjunction with a high energy density.</p> <p>Regulation of electricity and gas transmission networks is currently in a learning curve, whereby various concepts are in competition with each other. It is still impossible for anybody to assess what form optimal regulation will take. By comparison with experience abroad, the two-tier process with federation agreements and antitrust supervision chosen in Germany comes off well. It directly involves the market players and has the advantage of flexibility and reversibility – by contrast with an established regulatory authority.</p> <p>It would be counterproductive at this point to intervene in this learning curve with overhasty harmonisation of regulatory approaches. It would be erroneous to give the EU Commission the function of a “European super-regulator for energy markets”. The mistakes of the agricultural policy should not be repeated in the area of energy. The example of California shows what terrible consequences politically inspired and inappropriate regulation can have.</p> <p>However, the level of electricity and gas market opening in the EU urgently needs to be harmonised. Companies which can operate from a market which is largely closed at the</p>

	<p>present time – as in France and Italy – enjoy a considerable competition advantage over their competitors in completely open markets – as in Germany. German industry calls for complete market opening in all Member States by 2005. Otherwise, the distortions of competition would eventually lead to company structures which are based not on objective performance advantages but on state protection of domestic companies.</p> <p>The EU Commission already has sufficient competences to achieve the above-mentioned objectives in the fields of internal market, environmental protection and taxation.</p>
3.	<p>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?</p> <p>In the green paper the European Commission refers to low prices charged by the countries that supply energy and high energy prices on European energy markets through increasing energy taxes. However, the financing of public budgets in the Member States of the European Union through high energy taxes does not contribute to security of energy supply. On the contrary: high energy taxes jeopardise the sustainability of appropriate prices for energy raw materials on world markets, which are necessary for the profitability of energy production. For that reason, high energy taxes within the European Union jeopardise the security of energy supply.</p> <p>German industry considers that competition-neutral harmonisation of energy taxes and approximation of environmental standards within the European Union should be put in place in the interest of fair competition within the European Union.</p> <p>The guiding principle should be the international competitiveness of the European Union. German industry therefore rejects harmonisation of energy taxes at a high level.</p>
4.	<p>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?</p> <p>The aim of the EU should be to improve relations with producer countries and to endeavour to ensure that energy supplies are not misused as a means for satisfying political interests. The dialogue with the producer countries should underpin the mutual advantages of free trade and improve the structure of energy markets. The EU should work for the creation of market conditions in the producer countries. In that way, the security of Europe's energy supply can be flanked in foreign policy through dialogue with the producer countries. In concrete terms, the focus of this dialogue should be favourable and reliable framework conditions for economic activity in the energy sector.</p> <p>Guaranteeing quantities or prices is not appropriate for the market-driven European economic system and, in addition, would be a pure illusion. Moreover, treaties with politically unstable countries on such parameters would be highly risky. Quantities and prices of energy sources should not therefore be the subject of political agreements, but should be regulated via markets.</p>
5.	<p>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</p>

	<p>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?</p> <p>The oil stocks held in western industrial states in the framework of the International Energy Agency constitute an effective provision for smoothing quantitative disruptions to the oil supply at any given time. The quantitative security of oil supply is guaranteed by the International Energy Agency's crisis mechanism. The International Energy Agency's crisis mechanism has proved its worth as a cost-effective instrument. We do not regard it as sensible to respond to the danger of a supply-side disruption of supply by recourse to expensive energy sources. This would lead to an unnecessary increase in the cost of the energy supply. Against that, it does seem sensible from the angle of precaution to diversify the mix of energy sources, including indigenous energy sources, as widely as possible.</p> <p>Security of energy supply can only be guaranteed on a global scale. It is therefore also sensible that oil stockpiling policy should be regulated in the framework of the International Energy Agency. We do not regard an extension of the European Commission's competences in this area as appropriate.</p> <p>We regard the available capacities for gas supply in Europe as appropriate. In addition, temporary shortages can be smoothed via adaptation of indigenous production. Any further stockpiling at EU level would be very expensive and should not be the aim, since a serious gas shortage seems highly unlikely. The EU Commission shares this view in its communication on the security of gas supply (document COM/99/571 final). The same applies for coal. Nuclear energy already has large stocks of stored nuclear fuel. In this area, the use of recycling and new reactor systems provides an additional option for reducing the consumption and therefore also the import of raw materials.</p>
6.	<p>How can we develop and ensure better operation of energy transport networks in the European Union and neighbouring countries so as to enable the internal market to function properly and guarantee security of supply?</p> <p>The creation, extension and use of the existing energy supply networks have come about on the basis of supply and demand. The networks function satisfactorily and their further extension should be left to market-driven investments. The investment strength of the companies which make these investments should not be disrupted by state intervention and impediments. In particular cases, credits can be provided by EIB and EBRD, as in the past.</p>
7.	<p>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)?</p> <p>Oil and gas markets have developed in accordance with market principles. The oil and gas sectors are not among the recipients of subsidies, but traditionally offer their energy products under market conditions. Nuclear energy long ago returned the subsidies received to the consumer in the form of low electricity prices. Traditional energy sources contribute directly and indirectly to the financing of renewable energy sources through already high taxation of the entire energy sector.</p> <p>The need for expansion of renewable energies corresponds to a consensus across society</p>

in Germany and the EU.

- The current renewable energy law has led to perceptible additional construction of facilities for the use of renewable energies, and also created jobs through increasing exports of facilities. But it also allows free-rider effects.
- Aid should be aligned on the basic principles of phased reduction and time limits with simultaneous maintenance of planning certainty. It should preferably be provided via the market mechanism and not through cross-subsidies paid for by third parties.
- Phased reduction of aid points in the right direction, but is too weak. Huge aid bills are generated whose knock-on effects for competition are inevitable without further measures. In order to keep the burden imposed by this law within bounds, the prescribed two-year review of aid levels should be carried out consistently on the basis of efficiency criteria.
- An integrated concept for technology and energy research at national and European level (e.g. in the 6th RTD framework programme) which takes account of individual energy sources in accordance with their potential for a macro-economic improvement in energy efficiency helps renewable energies to move forward in line with their potential on the market.

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 ?

German industry agrees with the conclusion of the green paper that the nuclear energy option can only be developed further if there is a consensus in society which provides an adequate period of stability in the light of the economic and technological constraints. In addition, a transparent solution needs to be found for the waste disposal question. We also agree with that. However, it is wrong to suggest that the waste disposal question has not been settled. Definitive storage of radioactive waste is technically possible, but its realisation is currently thwarted to a large extent because policy-makers are not in a position to generate acceptance in society for storage locations. The problem with the use of nuclear energy in Europe is the lack of political acceptance in a few Member States. However, German industry holds to its view that withdrawal from nuclear energy is the wrong approach, for economic and ecological reasons. In addition, the option regarding the use of nuclear energy must remain in place even in countries which currently plan an exit.

The use of nuclear energy and the treatment of used nuclear fuels fall within the responsibility and decision-making powers of the Member States. This independence must remain in place. The European Union can support Member States in the area of research and for exchange of information. In connection with enlargement, the EU must ensure that the safety of nuclear energy in the future Member States is at a high level. In addition, transfer of the good quality safety know-how available in EU countries to less developed countries which use nuclear energy should be supported.

It is difficult to imagine how the EU can ensure its energy supply at an affordable price and meet the challenges of climate change without at least maintaining the current share of nuclear energy in electricity production. Realistically, the EU cannot meet its Kyoto

	<p>commitments without nuclear energy.</p> <p>Within the RTD framework programme, further efforts must be made in comprehensive international cooperation on research into nuclear energy, including fusion energy. This focus is important for both the future of technological development and maintenance of the indispensable level of know-how.</p>
9	<p>Which policies should permit the European Union to fulfil its obligations under 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 CO<sub>2</sub> emissions?</p> <ul style="list-style-type: none"> <li>➤ With the agreements on climate care (self-commitments) and CO<sub>2</sub> monitoring, German industry has realised a convincing concept for reducing greenhouse gas emissions (specific CO<sub>2</sub> emissions 1990-2005 to be reduced by 28% and specific Kyoto gas emissions 1990-2012 to be reduced by 35%). The third monitoring report comes to the conclusion that the CO<sub>2</sub> emissions from industry have been reduced by 47 million tonnes and in the area of public electricity production by 31 million tonnes since 1990. Between 1990 and 1998 the energy-related CO<sub>2</sub> emissions from industry and the energy sector fell by 31% and 16% respectively.</li> <li>➤ The key issue for effective climate care is an increase in the efficiency of energy transformation and use. This is the subject of the commitments made by German industry in its 9 September 2000 agreement with the German federal government. An improvement in investment conditions can accelerate energy-saving processes.</li> <li>➤ Contributions to climate care are also made by the use of nuclear energy (at the level currently agreed) and of renewable energies, which are largely CO<sub>2</sub>-free energy sources.</li> <li>➤ Even against the background of uncertain ratification of the Kyoto protocol, climate protection policy should apply the following orientations: <ul style="list-style-type: none"> <li>• Precautions to prevent or mitigate possible climate change should not be reduced to a purely ecological problem in the framework of sustainable development. Economic performance, social responsibility and environmental protection must be pursued as goals of equal importance in this overall context.</li> <li>• These goals are given insufficient consideration in the increase in the German reduction commitment from minus 8% (Kyoto protocol) to minus 21% (EU burden-sharing) agreed in Brussels in 1998. Germany takes on responsibility for about three quarters of the EU's target reduction in emissions of greenhouse gases, whereas its share in EU CO<sub>2</sub> emissions is less than one third. This allocation of burden-sharing is neither fair nor compatible with the internal market, and needs to be revised.</li> <li>• If the planned exit from nuclear energy in Germany is completed, a large contribution to CO<sub>2</sub> reduction will be abandoned and further emission reductions will be diminished by the corresponding amount. This will work through into all subsequent commitment periods.</li> <li>• With the flexible instruments for climate protection, the Kyoto protocol has shown new ways for making efficient international climate care possible. These instruments are emissions trading, joint implementation and the clean development mechanism. In a climate policy which is also economically</li> </ul> </li> </ul>

	<p>optimised, an important role could be played by these instruments, in particular emissions trading between contracting states. However, we reject obligatory state allocation of company-related absolute emissions ceilings.</p>
10.	<p>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 ?</p> <p>Biofuels and other fuels (including hydrogen in the longer term) can make an additional contribution to diversification of the energy supply. However, German industry believes that biofuels are out of the question as sustainable alternative fuels to oil-based petrol and diesel. This is also the conclusion of the transport energy strategy developed by the German federal government in liaison with the energy sector and automotive industry. The objective of this transport energy strategy is to identify an alternative fuel which can help to complement and substitute for existing fuels. German industry considers that the transport energy strategy should be further pursued as a European project. A decision on a strategy for introduction can then be taken once it becomes clear in Europe which alternative fuel promises to be successful.</p> <p>If the share of 20% referred to in question 10 is intended to be a fixed parameter, German industry would regard this approach as fundamentally misguided. Setting a fixed share for alternative fuels in fuel consumption conceals the risk of expensive failed developments, which should be avoided. German industry is in favour of a market-based European energy policy which makes it possible to have a secure, competitive and environmentally responsible energy supply.</p>
11.	<p>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?</p> <p>There is great potential for savings through an increase in the energy efficiency of buildings. At European level, buildings account for 40% of energy consumption. This share could be substantially reduced, in particular through a reduction in the energy requirements of older buildings. 430 million tonnes of CO<sub>2</sub> annually could be saved in the EU through measures to insulate buildings and through the use of modern control technologies for air-conditioning and heating systems. German industry believes that these energy-saving measures should be stimulated through a combination of regulatory measures and tax incentives. In Germany, this is being done through the energy-saving regulation and financial incentives for an overhaul of the heat characteristics of buildings and modernisation of heating systems. In our view, there should not be overarching European rules given that the situation in the Member States varies very widely.</p> <p>In the future German industry will continue to contribute to the goal of further decoupling economic growth from energy consumption. The conditions for this are a forward-looking energy policy, functional competition and an investment climate which fosters modernisation of the economy.</p>
12.	<p>Energy saving in the transport sector (32% of energy consumption) depends on redressing the growing imbalance between road and rail. Is this imbalance inevitable, or</p>

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?

Development of the modal split, the division of tasks between transport modes, is a result of competition in the transport market, i.e. a result of market processes. In this context, the energy supply is only one of many criteria. Thus, the “imbalance” in this particular point cannot be the yardstick for the market result or for shaping the framework for transport. Rather, there should be a sustainable approach which balances ecological, economic and social considerations.

Road transport in Europe is becoming increasingly environment-friendly. Thanks to a tightening of exhaust gas ceilings for vehicles, emissions from road transport are falling drastically despite an increasing traffic volume. In addition, the development of CO<sub>2</sub> emissions is being decoupled from growth in the volume of transport due to falling specific consumption.

Measures for the common transport policy are proposed on page 103 of the green paper. These are intended to contribute to the security of energy supply and the high dependence of transport on fuels. The revival of rail is a central component of the Community transport policy. In this regard, the EU Commission rightly calls for opening to competition. In past decades rail has continuously lost market shares. The reasons for this development include structural changes in demand with a move towards small-scale dispatches, but also a lack of customer-orientation and deficits in the level of service for which the railway companies are responsible or which can be traced to the lack of competition in rail transport. This unwanted development must be corrected through increased incentives for competition. The EU has decisive responsibility in this area. The opening of cross-border rail freight traffic decided in spring 2001 to take effect from 2008 is much too late. BDI welcomes the fact that the EU Commission has announced new initiatives for opening rail networks completely to competition as rapidly as possible. For domestic rail freight traffic and rail passenger traffic, market opening is a reality in only a few Member States (including Germany). There is an urgent need for regulatory action in this area.

The catalogue of measures for “reorganisation of the road transport sector” are geared principally to structural issues linked to market access and the use of safety and social rules. With regard to security of energy supply, this package of measures can hardly have any greater effect than if it is applied to the extent compatible with the internal market. However, if the aim were to be massive impediments to road freight transport, this would be out of line with the objectives of the green paper and disproportionate in the light of the foreseeable interference with economic processes. In many cases, there are no alternatives, or no market-based alternatives, to the use of lorries (e.g. local freight transport, time-sensitive transport).

The EU Commission proposes investments in rail as a solution for additional energy consumption caused by bottlenecks. In this context, this additional consumption should in the main be tackled directly where it occurs. This relates primarily to bottlenecks in the road network as well as in airport infrastructure and airspace management. BDI rejects cross-financing of investments in the rail network from the proceeds of road utilisation charges. Each transport mode should pay the infrastructure costs that can be allocated to it. For this reason, the EU legislation in place rightly gears assessment of charges to the costs generated by each type of infrastructure.

	<p>BDI supports the idea of promoting alternative drive energies and drive systems for private cars and other transport systems. The EU Commission can actively support progress in this area through its research and development policy.</p> <p>In order to avoid macro-economic distortions between the sectors, transport costs should be charged for which there are reliable background data as to their extent and the correct monetary value. At the present time, this is not yet sufficiently the case for the so-called external costs so that a macro-economic optimisation is not possible. The white paper on fair pricing in transport has confirmed this.</p> <p>In this green paper the EU Commission gears a considerable proportion of its commentary to measures for urban traffic, in particular passenger transport. It is difficult to perceive a field for action under the Community transport policy in this area, because of subsidiarity if for no other reason. With regard to energy consumption, urban traffic is not an area of high demand which would justify such action.</p> <p>In the past, measures to strengthen competition in rail transport and in public passenger transport have enjoyed little popularity in EU transport policy. BDI gives its full support to the EU Commission's ideas for promoting competition in these areas. Better quality in the supply of public transport is the right avenue for more intermodality.</p>
13.	<p>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?</p> <p>The key task of a European policy for security of energy supply should be to promote an adequate, competitive and environmentally responsible supply through appropriate framework conditions as well as open markets and favourable investment conditions. Decisions on the structure of energy supply should be taken on the basis of genuine and fair competition between energy sources. Under these conditions, energy should be available in Europe in sufficient quantities and at affordable prices for the foreseeable future.</p> <p>Sustainable energy supply requires consideration of ecological interests. Here, too, German industry calls for ecological interests to be ensured not through direct intervention in the structure of energy supply but through ecological framework conditions, for instance such as the self-commitments made by German industry for climate care. Energy policy should put in place the framework conditions required for the achievement of the energy policy objectives of competitiveness, security of supply and the environment-friendliness of energy supply. However, such a policy does not require any new energy policy competences for the EU Commission to the detriment of national governments and the private sector. The existing EU instruments are sufficient for setting the correct objectives of the green paper: security of energy supply and efficient environmental protection.</p>
14	<p>Any other questions or proposals:</p>

Thank you for replying to this questionnaire.