

Energy Resource Policy and Security of Supply in the EU

SPEECH HELD AT A CONFERENCE "ENERGY RESOURCES SECURITY – ECONOMIC CHALLENGES FOR CHINA AND THE WORLD"

The role of energy in EU-China relations continues to grow. Following the agreement last September for a Strategic energy Dialogue between China and the EU, momentum has built up. This conference is a visible sign of the practical co-operation in the energy sector between China and the EU. Last month, the European Commission published a strategic policy document, or Green Paper, setting out its vision for the future development of energy policy in the European Union. This Green Paper detailed specific ideas for a future strategy for European energy.

In my speech today I would like to

- highlight the challenges which the EU faces,
- explain the importance of this Green Paper and
- outline the strategy which it presents.

THE CHALLENGES FACED BY THE EU

The challenges which the European Union faces will be familiar to many of you here. Above all, rising import dependence on the back of rising demand. The problem is exacerbated in Europe, where indigenous supplies of oil and gas are in decline. As a result, some Member States are reverting to net importers of energy, after a generation of energy self sufficiency. Several member States are more or less totally dependent on imports of oil, gas and coal.

This makes it all the more important that the EU builds up its international relations in order to secure a strong position in highly competitive international energy markets.

It also puts the spot light on investment – not just internally, but also in overseas production and import capacities. Within Europe alone, over 1 trillion euros of investments could be needed over the next 20 years. Most of this will be needed simply to replace outdated electricity plants.

Another major challenge for the EU is climate change. Europe is committed to reducing its greenhouse gas emissions by 8% over 1990 levels by around 2010. Considerable progress has been made in this direction. But on the basis of existing measures, we will only manage to stabilise emissions. New measures are necessary if we are to achieve our goal – and energy production and use are crucial in this process.

We also have a separate ambition to reduce carbon dioxide emissions by half by 2050. More fundamental measures will be necessary to realise this goal.

Finally, the EU, like China, is a player in a competitive global market. The EU has succeeded, more than any other region in the world, in reducing its energy intensity and thus improving its competitive position in energy terms. As a result, our companies are better placed to cope with energy price rises than less energy efficient companies. Our challenge however is to translate this

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into real competitiveness advantage and to demonstrate to our partners the economic benefits of sustainable energy.

One of the most effective ways to do this is for the EU to develop a coherent approach and to speak with a common voice with all our international partners. This, as you will hear, is one of the major themes of the new Green Paper.

THE IMPORTANCE OF THE GREEN PAPER

Coming back to the Green Paper, I would like to answer the question – why is the Green Paper so important?

The Green Paper marks the end of a period during which Member States have seen energy as a largely national prerogative.

After the Second World War, some European countries agreed to work together on energy policy. In those days this meant, essentially, coal. Member States recognised that peace would be more sustainable if important strategic resources, such as coal, were pooled. This collaboration became the European Union we know today.

However, when the oil crises of the 1970's came, Member States took refuge in national strategies. Some explored for oil and gas, others invested in nuclear power, yet others developed renewable energy such as wind and biomass on a large scale.

High energy prices, rising import needs and geopolitical turbulence have recently brought Member States back together.

Member States have, for the first time, agreed on the value of a common energy policy and on its potential goals:

- To equip EU to play its full role in global markets
- To improve sustainability within EU and globally
- To improve internal market functioning

- To improve stability and resilience in EU and neighbouring markets and

- To reflect the strategic role of energy in achieving other political objectives.

The Green Paper which the Commission adopted last month fulfilled a commitment to the European Council – that is the highest political body which brings together Heads of State and Government of all 25 Member States. Effectively, this is the first time that this body has given a specific priority to the development of a common energy policy for the European Union.

On 24 March, the European Council endorsed the Green Paper and asked the Commission to develop concrete measures based on the ideas which it presents.

The Green Paper is therefore an important strategic document for the EU. It will have an influence not only on energy actions, but also on a wide range of policies, such as agricultural and environmental, research, economic, social affairs and, perhaps more importantly, foreign relations. It marks a significant step towards a common energy policy for the European Union.

PILLARS OF THE NEW ENERGY POLICY

For the rest of my speech I would like to outline the strategy which the Green Paper proposes.

This is based on three pillars:

- Competitiveness, in particular the European Union's Lisbon Agenda, or strategy
- Sustainable development, with a focus on climate change and the Kyoto Protocol
- Security of supply, where particular attention is given to the diversification and the international dimension of energy supply.

The essence of the Green Paper strategy is to give each of these pillars equal impor-

tance and to integrate them into all strategic decisions. These pillars are balanced and complementary.

Within these three pillars, the Green Paper sets out six priority themes or groups of measures under the following headings:

- Fully developing the internal energy market
- Building up solidarity among Member States towards an internal energy supply policy
- A more diverse and efficient energy mix
- A coordinated approach to tackling climate change, based on energy efficiency and renewable and low carbon energy production
- A more strategic approach to energy technology and innovation
- Energy and external relations, towards an external energy supply policy.

Open and competitive markets

The first of the Green Paper's main themes is the development of fully competitive internal energy markets in Europe, to the benefit of jobs, growth and consumers.

The Commission's first priority is to ensure that existing rules to open markets and to regulate competition are fully respected.

Our next priority is to put in place the necessary legal and regulatory instruments and bodies to guarantee truly competitive and European-wide electricity and gas markets. One development could be an energy market regulator at the European level, who would deal with transborder issues beyond the scope of national energy regulators.

Another priority is to increase the capacity for electricity to pass between national borders. As in China, bottlenecks in energy transport are seen as barriers to economic growth and energy security.

Solidarity mechanisms

The second priority area of the Green Paper concerns security of supply in the internal market, including solidarity between Member States in the event of a crisis.

Properly liberalised energy markets can enhance security of supply, but this requires a proper framework. The Green Paper outlines a series of measures that can be taken, not only to deal with internal energy crises, but to prevent them developing.

One such measure would be a new European Observatory, analysing demand and supply aspects of Europe's energy situation. Another is our proposal to review the stocks arrangements for the EU in the light of internal and international developments.

Diversity

The third priority goes to the heart of a European energy policy, the EU's energy mix.

Energy diversity is a concern for both China and the EU. The EU has a relatively diverse energy mix, but the signs are that it could become less diverse in coming years. A falling contribution from nuclear, greater dependence on gas for electricity, almost complete dependence on oil in the transport sector and barriers to the wider development of renewable energy are all causes for concern. Like China (in Africa), we are also looking for new suppliers of oil and gas, notably from the Caspian and North Africa.

The Commission will prepare a regular Strategic Energy Review, analysing in depth the energy situation in Europe and the trends based on different scenarios. We will present the first one at the Spring Summit of EU leaders in 2006.

The Green Paper also proposes a Strategic European Energy Objective. This would provide an objective and agreed benchmark on the basis of which the EU's developing energy mix could be judged, for example, to achieve a minimum level of energy supply

from indigenous and/or low carbon energy sources.

Climate Change

The fourth priority area addresses the question of how Europe should address its climate change goals in an integrated manner, in a way that positively contributes to its competitiveness and security of supply.

There is a clear preference across the European Union for stronger policies in favour of energy efficiency and the promotion of renewable energy.

- Above all, the Commission will soon present a pro-active Energy Efficiency Action Plan.
- We will also develop a renewable energy road map for the EU.
- We also need to give urgency to the new Biomass Action Plan.
- We will also give consideration to the need for new targets. The European Council has already suggested new targets for 2015: 15% for renewable energy sources, and 8% for biofuels.

Each of these measures are designed to provide a consistent and longer term framework to encourage investment in clean energy.

We are looking at ways of extending the European Union Scheme for trading carbon dioxide emissions, to extend it beyond 2012, and to incorporate parts of the transport sector.

In this way, the EU intends to continue to take a leading position in international negotiations on climate change.

Innovation

The fifth priority area concerns energy and research. Within existing European programmes, such as the Research and development Framework Programmes, the Commission and Member States agree that

greater priority must be given to energy research.

The Green Paper also promises a strategic energy technology plan. This will help the EU to ensure that we have a competitive advantage in research terms in the international effort to secure clean and sustainable energy. It will enable better coordination and focus in funding at both national and Community level, as well help translate research success into market products. It should also make it easier to develop large scale international collaborative projects, involving energy partners outside of the EU.

We would also like to build up new Technology Platforms, along the model of those for fuel cells, clean coal and photovoltaics. These can help to put Europe at the cutting edge of tomorrow's energy technologies and develop expertise which we can share with our partners.

International technology collaboration will be crucial to tackling today's challenges. I think that in China, where 70% of energy comes from coal and where you plan to quadruple the contribution of nuclear in the next fifteen years, there is a clear understanding of the difference which clean and efficient technology can make.

External Relations

The final priority area is probably the most important strategically. It concerns external energy policy. Here, the Green Paper proposes a major step change. Europe needs to use its economic and political weight on the world stage in a much more effective way than it has done in the past.

To start with, we need clear agreement on our goals, so that we can speak with a common voice. This is important with all our partners, whether suppliers, large energy consumers, transit or developing countries

The Commission proposes to do this through the Strategic EU Energy Review, which would be presented regularly to the European Council. The Green Paper attaches

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huge importance to energy dialogue with both producers and consumers.

In concrete terms, the Commission proposes a new international agreement on energy efficiency, with more vigorous energy relations with other large energy consumers. The new target in China for a 20% improvement in energy efficiency by 2010 shows to me how committed our energy partners are to energy efficiency and the potential for collaboration.

China has a special position here. Our new energy dialogue sets a strategic precedent for the EU's international energy relations. As Commissioner Piebalgs said recently at the sixth China-EU energy conference in Shanghai, this will lead to "a greater mutual understanding of the challenges that we all face in the energy sector and of the opportunities that we have for greater co-operation, including industrial and technological co-operation."

Among producers, Russia is given a special mention. Above all, we need to give a new impetus to our relations with Russia, including through the Energy Charter process. There is also common consensus on the need for more infrastructure. The Green Paper highlights gas pipelines and LNG facilities in particular. We also agree that huge gains can be made from extending the European energy market to neighbouring regions, as is already happening with the South East Europe Energy Treaty. This can enhance security of supply, security and stability and improve conditions for investments.

The vision which we have put forward in the Green Paper is for a pan-European energy Community stretching from North Africa to the Arctic Circle, via Eastern Europe and the Caspian.

4. CONCLUSION

A full public consultation on the Green Paper is in progress, and this is open to you all, via the internet.

I would like to conclude by recalling the importance of EU-China relations to the strategy laid out in the Green Paper.

The EU and China are partners in a global energy market. We face some of the same challenges, although the scale may be different.

We are increasingly interdependent in energy matters. There are strong global and regional, as well as domestic, dimensions to our energy policies, especially concerning security of supply and the combat against climate change. Both in the European Union and China, energy policy development is characterised by interdependence between domestic energy concerns and international energy relations.

Over the past year we have seen some significant developments in our bi-lateral energy relations. In March 2005 we signed two Action Plans, one with the objective of promoting Clean Coal Technologies and the other on Industrial Co-operation on Energy Efficiency and Renewable Energies. These two areas, in our view, are key priorities in our energy relationship where we can and need ensure a major breakthrough over the next coming years.

At the China-EU Summit in September 2005, we signed a Memorandum of Understanding to develop a new strategic dialogue on energy and transport.

We also issued a Joint Declaration on Climate Change. This declaration underlines that both sides are determined to tackle the serious challenge of climate change through practical and results-oriented co-operation. It also sets an objective of developing and demonstrating, in China and the EU, advanced, near-zero emissions coal technology through carbon dioxide capture and storage.

And in February, Commissioner Piebalgs and Vice Minister Ma Songde signed a Memorandum of Understanding on collaboration in the area of carbon dioxide separation and storage.

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The European Commission is fully committed to building up this collaboration further leading to concrete benefits for all our people.

The strategy laid out in the Green Paper will give international energy collaboration the political and strategic framework which it deserves. It will ensure that energy dialogue proceeds with the highest level of political commitment. It will also ensure that, in all our dealings with our partners, they hear a common, coherent and constant voice.