

**“THE ENERGY SECTOR, A STRATEGIC SECTOR  
AND THE ROLE OF THE REGIONS”**

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In the following speech I want to show how the European Union moves towards a common energy strategy.

Strategy is a very ambitious word. It therefore deserves some remarks. Given the importance of the subject I will do it first.

I will then look at the actual energy situation of Europe, where we come from and where we will probably go to. As our energy policy is more and more conditional to our climate commitments we will see what our visions are. And then I want to give you some information about the legal basis of Europe's energy policy and whether reality reflects our visions.

As the proof of the pudding is in the eating I will end my speech with the difficulties and obstacles to a common energy strategy.

So let us begin with the concept of strategy.

Under strategy we understand a long term plan of action designed to achieve a particular goal. Strategy is differentiated from tactics or immediate actions. The word strategy derives from the Greek word *strategos*, which

derives from two words: *stratos* (army) and *ago* (ancient Greek for leading or guiding or moving to). In the age of Athenian Democracy *strategos* referred to a military commander. Strategy is therefore a word from the military dictionary whose elements were elaborated by the great Chinese General Sun Tsu in his book *The Art of War*, written in the 6<sup>th</sup> century BC, by the Prussian General Clausewitz, whose book *On War* is a must for every officer, by Mao Zedong and others. Although of military origin we use this word and this method more and more in the world of business, economy, marketing, trading or technology. In the context of the European Energy Policy it was first used as the title of the so-called Green Book on Energy in March 2006: „A European Strategy for Sustainable, Competitive and Secure Energy“.

Strategy therefore means:

Do it together. Have a plan. Have a common objective. Adapt to the circumstances. Join your forces.

Let us now come to the question: where are we Europeans? Where do we come from? What are our energy goals?

First of all, we are different. We have 27 different situations, conditions, cultures. E.g. France produces 80% of its electricity with 59 nuclear power stations. On the contrary, Austria relies of hydropower and is the prototype of a hardheaded antinuclear society. Britain has still big oil and gas resources in the North Sea but these resources are depleting. They are going to build big wind parks on- and offshore and they will replace their first and second nuclear power generations by nuclear reactors of the so-called third generation. Poland relies mainly on coal, and like many eastern European countries wants to reduce its dependency on Russian gas and oil imports. Germany, in former times self-sufficient in coal, today relies on a mixture of energy sources, but its

public opinion is still either against or sceptical about nuclear energy. Her goal is to rely more and more on energy efficiency, clean coal and renewable energies. A minority even wants to resolve our energy problem with renewables alone. And so on.

Another feature of us Europeans is that we are becoming more and more dependant on energy imports. Our own resources, coal, oil, or gas are decreasing. Actually we import a bit more than 50% of our energy needs from outside. In twenty years time it will be approximately be 70% if nothing happens.

In the case of oil and gas the dependence will be between 80 and 90%.

On the other hand there is a big potential to improve our energy efficiency. With the technology available we could reduce our energy consumption by 20 or more percent without giving up our standard of living. In the future we could even go beyond that figure. Innovation and new, so far unknown technologies will allow us to live with much less energy than today.

Take agriculture as an example. 200 years ago 90% of our population were farmers. Even though they were so many they were not able to feed themselves and the rest. Many people emigrated to America and elsewhere. Today we feed a much bigger population with only 2 or 3% of the population. And our problem is not the under- but the overproduction.

This was made possible by a technical revolution. Why should it not be possible to improve energy efficiency in the same way as we improved the output of our agriculture, by another technical revolution?

The third observation refers to climate change. There is a common understanding in Europe that we have to reduce the emissions of greenhouse

gases. Europe wants to limit the temperature increase by the greenhouse effect to 2 degrees. In other words, the concentration of CO<sub>2</sub> should not exceed 450 ppm. Some say 550 ppm. Actually we are roughly at 380 ppm. If business continues as usual we will arrive at that level in 15 or 20 years.

Europe is responsible for 15% of the global greenhouse gas emissions. But our share is decreasing as the emerging economies grow faster than we do. If we want to combat climate change we therefore must reduce our greenhouse gas emissions globally. Hence our global commitment. Our foreign climate and energy policy is a new but growing branch of our political activities.

Such is the energy landscape of today. It shows where we come from, where we still are and where we want to go.

But what are we doing to arrive there?

So far the biggest achievements are the single energy market and the environmental policy.

The 27 national energy markets are becoming one single market. From now on, exactly from 1st of July 2007 onwards, every single consumer has the right to buy his or her electricity or gas where he or she wants. A German household may buy its gas from a French company or his electricity from a company who sells only so-called green electricity, i.e. electricity from renewable energy sources. Electricity and gas are traded like shoes or refrigerators. Normally, they compete over the price fixed at the stock exchange at Leipzig or elsewhere.

The access to the grid is regulated. Electricity from renewable energy sources has priority. The grid operator is legally independent, a scheme that we

call « legal unbundling ». I presume that the European Commission will soon, i.e. still in 2007 present a proposal for a new directive which even foresees ownership unbundling. Then the European Parliament and the European Council, our “two chambers” will have to decide whether they accept this proposal or not.

The keyword is competition. But there are other common rules as well. They are derived from the European Environmental policy. We have common emission standards for SO<sub>2</sub>, CO, NO<sub>x</sub> and dust. The operators of nuclear power stations have to respect strict environmental standards. Radioactive emissions into the natural environment have to be as low as possible. And so on.

Europe’s environmental policy made our air and waters clean again after the pollution by former generations, not only in one of the other countries but everywhere in the EU. This is one of the major achievements of our policy.

The common energy market extends even to countries that do not belong to the EU, like Norway, Switzerland, Lichtenstein and Iceland. With the south-eastern European states like Serbia, Montenegro, Macedonia and Albania we agreed an energy treaty which will integrate these countries into our energy market sooner or later. Similar treaties are offered to all our neighbours in order to create a zone of economical and political stability around the EU.

The common market has many consequences. One is that the utilities – no longer monopolies – face competition and behave like other companies. Most of them are privatized. They can be sold or bought. They become transnational companies. They invest where they deem it useful. For example, if they are not allowed to build nuclear power stations in one country they can do it in another one.

The European energy market is not yet completed. Some countries lack behind their commitments to open the market. And we need better connect our national grids. So-called interconnectors have to be installed in order to allow the national grids to become an interconnected European grid. We also have to invest in our grids to make them safer and more robust. The future has a name: smart grids. The European Union has even created a so-called European SmartGrids Technology Platform.

The reason is obvious. Demand for electricity has increased steadily for decades, yet transmission lines that transport power from generation plants to customers have not been added or upgraded at the same pace. As a result, the grid has become overloaded, making it more prone to blackouts, which have risen in numbers and severity and cost us many billions in annual economic losses.

We need more lines, certainly. But we also need a self-healing smart grid that can sense local problems early, and automatically fix or isolate them before they snowball. Small grids can prevent the cascading power failures that cause blackouts.

How can this be done? We have to place digital controllers and real-time communications devices on every transmission line, substation, power plant or utility operations centre. And we need updated computers and software that enable human controllers to manually take over the automated smart grid if a blackout does somehow begin.

Grids deserve much more attention than most people presume. We have to add more decentralized elements to our existing grids in order to favour local and regional systems. On the other hand, we must improve our transport grids to link our future off-shore wind parks with continental consumer centres. Some

speak even of supergrids, in other words, large underwater cables to interconnect the future off-shore wind parks.

Networking has even a legal basis in our treaty. Chapter 15 of the Treaty of the European Union requires a common responsibility for all sorts of networks, be they roads, canals, rails, telecommunication or energy grids. These networks are open to everybody. The regulators, now obligatory in all member states, have to establish the rules of access and the prices.

Networking is so important because it makes the European unification irreversible. The fathers and mothers of our treaty had perhaps in mind how the Romans succeeded to keep their big empire together by good communication, by excellent roads and shipping lines. In the same way we think that networking our energy systems makes us more interdependent, safer and more economic.

The integration of our former national electricity systems is not easy. But we are on schedule. Gas, on the other hand, is more complicated. The reason is simple. We produce our electricity inside the EU whereas gas comes more and more from outside. The gas supplying countries e.g. Russia or Algeria insist on long term contracts. They want a reliable consumer. Competition is not on their agenda. Competition exists only on the back end of the supply system.

The best answer to that dependence is diversity. Europe will build more LNG terminals in order to import gas. And it will construct more gas reservoirs to store gas in large quantities.

The internal energy market is a big project that started in the late 80's of the 20th century and will hopefully be brought to a good end soon.

In the meantime other problems came to the forefront. Their names are climate change and the precariousness of the future supplies. The North Sea's oil and gas reserves are dwindling, and many of our dirty coal stations and elderly nuclear power plants will close. We are becoming more and more aware that shortages and climate change are our biggest energy problems.

In March 2007 the European Council took a decision: until 2020 the EU will improve her energy efficiency by 20%, increase the share of renewables to 20% and reduce CO<sub>2</sub>-emissions by 20%.

If this vision becomes true, it has severe consequences.

It would radically change our society. We would not only reduce our greenhouse gas emission, we would also reduce our dependence on energy imports.

The big question now is: will we succeed?

But before dealing with this uncomfortable question I want to tell you something about the legal basis of the EU's energy policy.

The legal basis is the Treaty of the Union. By ratifying the Treaty the member states transfer part of their national sovereignty to the Union, e.g. trade, competition or environmental policy. In other words, we share our sovereignty with our neighbours. The classical nation state where a national government was responsible for the economy, the so-called national economy has ceased to exist. The nation remains, but the state is more and more transferred to Brussels. The European Union today has many aspects of a state although we don't call it so.

Competition and environment are authentic EU-policies. This is what the Treaty of the Union requires. The reason is obvious: they have a transborder character. Competition makes Europe's economy stronger. And a common environmental policy makes our air and our rivers cleaner. The energy market, pollution and climate change therefore fall all under the responsibility of the EU.

How are decisions taken? The European Commission makes a proposal which then goes to our two “chambers”, the Council of Ministers and the European Parliament. After two readings, they have to come to a conclusion. If not, they still have 6 weeks for a conciliation procedure. If they then agree on an amended directive – how we call our law – it becomes binding. The member states are then obliged to implement the directive and to transpose it into national law.

Parliament and Council decide with qualified majority of the votes. The minority has to accept the majority rule. Unfortunately, there are still some exceptions from the majority rule that make decisions not easy.

The Treaty of the European Constitution was thought to overcome these traps but as you know two member states, France and the Netherlands, rejected the Constitution in a referendum. We now try to find a solution to amend the actual treaty without calling it a constitution. By the way, the Treaty of the European Constitution foresaw a special chapter on energy. It would have given our energy policy a new legal basis. However, it will probably have to make way for a streamlined text.

So far, so good. But apart from our legal constraints, are we on track? Is Europe really reducing her energy dependency? Are we really reducing our greenhouse gas emissions? And are we really speaking with one voice?

The reality is unfortunately not always in line with our visions. We import more and more gas, oil and coal, not less. And we emit even more CO<sub>2</sub> than in 1990. If we take all greenhouse gases together we are still 6% away from our goal to reduce their emissions by 8% compared with 1990. But we are committed to reduce them further. Meanwhile, during that time US greenhouse gas emissions increased by more than 16%.

Sometimes it is useful to compare Europe with the US. The greenhouse gas emissions intensity of the US economy is 60 per cent higher than that of the EU-15. This means that for every unit of GDP growth the US generates 60 per cent more greenhouse gas emissions than the EU.

We know that we have to intensify our efforts. It is therefore encouraging that both the US and the EU improved their emission intensity at rather similar rates, eg by 27% in the EU-15 and by 25% in the US between 1990 and 2005.

A series of measures, from technologies to energy saving, have been launched by the EU and the member states. Some countries build new nuclear power station, others invest more in renewables. We have in common that we want to improve energy efficiency by an Action Plan and by emissions trading.

We are also aware that energy has to be integrated into our foreign policy.

As a conclusion I would say that we move towards a common energy policy. We have not yet arrived. Perhaps we will never arrive. But we are coming closer and closer. When I say moving I know what I say. When I became a member of the European Parliament in 1979, nearly thirty years ago, the slogan “European Energy Strategy” was as strange to us as the word “ice” to the Tuaregs in the Sahara. Today it is not only a common word but a mission.

The difficulties and the obstacles stem from our national, sometimes nationalistic view. Energy is still often regarded as a question of national security or national pride, whatever that means. But we forget that we are not alone. We share our security of supply. We depend heavily on each other. The policy choice of our neighbours affects also us. Either we are altogether safe or we are no safe.

Energy policy is therefore intimately linked to our attitude towards European integration. Energy was even at the beginning of the integration process with the European Coal and Steel Community and the Euratom Treaty. And energy problems, now climate constraints teach us that we cannot solve these problems but together.

It is therefore interesting that the European Council, the group of the Heads of State and the Governments wants for the first time in our short history to intervene in our national energy mix by claiming a 20 per cent share of renewables within our energy mix. The Commission is actually working on a proposal for a directive which will be discussed next year. It will not be easy to distribute the 20 per cent among the member states and possibly one or the other will wish to take their share of CO<sub>2</sub>-free nuclear into account. But there seems to be a strong will to go beyond our national horizon and share forces with our neighbours.

This last example may show you that Europe is moving towards an energy strategy that deserves this name. Europe is much better than its reputation. Hopefully it serves us to reduce our import dependency and our greenhouse gas emissions at a reasonable price.

Zaragoza, 24<sup>th</sup> of October 2007.