



IENE Briefing Note No3

ENERGY SECURITY AT THE FOREFRONT OF EUROPEAN ENERGY POLICY

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Background

Climate and Energy issues will be discussed during a working session today (June 27) as part of the European Summit which kicked off last night in Ypres, the little town in west Flanders in France, a symbolic location on the centennial of the start of World War I. Leaders had dinner there and the meeting continues in Brussels today. This is also the day when the signing of the association agreements between the EU and Georgia, Moldova and, perhaps most notably, Ukraine are scheduled to take place.

The present European Summit is convened in the shadow of May's European elections, which saw a massive popular backlash against almost all the ruling parties in Europe and the EU as a whole. Also on the agenda of the Summit is the signing of the economic part of the Association Agreement last January with Ukraine. Refusal to sign this agreement led to the coup against former Ukrainian President Viktor Yanukovich and the ensuing rift with Russia, the annexation of Crimea and the ongoing armed conflict between separatists and Ukrainian security forces in the East provinces of the country.

Originally the Summit was planning to consider increased sanctions against Russia. Following a retreat by the Russian president, however, this will probably not take place. With the signing of the Association Agreement, however, which binds Ukraine tightly to the EU, the summit will make clear that the EU is maintaining its aggressive stand against Russia. Inevitably this will lead to renewed animosity with Russia with oil and gas supplies once again at the forefront of EU-Russia's sensitive relationship.

Climate and Energy

During the present European Summit leaders will take stock of progress made towards a final decision in October on a framework for climate and energy in the period from 2020 to 2030. The European Council is expected to reaffirm the importance of the UN Climate Summit in September 2014 and confirm that the specific EU target for 2030 for greenhouse gas emission reductions will be fully in line with the agreed EU objective for 2050. The European Leaders are also expected to address issues such as energy infrastructure and energy efficiency. Leaders are likely to reconfirm the objectives of completing the internal energy market by 2014 and developing

interconnections so as to put an end to any isolation of member states from European gas and electricity networks by 2015.

On the basis of an extensive document prepared by the European Commission on European Energy Security Strategy, leaders will have a first discussion and call for increased efforts to reduce Europe's high energy dependency. The European Council is expected to support the immediate implementation of a set of most urgent measures to strengthen Europe's resilience and increase its energy security. In particular, leaders are most likely to agree on existing emergency and solidarity mechanisms, including gas storage and reverse flows, to be reinforced, relevant energy infrastructure investments to be robustly enforced, and the full engagement with international partners to reduce the risk of disruption of gas deliveries.

The beginnings of a common European Energy Policy

The 228-page document entitled "[Commission Staff Working Document: In-depth study of European Energy Security](#)" is hardly designed to be a best-seller as some energy observers point out. Few outside Brussels will attempt to read the European Commission paper in full, which is a pity because it is an excellent piece of work. However, this document also provides the basis for a series of proposals contained in an accompanying document, which if accepted and carried through could create a common energy policy for the EU comparable in scale, scope and cost to the [Common Agricultural Policy](#).

Eurosceptics will scoff at this, says Nick Butler, who has made a careful analysis of the above document as reported in his FT blog on June 8, 2014. "In their view the EU is on the verge of disintegration, lacking in both leadership and, in the light of the [elections to the European parliament](#) last month, any semblance of mass support. They are mistaken on all counts. Noisy eurosceptic parties won less than 20 per cent of seats in the parliament. Pro-European parties won by a mile. Far from disintegrating, the European institutions in Brussels remain a driver of ever greater union. Energy policy is just the latest focus for that effort. That is why the paper published last week is so interesting", notes Nick Butler.

It is clear that a common energy policy does not mean that every country will be required to use the same sources of supply. For instance Germany will not

be required to build a new generation of nuclear power stations. The French will not be forced to develop shale gas. But then the CAP has never required everyone to grow the same crops or to farm the same cattle. Instead, this version of a common policy is about the integration of objectives across the 28 member states. Different countries will make different contributions, but all will come within a framework driven by the twin objectives of security of supply and the reduction of emissions.

As many analysts note the current Russian-Ukraine crisis has put energy security at the top of the agenda once again and forcibly reminded Europe of its dependence on Russia, particularly for gas. Russia accounts for almost 40 per cent of Europe's gas imports and therefore meets some 27 per cent of total European gas demand. For some countries such as Bulgaria, Slovakia and those in the Baltic the dependence is total. The actions proposed to address this are sensible and in many cases long overdue. If the Baltic states and other east Europeans are really members of the EU, they should not be dependent on Russia for 100 per cent of their gas and for large proportions of their electricity supplies. As Nick Butler observes, "That dependence is a legacy of history, but as the paper makes clear it is time to match energy security across the whole of the EU to the current political realities".

This latest EU policy paper starts with a short-term concern about a potential supply crisis next winter and argues sensibly for a full-scale stress test to ensure that each country can meet peak demand even if the most important piece of infrastructure is out of action for whatever reason. But the short term is just the starting point. The paper also lists dozens of projects that could link different countries within the union, enhancing security and creating a genuine single market from Portugal to Latvia.

"Alongside the focus on energy security is a reiterated plan for the reduction of emissions. To align the two objectives, the authors focus on the ways in which Europe can produce more of its own energy. Shale gas and new nuclear are included – for those who want them – but the main emphasis is on renewables such as wind and solar. "This is where the echoes of the CAP are loudest. It is a short step from saying that Europe should meet more of its own needs to providing support payments for production", underlines Nick Butler.

However, there is a glaring omission in all this. There is almost no mention of costs or the impact on European competitiveness. Shale gas is giving the US a dramatic competitive advantage, and Europe is losing market share and jobs in all the energy intensive industries. But as with the CAP, the fact that supplies could be imported more cheaply is not the driving concern and therefore goes unmentioned. Of course, Europe could meet all its own electricity needs from renewables but the cost – as the Germans, the Greeks and the Italians are finding – is punishingly high. The message of the document is that imports are bad, and should be reduced. Where they cannot be reduced, the sources of supply should be diversified. Nor is there much mention of the role of the private sector or of competition between different suppliers.

Energy is assumed to be solely a matter of public policy and consequently economics is not the only missing element from that discussion. There is nothing on science or the potential for technical change, which is regrettable, given Europe's strong, scientific base. The technology of energy supply and consumption is moving rapidly and it would be good to see Europe doing more to match the efforts being made by the US and China.

The paper, which will be reviewed later today at the EU Summit and will no doubt be endorsed, is modest and gradualist. But that, as seasoned journalists point out, is indicative of how Europe works. While the eurosceptics make a lot of noise, officials in Europe make detailed policy which is then inexorably translated into action. Each step leads to the next, with the initial policy framework setting the tone. Once that first framework is in place, few policies get reversed.

Nick Butler sums it all up by saying "The parallel with the CAP is instructive. In the mid-1950s, before the EU was formally created, there was concern about a lack of food supplies and Europe's vulnerability to international markets. The CAP was designed in response to this concern and as a way to balance German industrial strength by providing a framework for agriculture, particularly in France and Italy, that could benefit from the existence of a single, protected European market. The initial proposals were modest and limited. No one imagined where the policy would lead or how its costs would come to dominate the European budget. There is a very good case for some

greater co-ordination of energy policy at the European level. But it should be done carefully and with full awareness of the economic costs of each step.

IENE believes that this Commission Staff Working Document, which presents an in depth study of European Energy Security, is a highly important contribution to the current energy debate and there is a good chance for this, following changes and revisions that will undoubtedly follow, will form the basis for a coordinated European Energy Policy. And this is why we are attaching the full 228 page document for our members to be informed on this major issue.