

16 March 2006

OBJECTIVES AND APPROACHES FOR STRENGTHENING EU ENERGY POLICY

UNICE fully supports the European Commission's initiative of publishing a green paper that sets out to strengthen cooperation within the EU in the field of energy. Pending presentation of its detailed comments on the green paper, UNICE seeks in this document to set out its fundamental views on the subject, notably in the context of the March 2006 European Summit and the 8 June 2006 Energy Council.

European energy policy must coordinate and optimise actions targeting the following three objectives:

- enable consumers to have wide access to a spectrum of energy sources which:
 - is as diversified as possible in terms of both geography and technology, with a view to ensuring a high level of energy supply security
 - reflects the need to reduce the carbon intensity of energy supply.
- establish dynamic competition (within and between sectors) between sources of energy, enabling consumers to benefit from the most competitive prices possible.
- address the environmental impact of energy production and use through policies reflecting a sustainable development vision.

UNICE urgently appeals to the European Council to give an impetus to a strengthening of EU energy cooperation on these three objectives, implementing an integrated approach making these objectives mutually reinforcing.

UNICE accepts that governments retain some responsibilities for determination of the conditions governing exploitation of their energy resources and the structure of their supply. However, the opening of energy markets makes it imperative for there to be more transparency on national decisions concerning energy policy on issues that will affect the common energy market. Furthermore, the Commission should foster the emergence of a genuinely pan-European perspective on the energy/competitiveness/environment issues, with a view inter alia to facilitating management of these government responsibilities.

Where market mechanisms have been left to function efficiently, they long ago proved their worth in terms of:

- quantitative development of resources;
- diversification of resources;
- maintenance of production costs and selling prices at the lowest possible level.

It is therefore essential that the European Union and Member States, each in its fields of competence, ensures that appropriate basic conditions are established to allow the market to play this role of engine.

At secondary level, it is up to the public authorities to carry out certain actions to complement/amplify the results produced by market forces. Well designed and effectively implemented market-based policy instruments can make an important contribution in this context. However, they should be used with caution and only after a thorough assessment of impacts on EU competitiveness.

The following points set out the issues on which companies call for a strengthening of EU cooperation and the approaches to be deployed to that end.

1. Strengthen competition on electricity and gas markets

While initial positive steps have been made towards liberalisation, progress towards creation of a truly open EU market for gas and electricity is insufficient. This is highlighted in particular in recent Commission documents¹. UNICE calls on the Commission to consider all the powers, legislative competences and co-regulation instruments at its disposal for developing initiatives which ensure:

- that existing legislative texts are applied by Member States, not only to the letter but also in spirit. In particular, effective implementation of current EU legislation is essential in the area of unbundling of production and transport of gas and electricity. Furthermore, it is essential that national energy regulators be independent (in particular from Governmental authority) and endowed with sufficient powers to effectively enforce competition rules at national level. More and better coordination among national regulators would also be a positive step forward.
- that players operating on the market have equal access to the basic information they need to plan their service offers and investments efficiently
- that obstacles to investments in cross-border connections and smooth day-to-day operation of cross-border trade are dealt with effectively
- that more commitment and cooperation between national transmission system operators are developed with a view to creating a truly integrated European network for transporting electricity and gas
- that transmission system operators are encouraged to cooperate with a view to facilitating integration, in the network, of electricity based on renewable energy.
- that new market players are stimulated to enter the gas and electricity market.

It is important to improve the predictability of electricity and gas prices in the medium-and long-term for energy-intensive consumers. This would be best achieved by developing liquid and transparent forward markets. Long-term contracts between producers and users, provided that the terms are not anti-competitive, could offer a means of providing a greater level of price predictability. Producers believe that long-term contracts could furthermore help encourage necessary investment in generation capacity and gas storage and import infrastructure. The broad view of users on this is that entering into long-term contracts should not become a prerequisite for enjoying security of supply.

¹ Report on progress in creating the internal gas and electricity market (November 2005) ; preliminary report on energy sector enquiry (February 2006)

All the above-mentioned actions need to be taken urgently, given that insufficient market liberalisation and integration have very negative impacts on power-intensive industries, leading – in some sectors – to a virtual standstill in investments on European territory.

2. Develop a more active external policy in the area of energy

Europe should speak with a single voice in international forums (United Nations Framework Convention on Climate Change, International Energy Agency, etc.) and vis-à-vis non-EU energy suppliers (OPEC, Russia, etc.). The Member States should become fully aware of the importance of a common external energy policy. It is essential that the EU pursues the principles of market liberalisation and investor security in supplier countries and that energy questions have a greater presence on the agenda for trade negotiations between Europe and its economic partners. Economic circles and EU institutions will have to work together more closely to ensure that energy questions become key elements of trade negotiations with producer countries. But the European Union must also strengthen its capacity for negotiating with these countries through a common political mandate. Energy security depends on several factors: access to energy resources at competitive prices; the possibility to invest in exploitation and supply infrastructures; elimination of policies which restrict exports and other measures that penalise European companies; development of public-private partnerships for cross-border energy infrastructures in border regions where there is an element of risk.

3. Competitiveness and environmental issues

It is essential that the transition to a less carbon intensive society is made in a way that preserves the international competitiveness of European industry, which the Commission rightly describes as the “cornerstone of EU strategy for sustainable development”.

Genuine global cooperation involving all countries and regions of the world for tackling climate change is indispensable. In particular, it is vital that highly efficient energy and other technologies are deployed in rapidly growing countries like China and India. It is essential that Europe’s contribution to climate protection is deployed in such a global framework and makes wide use of the instruments for international cooperation which already exist (Joint Implementation and Clean Development Mechanism) or which will be developed in the future.

Europe suffers from a number of competitive handicaps as compared with its trading partners. In this general context, it is essential to keep industry’s energy costs at the most competitive levels possible. It is recognised that recent electricity price increases in Europe are due not only to higher oil and gas prices but also in part to the influence of the EU emissions trading scheme (ETS) and the way it is being implemented. This issue must be analysed in greater detail in the context of the current ETS review. Any solution to improve competitiveness of Europe that emerges from these analyses should be implemented as rapidly as possible. The priority in the quest for solutions should be a focus on the sphere of ETS itself. As a last resort, it would be appropriate to consider introduction of economic measures outside the ETS sphere to counterbalance the inequitable competitive situation suffered by European industry due to divergences in climate policies around the world.

4. Supply of low-carbon or zero-carbon energies

Large-scale investment in low-carbon energies (gas, etc.), in zero-carbon energies (renewables, nuclear) and in technologies for capture and sequestration of carbon can only be realised if the framework conditions in which companies operate are substantially improved. The continual development of new environmental legislation with constantly moving targets should give way to an environment policy which is better at setting priorities, and at integrating with other policy areas in order to release the expertise present in companies to enable acceleration in technological innovation.

The effectiveness of ETS needs to be improved. EU energy policy must avoid creating new instruments (for lowering carbon intensity of energy production and consumption) which would result in double regulation.

Support for research and innovation constitutes the most effective long-term approach for promoting development of energy technologies with low carbon intensity. EU programmes in this area should be substantially strengthened, with a good balance between research and exploitation of research results.

In the short to medium term, UNICE believes that support at the level of production or consumption is still required in order to meet the indicative 2010 targets for use of renewable energy sources (RES) to produce electricity, which were based on political criteria. In the medium to long term, EU harmonised support schemes for RES should lead RES to an independent market existence without any further support.

Renewable energy policy has to be based on in-depth economic, social and environmental impact assessments, and it has to be implemented in a way that neither weakens nor hampers the competitiveness of the European industry.

5. Nuclear energy

Operators in several countries, both in Europe and elsewhere, continue to build new nuclear power stations. In other countries, an in-depth debate is under way, or starting, on the future role of nuclear energy. In some cases this includes reconsidering past policy decisions that have led to plans to abandon nuclear energy. UNICE is satisfied to note that the Commission is currently discussing the energy diversification issue in a way that makes explicit reference to nuclear energy. When diversifying their energy sources, Member States should be free to decide for themselves on the most appropriate energy mix.

6. Energy efficiency

Energy efficiency promotes both competitiveness, protection of climate and security of supply.

There is potential for further energy efficiency improvement in the industrial sector, but as energy forms core part of input costs, most energy-intensives have already made exemplary improvements. Further efficiency gains in energy-intensive sectors will come at significantly greater cost.

The key channel for promoting energy efficiency in industry is a sound climate for business investment. This consideration should strongly inspire the future EU Energy Efficiency Action Plan, which will need to be based on in-depth assessment of the impacts on the economy, energy and the environment of the initiatives proposed. Keywords for these initiatives must be cost-effectiveness and preservation of the competitiveness of the European industry. Support of existing energy service companies (ESCO's) and promotion of establishment of new ESCO's is important in this regard.

Significant potential for energy efficiency improvement remains in the household/residential and commercial sectors; it is essential to harness this potential with a view to addressing climate change. It is of vital importance to avoid the risk that, without sufficient consumer involvement, EU and national governments continue seeking increasingly difficult to achieve energy efficiency improvements from industrial and energy sectors.

The opportunities linked to energy efficiency should be seized through identifying barriers for development and strengthening the implementation of already approved directives. New initiatives should only be developed if they fully meet the cost-effectiveness criteria.

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