

28 April 2006

Mr Piebalgs, European Commissioner for Energy

Meeting with UNICE delegation on 2 May 2006

A. Political and strategic issues linked to development of EU energy policy

- 1 UNICE is pleased to see that, in line with its Opinion of 16. 3. 2006 on “Objectives and approaches for strengthening EU energy policy”, the **last Spring Summit** has opened a broad strategic discussion on energy policy, and set a work calendar on this. Can we consider that the Summit has shown a very clear commitment by Member States for engaging in stronger cooperation on energy issues?
- 2 Europe should coordinate as much as possible the European Member states' positions in international forums and vis-à-vis non-EU energy suppliers. 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. This will call for defining EU negotiating mandates. 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.

Against this background, UNICE is interested in being updated on:

- the work in progress / initiatives under preparation to develop the **external dimension of the common energy policy** (notably: EU-OPEC dialogue in June 2006; EU-Russia cooperation; ministerial meeting of the Energy Community Treaty)
 - the Commission's expectations from the 16 June European Council regarding the external dimension of the common energy policy.
- 3 The Summit has called for consideration of new **long term EU energy objectives** (increasing the share of renewable energies to 15% of the EU energy supply by 2015; with biofuels representing 8% of the EU energy supply by that date). On which analytical work are these potential targets based?

The Commission Energy Policy Green Paper also introduces the idea of some EU long term reference energy objectives (in the form of a minimum proportion of secure and low carbon energy supplies). UNICE insists that consideration of long

term targets should not distract attention from urgent competitiveness problems addressed under point B in this note.

- 4 What are the Commission's expectations from the **8 June Energy Council**, as a milestone on the road to the 2007 Spring Summit, which will have to adopt an action plan on energy policy?

B. Specific issues

1 Functioning of the gas and electricity market

While positive steps have been made towards liberalisation, progress towards creation of a truly open EU market for gas and electricity is insufficient.

UNICE expects the Commission to push for:

- full implementation of the 2003 energy and gas market directives, in particular of their provisions on unbundling
- increasing the competencies of regulators, and improving their coordination, with a view to accelerating development of cross-border interconnections
- increasing transparency, in particular in the price formation mechanisms
- improved cooperation between transmission systems operators.

2 Emissions Trading Scheme (ETS)

When the ETS scheme was devised in 2000, there was an implicit assumption that ETS could be deployed in the context of fully liberalised EU gas and electricity markets, which is a pre-condition for the effective functioning of a market-based environmental instrument such as ETS. Yet it is the case that the gas and electricity directives that were finally adopted in 2003 have not translated this assumption into a reality on the ground.

These directives represent a sub-optimal compromise between the regulatory approach and an approach based on truly open competition. Neither were the delays in implementation and divergent interpretations of the directives that can be seen today anticipated in 2000 when ETS was being defined.

In the context of ETS, electricity producers pass on in electricity prices:

- cost of emissions allowances effectively purchased on the market,
- opportunity cost borne by the producers due to the arbitrage between using allowances received free of charge from the public authorities in order to produce electricity and selling these allowances on the market.

The result of competition being insufficiently developed on the electricity market is that the opportunity cost mentioned above can be passed on in the selling price of electricity at a markedly higher level than would be the case in a highly competitive electricity market.

Electricity-intensive users based in Europe therefore face two difficulties:

- the fact that they have to compete with producers based in countries where there are no instruments comparable to ETS (countries which have not acceded to Kyoto);
- the fact that ETS has a stronger impact on electricity prices than would be the case on a fully liberalised European market.

These difficulties call for urgent measures in the following three directions:

- strengthen competition on gas and electricity markets
- favour a reduction of the price of the CO₂ allowances
- facilitate development of long term contracts and partnerships between producers and users.

3 Long term contracts and partnerships between producers and users

It is important to improve the predictability of electricity and gas prices in the medium-and long-term for energy-intensive consumers. Such predictability is also important to encourage electricity producers to take the necessary decisions to ensure extension and renewal of electricity generation capacity in the long term. This would be best achieved by developing liquid and transparent forward markets.

Long-term contracts and partnerships between producers and users, provided that the terms are not anti-competitive, also offer a means of providing a greater level of price predictability. The Commission should publish guidelines ensuring the compatibility of long term supply contracts with EU competition law.

With a view to giving long term markets and contracts physical and economic underpinning, it is important to take initiatives to encourage the development of nuclear energy production and renewable energy sources that have reached the stage of economic viability.

4 Renewable energies

A well functioning internal electricity market requires a unified, Community-wide and cost-efficient market-based support framework for the use of renewables in electricity generation. A level playing field for European generators of renewables based electricity as well as for consumers should be installed. The Commission should start thinking about a process which could lead, in the medium term, to a well designed EU harmonised framework for the support of renewables. Such a framework would yield efficiency benefits compared with the existing 25 different national support schemes.

5 Energy efficiency

UNICE is not in favour of introducing an EU system of "White certificates".