

## Energy Transition: A multifaceted Challenge for Europe

### 1<sup>st</sup> Symposium: The completion of the internal energy market by 2014: feasible or illusory?

#### - Report -

In light of the Communication on “making the internal energy market work” released by the European Commission in November 2012, Egmont – Royal Institute for International Relations and the Development Group organised a Symposium entitled “the completion of the EU internal energy market by 2014: feasible or illusory?” on the 21<sup>st</sup> of February 2013 in Brussels. The Symposium was the first of a series of 5 events related to “the multifaceted challenges of the EU energy transition towards a low-carbon economy” that will be held this year.

#### **Keynote address: Making the internal energy market work**

The first keynote address was provided by Inge Bernaerts, Head of Unit for wholesale markets, electricity and gas at the DG Energy of the European Commission. She presented the main aspects of the European Commission’s Communication and pointed out three main challenges to be addressed in order to make the Internal Energy Market work: enforcing the EU legislation, empowering consumers to control their energy costs, and allowing market mechanisms to encourage adequate cross-border investment in infrastructure.

The second keynote address was given by Jerzy Buzek, Member of the European Parliament (MEP) and Rapporteur on the procedure “Making the Internal Energy Market Work”. He stressed that although the internal energy market has already delivered benefits, much still needs to be done. As recent parliamentary discussions have shown, most of the MEPs support the objectives of the internal market even if in practice national legislations are often not on line with what is decided in Brussels. In addition, during the discussions about the next Multiannual Financial Framework, most Community projects involving Member States collaboration faced spending cuts. Closer collaboration on the construction of the Internal Energy Market could nevertheless provide the opportunity to rebuild growth and competitiveness, helping to overcome the current economic crisis. Mr. Buzek pointed out several important elements required for the Internal Energy Market to work: a more consumer oriented market for both individuals and businesses, clear rules for national regulators with no more regulated prices, more transparent and open markets to favour competition, more Research & Development, and last but not least, more cross-border investment in infrastructure.

#### **Session 1: What are the achievements and the remaining obstacles to the completion of the EU internal energy market?**

During the first Session, Holger Gassner, Head of Markets and Political Affairs/CR at RWE Innogy GmbH, stressed that a single market is essential to allow an efficient integration of renewable energy. Among others, it can facilitate the deployment of infrastructures and reduce storage requirements and backup

capacity needs. In the short run, the convergence of national support schemes for renewables is necessary. Finally, he mentioned that the EU Emissions trading Scheme (ETS) can comply with the 20% climate target but a stronger coordination between the ETS and energy policy instruments like support schemes for renewables and for energy efficiency is urgently required to increase efficiency and reduce costs.

Afterwards, Ivo Hlaváč, Director of the Public Affairs Division at ČEZ Group, presented the key achievements in the Czech energy sector, such as unbundling and decrease market concentration, while pointing out a number of key challenges. These challenges include the need to couple Western and Eastern European regions so as to ensure price convergence; the distortions caused by the renewables integration; and the challenging environment for the necessary generation investments. With respect to this last point, he stressed that the ETS must be fixed by setting-aside an amount of allowances.

Finally, Walter Peeraer, Managing Director of Fluxys SA, presented the daily experiences of a cross-border gas infrastructure company. He started by highlighting that the fundamental difference between gas and power markets was that gas is much more international with 3 regional markets (USA, Asia and EU) interacting through LNG shipping. Then, he stressed that the key aspects to create an internal gas market are: joint network codes, cross border capacity platforms (e.g. Prisma) and massive investments in cross-border infrastructure. He demonstrated that thanks to these elements gas-trading places show remarkable price convergence. However, he also warned against the risk of stranded assets due to the unclear policy outlook for gas post 2030. He finally pointed out that gas was not only the most efficient fuel to achieve the climate target, but also that it offers the most efficient complementary system for the power generation system in terms of back-up for renewables, transmission and storage.

In his role as discussant, Gunnar Lundberg, Chairman of the Markets Committee at Eurelectric, put a stress on the distortion effects of renewable subsidies and regulated prices, which prevent investments to take place. It is consequently totally in opposition with the logic of the market. According to him, we should let the market work. The ETS, once fixed, should be the main driver of this market. Competition is the best protection for consumers, not regulation. As a final remark, Mr. Lundberg stressed that the Internal Energy Market should be built before developing national capacity mechanisms.

## **Session 2: What are the necessary solutions to bring to the completion of the EU internal energy market?**

To start the 2<sup>nd</sup> session, Daniel Dobbeni, President of Entso-E, rightly pointed out that it will be very difficult to achieve the Internal Energy Market if Member States do not implement what they agreed to in Brussels. The best way to move forward would be Member States to collaborate more and to synchronise their actions. Therefore, he suggested the Commission not to wait too long before making cooperation an obligation.

Then, Jayesh Parmar, Partner at Baringa Partners, explained that the devil was in the details. The Third Energy Package does not provide the necessary level of details to ensure cooperation between the energy actors, and Member States are free to fill in the gaps. Further harmonisation of both, support schemes and market models, is necessary in order to secure the affordability of future energy demand. The challenge is not just delivering a single market but also to position Europe for the effective, efficient and affordable energy solution of the future. This will require consistency, coherence, coordination and political determination.

Finally, Fernand Felzinger, President of the International Federation of Industrial Energy Consumers, pointed out that the scenarios on the basis of which the climate and energy package was established in 2007-2008 have changed, as the economic crisis occurred. Shale gas, for example, has become one of the main game changers in the energy market. Consequently, renewables have come at a high cost, affecting the stability and competitiveness of the system. Therefore, a new regulatory framework is needed with long-term visibility for investors. Mr. Felzinger supported Commissioner Oettinger's view of a pragmatic and independent energy policy, linked to climate and industrial policy.

Reviewing the keynotes, Jacques de Jong, Senior Fellow at the Clingendael International Energy Programme, stressed that the Internal Energy Market will not be completed by 2014 but the majority of the work should be done on paper. Given the development of renewables, Mr. de Jong considered that special attention should be given to security not affordability when redesigning the energy market. Finally, he stressed that the EU level is not the way to go, regarding that national policies are not following. It is therefore the regional way that should be favoured.

### **Debate**

Subsequently, around 60 energy stakeholders discussed key issues, including the difficulty to bridge long-term goals with the usual 4-years period of legislature, the revision of state-aid guidelines and the necessity to make regional collaboration mandatory rather than voluntary. Therefore, stronger action at the EU level is needed and success will mainly depend on political leadership. Moreover, collaboration between Member States is absolutely essential. Before agreeing on national energy measures that could have negative consequences on other Member States, EU Governments should discuss together. In conclusion, we cannot hope to complete the Internal Energy Market by 2014 but, according to Prof. Jerzy Buzek, we could reach between 70 and 90% of the set goals.

As many questions remain without satisfactory answers, the Egmont Institute intends to publish soon a European Policy Brief providing a more in-depth analysis on the issue.

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