

## Energy Transition: A multifaceted Challenge for Europe

### High Level International Conference Beyond the 2020 horizon: Moving towards a common EU energy policy

#### - Report -

On the 10<sup>th</sup> of June 2013, the Development Group and Egmont – Royal Institute for International Relations organised a High Level International Conference in the framework of a series of five events related to “the multifaceted challenges of the EU energy transition towards a low-carbon economy” held in Brussels this year.

In light of the conclusions of the European Council of May 22<sup>nd</sup> 2013, the Green Paper on the EU post-2020 energy and climate policy framework released by the European Commission in March 2013, and the EU energy Roadmap released in 2011, this High Level Conference focused on the future of the European energy policy framework, and on what could be the next climate and energy targets for 2030.

#### **Keynote address: Main challenges of a common European energy policy**

After welcoming the 120 participants, Viscount Étienne Davignon, President of the Egmont Institute, started by pointing out the profound modifications in the energy landscape these past years, including the decreasing production of domestic fossil fuels, the significant overcapacity due to the development of renewable energy sources (RES), the difficult integration of RES that impacts security of supply, the decisions of phasing-out nuclear power in some Member States, and the consequences of the shale gas revolution in North America on the global energy markets. All these changes have led to great uncertainties, making future decisions difficult to take for both public authorities and investors.

Afterwards, Herman Van Rompuy, President of the European Council, summarized the main challenges of a European Energy Policy. He underlined that it will not be easy for the EU to compete in the midst of a global energy revolution. However, the EU can make more out of its energy situation by creating jobs, growth and competitiveness, particularly with green energy. In order to do so, the EU needs to play its cards well as it has no major ‘game changer’ (such as shale gas) compared to some other global actors.

That is why the European Council looked strategically at this issue in May 2013. In accordance with the conclusions of the Council, Mr. Van Rompuy stated that Europe needs to find a common approach (rather than 28 separate ones) that he exposed through four major sets of priorities. The first priority is energy efficiency. The cheapest, cleanest and safest energy is always the one that has not been consumed. The Energy Efficiency Directive has been a real boost, but the challenge now is to implement it. The second priority is the common energy policy. We need to turn our 27 markets into a true competitive single energy market. Although we have the right policies, the implementation is too slow. In order to make this happen, and this is the third priority, we need investments. The Connecting Europe Facility can certainly play an important role but a large part of future investments will come from the private sector. In order to encourage such investments, a more predictable framework beyond 2020 is needed. The fourth and last

priority is the diversification of European energy sources. The EU's increasing dependence on foreign gas and oil is its Achilles heel. We need to exploit all of Europe's energy potential, starting with RES but taking also into account other indigenous resources – conventional and unconventional.

### **Session 1: What are the key challenges and obstacles to the development of a European energy policy: lessons from the 2020 EU energy strategy**

Philip Lowe, Director-General of the DG Energy of the European Commission, opened the first session by outlining the progress towards the “three 20 targets” by 2020. With respect to CO<sub>2</sub> reduction, the EU is on track but it is greatly helped by the economic recession. Moreover, coal remains the most cost effective way of producing electricity in the EU and carbon prices do not provide the right signal for investments in low-carbon technologies. Regarding renewables, 13% of the EU annual energy consumption comes from RES and it is expected that the EU will meet its 20% objective. With respect to energy efficiency, we will probably get to 17% energy savings by 2020 if the measures of the Energy Efficiency Directive are correctly implemented. However, in the longer term, we will need twice as much improvement in energy efficiency than the initial ambition of 20% energy savings by 2020.

Then, he outlined five lessons learnt from this 2020 strategy. Firstly, the EU energy policy must be comprehensive not only in terms of sustainability but also in terms of competitiveness and security of supply. Moreover, targets provide momentum for both governments and investors but the instruments to achieve them are as much important. Secondly, the EU legislation needs to be implemented in order to get results. Thirdly, targets are interlinked as they influence each other (e.g. the renewable and energy efficiency policies impacted the ETS carbon price). Fourthly, a regular reality check is necessary. The development of renewables has caused problems of security of supply, leading to proposals of financing reserve capacities at the national level. The Commission is drafting guidelines in order to be sure that these capacity mechanisms are necessary. Indeed, and this is the last point, policy interventions must be compatible with the internal market.

While exposing these lessons, the Commission has recently launched a public consultation in which it asks key questions for the 2030 framework, including do we need targets and if yes at what level? What are the necessary instruments to meet them? What is the right degree of market intervention? What is the role of other policy objectives? And, what is the role of the ETS?

Afterwards Dr Hans Buenting, CEO of RWE Innogy GmbH, presented an industrial perspective of the key challenges and obstacles to the development of a European energy policy. He started by reminding that the EU has set 3 targets and implemented separate instruments to achieve them. Although, the growth of renewable energy sources in Member States will be quite remarkable by 2020, the uncoordinated national support schemes cause market distortions, inefficiency and high system costs, endangering security of supply. A stronger coordination between the targets is therefore necessary. He recognised that the EU ETS functions quite well but the current low carbon prices reflect the consequences of the economic recession and the increasing feed-in of renewables. He concluded by recommending a high level of attention to the 3 targets of the “energy economic triangle” (Competitiveness, Sustainability and Security of Supply).

Mr Giovanni Brianza, Head of Strategic Planning and M&A at Edison S.p.A., also underlined the importance of striking the right balance between the 3 targets of the “energy economic triangle”. It is particularly important to work on developing EU competitiveness. He also pointed out that RES will remain one of the

pillars of the EU energy policy but they need to turn from subsidised to merchant business. While some technologies as PV are already at grid parity in some countries, further liabilities charged on RES technologies will lead to further subsidies. There is thus a need to invest in technology innovation in order to reduce RES installation costs. Moreover, the volatility generated by renewables creates business opportunities for mid-merit players as Combined Cycle Gas Turbines (CCGTs), which may effectively compensate this volatility. In order to do so, it is essential to improve gas competitiveness by developing indigenous gas sources (conventional and unconventional), diversifying suppliers and investing in adequate levels of infrastructures. He concluded by stressing the need to develop a stable regulatory framework at the EU level.

Finally, Dr Jayesh Parmar, Partner at Baringa Partners, explained that the establishment of the 2020 strategy was just the beginning and delivering will be the real success. Although the strategy has known a generally solid start, an awful lot of work remains to be done on simplification of administration, integration of renewable energy within the market mechanisms, planning and permitting as well as policy and regulatory risks. Moreover, RES have considerably developed but current projections are well below the planned trajectory overall and for all technologies except PV. We thus need to accelerate investments but this acceleration is likely to lead to increasing costs rather than benefiting from the experience curve. Progress on the construction of the internal energy market has also been made but there is much more detailed work to do in order to deliver. Therefore, Dr. Parmar underlined a set of implementation issues to be addressed such as investment uncertainty, making gas “a lower carbon route to a low carbon future”, managing energy flows across interconnected markets and structuring the incentive regimes so that the public benefits from the experience curve. Finally, he stated that 2030 targets are necessary but the pathways to meet these targets will be as much important.

Concluding the first session, Viscount Davignon stressed three important points. Firstly, the doctrine is right but its implementation is wrong. Today’s situation is not in line with the assessments made before. Secondly, traditional energy sources and RES must be brought together by creating trust and credibility in the responses proposed. Thirdly, everybody from producer to consumer has to be innovative.

## **Session 2: What should be the design of the 2030 EU energy policy framework?**

Opening up the 2<sup>nd</sup> Session, Edouard Sauvage, Member of the Executive Committee and Director of Strategy at GDF Suez, made an assessment of the current framework pointing out three failures of the 3 targets of the EU energy policy. In terms of competitiveness, industrial consumers have witnessed an increase of 21% of electricity prices, mainly due to the development of RES. Regarding climate policy, CO<sub>2</sub> emissions are actually increasing in some Member States (including the UK and Germany) and the EU ETS has not driven investments towards low-carbon technologies. With respect to security of supply, Europe has annual average power production overcapacity but lacks capacities to address consumption peaks. In order to revitalize the energy policy and to provide a clear vision for 2030, Mr. Sauvage called thus for several actions, including an improved market design and a coordinated European approach to capacity remuneration mechanisms; a sustainable EU ETS providing signals to encourage investments in low-carbon technologies; a more sustainable way to develop RES through progressive convergence of national support schemes and progressive integration into the internal market; and a strengthening of the policy framework to trigger investments in energy efficiency and other technologies such as storage, smart grids and meters, and shale gas. Finally, GDF believes that we should have one single CO<sub>2</sub> target for the framework 2030 with RES and energy efficiency as means for decarbonisation in order to avoid overlaps between different objectives.

After, Reinhard Mitschek, Managing Director of the Nabucco Gas Pipeline International, explained how this important gas pipeline project could bring an important contribution to the security of energy supply. Nabucco connects Central Asia, Turkey and the national grids of the entire Southern Corridor with the European gas market, providing alternative gas supply for South East Europe (SEE) and for whole Europe. It is indeed connected to all important gas hubs in Europe and combines physical transports and gas swap opportunities. Moreover, it offers 50% of the transport capacity to third parties. Besides diversification of supplies, Nabucco also provides market competitiveness with flexible and transparent business opportunities, boosting the supply and labour market of the whole SEE region. Many achievements have been realised these past months, including the share purchase agreement signed with GDF Suez in May 2013, but some important steps remain.

Then, Josche Muth, Secretary General of EREC – the European Renewable Energy Council shared his views on the design of the 2030 framework, starting by underlining that renewable sources, energy efficiency and smart infrastructure are ‘no regret’ options for Europe. The outlook for RES is not that bright and the lack of long-term vision for RES is the most important barrier. A clear signal for investors via a legally binding RES target would offer long-term predictability of market volumes and direction. Investing in RES is essential as it contributes to economic growth (1% of the EU GDP), jobs (2.7 Mio by 2020), technology leadership for Europe (reaping the benefits of first-mover advantage) and replacing fossil fuel imports. It also reduces the costs of decarbonisation by pushing the supply via R&D and pulling the demand via targets triggering their deployment. He also explained the need to develop flexible markets through investments in infrastructure, capacity, storage and demand-side management. Finally, he pointed out that a mandatory RES target will reduce the level of support needed.

Finally, Dr Andreas Goergen, Siemens’ President of Energy Sector in South West Europe, reminded that Europe’s competitiveness depends on an affordable and reliable energy system. Then, he exposed the lessons from Germany’s energy transition where the energy economic triangle is threatened. In terms of competitiveness, Germany’s electricity cost for industry is 19% above EU average. Regarding sustainability, CO<sub>2</sub> emissions increased in 2012 due to an increased use of coal to replace nuclear and complement RES. With respect to security of supply, there are currently over 1,000 grid interventions annually. Finally, he exposed three requirements for a sustainable European power market. Firstly, support of technologies must be differentiated based on level of technological maturity and marketability. Secondly, the best solution model must be chosen in terms of technology (e.g. coal to gas shift) and regions (location-optimized use of RES). Finally, clear and reliable targets for CO<sub>2</sub> reduction must be defined and measures for preventing price fluctuations in the EU ETS must be taken (e.g. price corridor).

During the debate chaired by Sami Andoura, Senior Research Fellow at the Egmont Institute & Notre Europe – Jacques Delors Institute, a participant pointed out that Member States’ initiatives are undermining each other and that we have to adopt a common approach based on the optimisation of resources. In order to do so, clear national mandates are necessary so as to avoid national measures. It was also mentioned that although we have to look at the long-term sustainability challenge, short-term issues such as affordability and competitiveness must be addressed. Finally, flexible policies are needed in order to adapt to changes.