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"Main challenges of a European Energy Policy"

Keynote address by President of the European Council Herman Van Rompuy

It's a pleasure to be joining you this morning for the opening of your conference on Europe's energy future. You have set yourselves a clear time horizon, reflected in the title of your event. And you are right to look beyond 2020. In energy terms, it is just around the corner... The decisions that we take today (like those we do not take) will still influence our economies twenty, thirty years from now.

Worldwide, few sectors are changing as fast and profoundly as that of energy today. To the eyes of many – and I think they are right – we are currently witnessing an "energy revolution".

Shale-gas and other new energy sources, global shifts in demand fuelling a race for resources... The changes we are seeing today will have huge ramifications: tipping the balance in terms of competitiveness worldwide; forcing us to think harder on how to mitigate climate change now that fossil fuel is more abundant than we thought. And also geopolitically – think of the US-Middle East relationship for instance...

Like the rest of the world, we Europeans are caught in the midst of these sweeping changes. What is important is that we don't just remain witnesses, but instead take our energy future into our own hands. If we don't want future choices to be imposed upon us, we need to start shaping them today.

That is why I wanted the European Council to look strategically at this issue at our last summit here in Brussels, a few weeks ago at the end of May. During that meeting we had a very rich discussion on energy and how it effects consumers and companies in all our countries.

P R E S S

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It was the first debate in a series of thematic discussions under the common denominator of Growth, Jobs and Competitiveness. Indeed, in the months ahead, I wanted to make sure that, at each European Council summit, leaders can devote some of their time together to key issues, like innovation, trade or our defence industry.

It is no coincidence that we started this series with a discussion on Energy. Not only because energy is a cross-cutting theme, that will feed into all our other discussions; the links are obvious when it comes to innovation, industry... even defence (our armed forces being the largest public consumers of energy). Indeed, the impact that this sector has on our entire economy goes indeed far beyond what its share of GDP suggests.

For affordable energy is key to keep industry – and jobs – in Europe. It is key for growth; and it's crucial for households too. Costly energy doesn't only mean that it's more expensive to drive your car or heat your home: it means everything becomes more expensive. This also applies to industry. Energy prices for companies and factories have gone up by 27% in real terms over the last seven years, more than in most other industrialised economies.

Meanwhile, prices for industry have been going down in places like the United States. Compared to their American competitors, for European industrial firms electricity is almost twice as expensive; and gas, four times as expensive. The new 'energy boom', is turning America into a net gas exporter – with much talk of re-industrialising and "on-shoring". And it's likely that others, like China will follow.

We have to look very carefully at where this leaves us in Europe. Especially as this energy revolution is also happening in the midst of a worldwide race for resources. Global demand for energy is rising (and is expected to do so by a third by the time we get to 2035).

At the same time, Europe relies increasingly on foreign gas and oil – by 2035 probably by more than 80%. By that time, we may well be the only continent to still depend on imported energy. Call it our Achilles heel. What is certain, is that this will have an impact on our competitiveness – for our companies, and our economy as a whole. Still, there are other ways that we too can turn our own energy situation from a liability into an asset, as long as we play our cards carefully and in a timely fashion.

Competing in the midst of a global energy revolution is not going to be easy. But we absolutely can make more out of our European energy, especially our green energy. We can save money, we can create jobs. But to do so we need to play our cards well.

It is this energy dilemma that I put to the members of the European Council a few weeks ago. What should be done by our Union on energy, to foster competitiveness and fuel growth in Europe? Where does action our Union bring the most added value?

In the room, there was a strong sense of awareness that we, in Europe, have no major 'game changer' on the horizon, unlike some other global actors. So we need to keep working on several fronts, and find our own answers, preferably with a common approach – rather than 28 separate ones.

There is a number of priorities that such a common approach should cover. But I would like, for the remainder of my remarks, to focus on four major sets of priorities that were the focus of our energy summit last month.

The first priority is energy efficiency. This will hardly come as a surprise. Because naturally, the cheapest, cleanest and safest energy will always be the one we didn't need to consume in the first place! I was struck by President Barroso's presentation at the last European Council: if we are 20 percent more efficient in our use of energy by 2020, we will save ourselves sums amounting to the equivalent of a thousand coal power plants. The adoption of the Energy Efficiency Directive was a real boost; but the challenge now is to make this goal happen. And here, there is much more that could be done. We need to be more ambitious. This principle should be embedded in everything that we do, from setting standards for appliances and vehicles, to the way we carry out our public procurement.

Importantly, energy efficiency doesn't just save us money, it is also an effective driver for jobs and economic activity. Especially in the construction sector, which went through a serious crisis.

A couple of weeks ago, as part of my annual 'tour des capitales', I had the chance to visit one of the most eco-smart buildings in the world: [Kungs-bro-hu-set] in the centre of Stockholm. An incredibly energy-efficient building with smart energy solutions – for instance it recycles the waste heat from Stockholm Central Station! It speaks volumes about what we can achieve if we set our minds to it. We need more such smart designing in our cities!

The second priority I should like to talk about is our common energy policy. Here too the objective is clear: we need to turn our fragmented mosaic of 27 markets into a true European single energy market. A truly competitive market, without barriers or bias towards or against any technology, and where consumers are active and informed players, is the best way to encourage operators to select the most cost-efficient technologies.

In fact, we have the right policies but implementation is too slow. Without actual 'pipes and tubes', the internal energy market will only exist on paper while some of our member states will continue to be stranded on energy islands. Using the tools we have agreed would bring down prices and could save Europeans collectively each year up to €30 billion in both gas and electricity. Why isn't this happening faster? We know the deadlines we have set ourselves, and we need to hold them: to have all rules and standards in place by 2014 and no country left unconnected to the common grid by 2015.

But to make this happen – and this is my third priority –, for that we need investments. For example, a fifth of our coal power capacity is due to retire by the end of the decade. We will need to replace this production with new means and this will be costly. No less than €1 trillion by 2020, in modern infrastructure and also in R&D.

The Connecting Europe Facility, which is planned in the Union's upcoming budget for the next seven years, can certainly play an important role here. And I hope the Parliament can come to an agreement on it soon!

But a large part of future investments will have to come from the private sector. And we know that investors are ready to invest – they know these can be good-value, viable, long-term projects. However, this is not just about money: to spend on, say, pipelines today they need a sense of where we want to be in ten or twenty years time. So, in order to encourage this much needed investment, a more predictable framework is vital. For our energy – and I should add – for our climate policy. We need to set out clearly where we want to be beyond 2020. It makes sense ecologically, but also economically. Here, allow me a side note on our carbon emission targets, the main pillar of our climate strategy.

We have set ourselves the ambitious goal to become a low-carbon society by 2050. And we have to make sure that even despite the crisis, Europe keeps up its efforts on climate change.

Our carbon market, still the largest, covers more than three quarters of total global carbon trading. True, there may be some concerns today about the low price of carbon caused by economic difficulties, since such low prices don't serve as an incentive to leave carbon-intensive technologies behind us. But still, this "cap and trade" approach will nonetheless deliver, in the most cost-effective way, the emission reductions that we are aiming for (21% less emissions by 2020).

We may want to look – carefully – at some short-term measures to address today's pricing problem. But, as I said, the most important is that we provide quickly predictability for the longer term. Widening the horizon of our policies to 2030 would have an immediate impact, as it would help shape expectations and therefore investment decisions made today.

This brings me to my fourth, and last priority: diversifying our energy sources. Our dependence on foreign energy sources is our Achilles heel. Our oil import bill exceeds today € 300 billion. And this dependence will most likely continue to increase.

But the situation varies hugely between European countries (from 20% to sometimes 80%). And the conclusion that emerges is that those member states that manage to reduce their dependency on one single supplier or on one single supply route benefit visibly from this diversification. In any case, the challenge is clear: Europe has to exploit its energy potential to the full.

Starting with renewable energy of course, where we have set ourselves an ambitious target of 20% of our total energy by 2020 (and overall we are on track). There is still a huge potential, also in terms of job creation. And we should take full advantage of it, especially now that these technologies are become more and more mature.

But we should also develop safe, sustainable but cost-effective ways to tap other indigenous resources – conventional and unconventional. Yes, this can include appropriate use of shale gas, which could become part of the energy mix for some member states. This is something that the European Commission will further assess. In the end it is, of course, it is up to each country to decide its own energy mix – it is even explicitly recognised in the European Treaty.

Nonetheless, it matters tremendously that all energy actors in all our countries – from presidents and prime ministers, to CEOs and experts – keep exchanging on these matters. For instance by better coordinating, in advance, on major national energy decisions with an impact on other countries – something all leaders committed during the May summit. And beyond, we need to keep looking for new solutions together.

We are facing the same challenges, and though we won't necessarily have all the answers right away, we'll make more progress if we face them together. We have to play up our advantages!

On Energy as elsewhere, the devil, of course, is in the detail. That is why a conference such as yours here today is so important. I look forward to hearing of the ideas that emerge from today's debates and to see what new *pistes* we can follow.
