

## In defence of a European High Authority for Energy

**Auteur :** Joachim Bitterlich : Former Ambassador and advisor to Chancellor Helmut Kohl for European Policy and then Foreign and Security Policy - is at present Director for International Affairs for Veolia. Est actuellement directeur des affaires internationales chez Veolia. Il a récemment publié France-Allemagne. Mission impossible ? Comment relancer la construction européenne ? (Albin Michel / Fondation Robert Schuman, Paris, 2005)

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### Summary

The energy issue is a source of growing concern in Europe. The supply of hydrocarbons vital for the efficient running of the economy and European societies, increasingly escapes the control of European leaders due to their often problematic geographical location as well as a constant rise in non-European demand. This dual edged phenomenon which is linked to the increasing scarcity of these resources, is leading to a continuous rise in prices and geopolitical threats.

In order to counter these threats the European Union has to establish a common policy founded on an improved control of consumption and a diversification of the sources of supply. Increased co-ordination between Member States based on the principle of mutual solidarity appears to be one of the vital factors in this voluntary drive to master the energy issue. Does this mean in fact that Europe requires a High Authority for Energy?

### Introduction

Thanks to the explosion in prices and the debate over the effects of Europe's increasing dependence on gas supplies from Russia the energy policy has in the space of just a few months once again become a subject of political and economic topicality in Europe.

Sensitivity about the energy issue has also become apparent in the wake of two European mergers that have hit the headlines over the last few months: on the one hand there is the possible merger in Spain between Endesa and Gas Natural or with E.ON and on the other hand that between Suez and GDF or ENEL.

Some observers believe that the rise in prices comprises a danger for growth perspectives deemed necessary to boost Europe and to reduce unemployment; simultaneously a new energy policy might be the key to a programme to boost the economy over the next few years.

Another comment on prices seems of importance: if we are honest with ourselves the prices of the primary requirements of daily life - water, waste, energy, and transport - are still relatively moderate in comparison with other 'useful' life requirements for them to be of any deep source of concern.

We should remember that twenty years ago German specialists believed that 1DM was the top price for a litre of petrol and that the consumer was going to change his habits radically. Today the price lies at around 1.30euro, ie double that price - but our habits have not changed in the slightest.

### I - Energy - an underestimated threat and challenge

1. First and foremost energy is an area where risks, in the short, mid and long term find themselves combined together in a rare mix.

Most of our resources are to be found in the most politically unstable regions of the world and emerging players such as China or India are becoming our competitors in terms of supply.

Some are already talking about preparing for a 'supply war'.

A glimpse at the world reserves of gas is enough to illustrate this situation: Russia has 47.4 billion m<sup>3</sup>; Iran 26.6; Qatar 25.8; Saudi-Arabia 6.6; the United Arab Emirates 6; USA 5.4; Nigeria 5; Algeria 4.5.

North America, Europe and Asia consume 70% of the oil extracted, two thirds of the reserves of which lie in the Middle East.

Who will the players and key allies be in the future? Will it be the USA since it is the greatest consumer at present or Asia, the emerging continent? Or will we have to face a situation where the Middle East allies itself with China in the near future?

We must remember that at present Europe consumes 17% of the world's energy, the USA 29%, Asia more than 20%, 11% of which by China and 4% by India.

In addition to this if we look at Chinese consumption per capita this only represents 17% of that of the USA or 26% of that consumed by the European Union. What will the situation look like in ten years time since China has an average growth rate of around 10%?

Incidentally energy is a domain in which Europe is becoming increasingly dependent with regard to third countries - the forecast rises to 70% for 2030 in contrast with 50% at present. However we should note that the degree of American dependence already lies at nearly 70%.

2. This is a domain in which there is still no common answer - where the European Union is a fragmented player with little influence over the international market.

It is a domain for which there is still no common market, only national, regional markets as well as divergent traditions or national policies.

Energy is an area in which politics has maintained its trend of having the final say as shown in Spain with Endesa and Gas Natural or E.ON and in France - the future of Suez with Enel or GDF or even in other European countries.

3. European Union Member States have developed totally different "energy mixes" - I would only like to quote as examples France and Germany.

Should France not be developing a third pillar or even a fourth one alongside the nuclear and hydraulic options? Should Germany not be reviewing its programmed exit from the nuclear option?

It seems however that there is a limited European common denominator: increased economy, increased efficiency, increased diversification of supply, increased protection of the environment, less CO<sub>2</sub>.

In the face of these challenges the European Union has taken action: on the basis of a Green Paper by the European Commission dated 8th March 2006 and the Conclusions of the European Councils of 23/24 March and 15/16 of this year - thought is now being lent to the subject.

The common aim is to come to an agreement on political priorities and a plan of action in time for the European Council in the spring of 2007. However present debates have still not led to what might be called either a breakthrough or a new European policy.

4. The challenge has become even greater since externally there are several ongoing crises:

- the first being the nuclear issue in Iran;
- the second pertains to the reliability of and dependence on Russia, accentuated by its attitude with regard to the Ukraine ;
- the third problem is with Latin America where nationalism is rapidly gaining ground.

Hence the need for thought on a common European foreign policy in the domain of energy.

5. We are now in a position that is comparable with that of the post Second World War period when in 1950 the European Community of Steel and Coal was created - is it now time for the creation of a new European pact?

## **II. The need to reorient the EU Member States' energy policy**

The base of any thought on the new orientations of the future energy policy and the "energy mix" has to be a discussion about the origins, external energy suppliers as well as and above all about the basis of our energy supplies:

- the retention and development of the nuclear option is vital - the major concern on the part of various countries with regard to security and nuclear waste must be taken into account;
- water is a limited resource, but a competitive one, environmental reticence about dams is often an obstacle;
- coal, which represents 28% of energy consumption worldwide (36% in terms of oil, 23.5% for gas), has lost its predominant position in Europe over the last few years but appears to be on the point of making a comeback;
- research into clean coal centres is underway, the first pilot projects likewise but what will the price of this new type of energy from coal be? Experts are talking about a twofold increase in present prices!
- gas also remains indispensable but the European Union depends on imports (30% from Russia, 22% from Norway, 16% from Algeria, 30% from other countries such as Nigeria or Qatar);
- Germany alone depends on Russia for 34% of its gas and this is increasing. Is this a healthy way to develop? (its other international suppliers are above all Norway, the Netherlands and the UK);
- energy produced by windmills has become one of the most costly enterprises. This renewable technique, apart from the visual problems caused to the countryside, has to be considered as a 'green' illusion. It will remain very costly;
- solar energy is a complement for the time being; progress is being made but the price is still high.
- geothermal energy is hardly exploited but it is a promising complementary means;
- "green oil" is a new point of discussion - an alternative to develop "biomass" ethanol gas - has an underestimated future at present (by 2010, 4% and more?);
- the use of waste particularly via incineration is also a valuable complementary means.

There is also another factor and well acknowledged tool but which is still underestimated and under exploited: the efficiency of our installations.

Recent studies which compared energy efficiency across the EU revealed that the tail enders are Estonia, Slovakia and the Czech Republic! These are followed by Belgium, Lithuania, Finland, Latvia and Sweden. Germany and Spain lie within the Union average.

Given this we must also give thought to the nature of our equipment: should we not be encouraging the development of more decentralised installations, which are therefore smaller and more local?

### **III. An answer is necessary**

1 - A European market - but which elements should be included?

1. The deregulation of the markets that should be complete by 1st July 2007 comprises a basis but it is still inadequate. From the very start it should have been complemented by an "unbundling" of production, transport and distribution.

A common market presupposes common rules, primarily of competition (but on the basis of which market?), a parallel system of regulation, permanent monitoring by an independent European regulator or by the Commission or by independent national regulators?

2. A true common market and healthy competition also requires a certain amount of interconnection, a vital basis for a true European network of electricity and gas. At present cross-border flows only represent slightly more than 10% of European consumption.

How much should interconnections be developed, who will finance them and what will the market share be? Will these be public infrastructures or will government financial incentives be enough for the players on this European market who can continue to survive with matters as they stand at present?

3. It is also important to decide whether we do not have a vital interest in integrating our European neighbours into this EU market given the nature of our geography?

Anyone with any degree of knowledge would say that nuclear power remains vital. With this perspective in mind what should the regime be and what will nuclear power's role be?

4. The key issue is to decide whether we need a common policy in order to manage supply, production, transport and distribution or do we just need to ensure the co-ordination of national policy to avoid problems between Member States as a result of the choices they make and specific national features? In addition to this who should be the arbitrator in the case of disputes?

What types of support policies should a common market or policy co-ordination be complemented by?

- The permanent monitoring of the European and international markets including the establishment of an early warning system; but which institution will undertake this? The IAEA? The European Commission?

- The setting of objectives to reduce CO<sub>2</sub> and increase energy efficiency including in the domain of the use of "green oil";

- And the promotion of and innovation in applied research.

All of these questions lead to a final point: do we need a "Common European Authority"? Should it be based on

the 1950's model of the European Commission or another type of institution?

I am increasingly convinced that the answer to this is "yes" and that we need an Authority such as this to play the role of permanent monitor as an institution to co-ordinate, support, monitor and arbitrate.

2 - A more focussed or "common" policy

This is an undeniable requirement but what should the objectives be?

We have to diversify our resources, reduce our dependence on just one single country or region. In addition to this a partnership should be built with various countries which presupposes that these countries find "their place" in Europe (look at the problem created by Gazprom); we should also promote global co-operation.

### **Conclusion**

For the Europeans the drawing up and launch of a common energy policy represents one of the major strategic challenges of the 21st century.

If we listen to the present debates we sometimes feel that a common European response is still a dream or even utopia.

Moreover we find ourselves, as 56 years ago, in a transitional phase that is leading to the acknowledgement of a basic problem - or do prices have to rise even higher, beyond the 100\$ per barrel mark for us to realise what is at stake?

Europeans, wake up, we have the techniques, the technology, innovation - we have enormous potential that has barely been tapped - the cards have been clearly laid out on the table - what we now need is the political strength to act without hesitating!