FLEISHMAN HILLARD
INTERNATIONAL COMMUNICATIONS

REFLECTIONS ON EU ENERGY POLICY




Efficiency, renewables and fossil fuels – what's the right energy for Europe?

A WORKSHOP BY FLEISHMAN-HILLARD

25 JANUARY 2012, BRUSSELS

Now half way through its mandate, the 'Barroso II' Commission recently published a new 'Energy Roadmap 2050', which sets out ambitious objectives for EU energy policy. Of particular interest to our discussion on 25 January, the roadmap indicates that 16% to 20% of energy savings is necessary by 2030 and 32% to 42% by 2050. All scenarios described in the roadmap predict growth in renewable energy sources, 'achieving at least 55% in gross final energy consumption'. While there may be disagreements over how realistic these figures are, there seems to be a general political consensus in favour of greater energy efficiency and a larger share of renewables in the energy mix. The debate therefore concentrates on *how* Europe can operate this transition without jeopardising its competitiveness.

Some immediate questions naturally spring to mind and should provide some food for thought for the lunch debate. These are initial questions up for discussion that we hope to explore further with our speakers on 25 January. Participants will be welcome to react to the Commission's vision and share some concrete steps they are already taking to achieve it.

Market or Regulation?

In defining the right policy framework needed to achieve these targets, the EU is faced with a fundamental question: should mandates be adopted or should the market be left to decide on its own where investments need to be made? The (still unresolved) discussion on binding energy efficiency targets is an illustration of this dilemma. The Renewable Energy Directive has proved efficient in encouraging the deployment of renewable energies across Europe and it is tempting for the Commission to replicate the same model for energy efficiency. However, technology mandates are seen as a breach of the proclaimed principle of 'technology neutrality': in its recent conclusions, the Energy Roadmap 2050 Advisory Group declared that "the most efficient strategy is to rely primarily on markets and market-based instruments." Should this approach be favoured, this would necessarily require a higher carbon price, which may or may not be reinforced by policy intervention (by withholding carbon allowances for example).

"THE EU HAS A ROLE IN PROVIDING CLARITY AND CERTAINTY FOR BUSINESS, ESPECIALLY AT A TIME OF UNPREDICTABLE OIL PRICES AND RELATIVELY HIGH POLITICAL RISKS (FUKUSHIMA FALL-OUTS, ARAB SPRING)."

What role for the EU?

The entry into force of the Lisbon Treaty in 2010 greatly enhanced the Commission's power in the energy field. Recent proposals in the field of external energy policy and offshore safety illustrate this shift. On the other hand, the current debt crisis makes it difficult for the EU's ambition to triumph over Member States' reluctance. Does the EU have much leeway in influencing the EU energy mix when Member States fundamentally remain in control of their own mix? The EU is probably well placed to propose a framework within which Member States retain some flexibility in choosing the right policy measures. As opposed to Member States - where politics-based policy U-turns are commonplace - the European Commission can

provide a stable framework for the next 20 years, which is about the time the energy industry needs to plan its investments. The EU has a role in providing this clarity and certainty for business, especially at a time of unpredictable oil prices and relatively high political risks (Fukushima fall-outs, Arab Spring).

How to balance carbon reductions, cost-competitiveness and security of supply?

The EU energy triangle is firmly established as a driving principle of EU policy. While it could be argued that security of supply has slightly gone down the agenda (mainly due to new supply prospects with American LNG imports and unconventional gas reserves in Eastern Europe), climate change and competitiveness are still taking centre stage. Unexpectedly the Durban Climate Conference led to an agreement to start working on a new global climate deal (to be concluded before 2015). The EU and its Climate Action Commissioner, Connie Hedegaard, were instrumental in reaching the deal and this year the EU Danish Presidency should offer a favourable context for more climate-related measures to be adopted at EU level. However, the bleak EU economic outlook is likely to reinforce competitiveness and cost-effectiveness as major priorities. This could be to the advantage of energy efficiency over renewable energies, as the abatement cost per ton of avoided GHG emissions is significantly higher for renewables than for, say, building insulation or fuel efficiency in road vehicles. More generally, the energy revolution proposed by the European Commission will come at a price (with admittedly lower fuel costs, but higher capital expenditure in grids, power plants and decentralised energy production). At this stage, no one really knows who will be able to foot the bill.

"WHILE IT COULD BE ARGUED THAT SECURITY OF SUPPLY HAS SLIGHTLY GONE DOWN THE EU POLICY AGENDA, CLIMATE CHANGE AND COMPETITIVENESS ARE STILL TAKING CENTRE STAGE".

Natural gas, efficiency and renewables: a positive sum game?

There is currently a lot of attention around what the International Energy Agency referred to as 'the Golden Age of Gas'. Demand is set to increase rapidly (overtaking coal in the global energy mix by 2030) and growing supplies can comfortably reply to this surge. Gas is here to stay and is often presented as a necessary complement for intermittent renewable energies. Whether natural gas can encourage the uptake of renewables or, on the contrary, deter their deployment, the question remains open. The same applies to energy efficiency: will the current focus on energy efficiency be detrimental to renewable energies, or is it a positive sum game? Some argue that energy efficiency should come first, as a low-cost option to reduce emissions (with generally shorter pay-back periods than renewable energies). At this stage, renewable energies need government support to compensate for high electricity costs, but there are good chances for them to become competitive as technology develops. It could be argued that renewables have more to fear from current government spending cuts and from general concerns about Europe's competitiveness than from energy efficiency itself.

Clara Lemaire
Account Manager

FLEISHMAN HILLARD
INTERNATIONAL COMMUNICATIONS

To find out more, please contact:

Esther Busscher

Esther.Busscher@fleishmaneurope.com | + 32 2 230 05 45

fleishman-hillard.eu | publicaffairs2point0.eu | @Eurotwittering