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THE EXTERNAL DIMENSION OF THE EU ENERGY POLICY

EURACOAL response to public consultation by DG Energy
(http://ec.europa.eu/energy/international/consultations/20110221_external_dimension_en.htm)

Question 1: Should the EU promote further energy market integration and regulatory convergence (notably as regards energy market regulation, environmental and safety standards) with its neighbours? Is there a need for a differentiated approach between the Eastern and Southern neighbours or between countries?

In the case of coal, markets are already fully integrated and function well without the need for interventions. In the case of electricity, market integration with third countries must go hand-in-hand with regulatory convergence. If not, an unfair competitive advantage would be given to countries who supply the EU with electricity, *vis-à-vis* indigenous electricity supplies. Specifically, the EU electricity sector must operate to very high environmental standards at some considerable cost. More generally, it is clear that regulatory differences cannot be used as a trade barrier to block energy imports into the EU. Indeed, World Trade Organisation rules do not allow one country to take trade actions for the purpose of attempting to enforce its own domestic laws on another country. To do so would open the door to protectionism and politically unacceptable trade wars with countries that the EU must, in any event, rely on for coal, oil and gas supplies. Given this picture, there has to be a differentiated approach, with regulatory convergence an objective only in some instances: instances that are linked to closer political co-operation rather than energy trade.

International agreements on environmental and safety standards must be negotiated separately from energy market integration. Where standards in a third country fall short of what is agreed, then the expectation must be that standards will be improved as wealth from growing trade is invested in more modern, cleaner and safer processes. Where such improvements are not seen, then the EU must decide what assistance can be offered: help with acquiring environmentally friendly technologies, financial assistance, training and other support. The question of regulatory convergence for reasons of EU accession should not be confused with closer market integration: they must be seen as two different objectives with different approaches required.

Question 2: Should the EU take concrete actions to foster greater investment in renewable energy sources in its neighbouring countries? What actions?

The EU has set itself very ambitious renewable energy targets. It already imports some renewable energy, mainly in the form of biofuels, and this has encouraged investment in other parts of the world. It would be a welcome development if renewable energy purchased from neighbouring countries, including electricity, contributed to the achievement if the EU's renewable energy targets. Transparency of trade in any green certificates is essential, but the potential income would stimulate investment in neighbouring countries and likely lower the cost of achieving the EU's targets. Further analysis will be needed to determine if a growing

trade in green energy offers global environmental benefits, or simply satisfies demand for green energy from wealthier nations without addressing the energy needs of developing nations.

Question 3: What measures should the EU take to reinforce and focus its partnerships with key suppliers (of hydrocarbons and other energy sources) and transit countries? What should be the focus of such enhanced partnerships? (What countries? What topics?)

Enhanced partnerships need to have a commercial footing since political agreements are subject to change and even abuse. In the case of coal supply – a solid hydrocarbon – there are no partnerships with key suppliers. Instead, there is a competitive trade between suppliers and consumers. These commercial partnerships are relatively stable because the parties enter into contracts willingly with clearly understood benefits (and penalties for non performance).

Question 4: How can the EU best support complex infrastructure projects outside the EU that can contribute to enhancing the EU security of supply and diversifying its supply sources and routes? For instance, should the EU seek to coordinate or be party to intergovernmental agreements which concern projects of European interest?

The implication of this question is that the EU should plan and develop projects that are in its interest, outside of the commercial market. This would appear to contradict the internal market ideal of a liberalised EU energy market. The EU should promote market-based solutions to energy supply, both within its own borders and outside of those borders. Commercially attractive infrastructure projects, that result in new supplies and energy routes, should be preferred over state-planned projects. Investments in the coal supply chain offers an example: mines, railways, ports, bulk carriers and other elements of coal-supply infrastructure attract private investments without intergovernmental agreements. The prospect of a commercial return is sufficient and should result in economically efficient outcomes.

Question 5: What focus should the EU give to its energy cooperation with major consuming countries? In what topics and countries could the EU action bring most added-value?

The major energy-consuming countries are China, the USA, Russia, India and Japan. The EU must compete with these countries in the global energy markets. Co-operation should focus on those areas which promote EU industry. For example, EU manufacturers currently enjoy a market share of over 50% in the global market for mining equipment. Other EU equipment suppliers also enjoy a strong position in the electricity supply chain, from power generation, through transmission and distribution, to end-use technologies. The EU should ensure that technologies are developed in the EU that are relevant on the global market. This means affordable technologies, and, in many cases, ones that exploit indigenous energy resources that can helpfully reduce demands on the global energy market. Successful co-operation with major energy-consuming counties is then a natural outcome since they would want the products that the EU can offer.

Question 6: Should the EU take action to increase its collective weight in global energy discussions and in international organisations and initiatives dealing with energy? How?

The question relates to EU foreign policy, *vis-à-vis* the foreign policies of individual EU Member States. Only when there is a convergence of national interests and European interests can the EU hope to carry the collective weight of all 27 Member States in international organisations and institutions. That convergence will come over time as EU energy markets become more integrated and energy supply becomes more commercial and less political.

Question 7: What initiatives could help the EU promote nuclear safety, security and non-proliferation standards globally?

The EU should fully support the UN and its International Atomic Energy Agency. It should encourage all nations to become signatories to the Nuclear Non-Proliferation Treaty and abide by international nuclear safety standards.

Question 8: How could the EU and its Member States gain together greater impact on international energy issues? What concrete actions should be taken to ensure synergies and coordination between Member States' initiatives and EU initiatives?

A fully functional internal energy market, one that is transparent and not subject to political interference, is a pre-requisite for a stronger EU influence on international energy issues. A functioning internal market would also ensure that energy flows to where it is most needed, in response to price signals. The coal market functions in such a way and there is a good balance between the interests of consumers and suppliers, without the need to resort to bi-lateral government agreements. Solidarity comes when the actions of the many actors in the EU energy sector combine to create a robust and flexible energy system that is able to respond to both internal and external disruptions.

Question 9: Do you consider that the compliance with EU internal market rules and the EU energy security objectives of Member States' bilateral agreements with third countries can be an issue? Should the EU take action to ensure compliance? How?

Non-discriminatory access to energy infrastructure is a key requirement of a common European energy policy. Bi-lateral inter-government agreements or commercial contracts should not restrict the final destination of any energy supply. These conditions are met transparently in the coal-supply sector, but it remains unclear if they are met across the gas-supply sector. Any attempt to restrict a free trade in energy within the EU has to be dealt with by the European Commission under existing treaties and laws.

Question 10: How could the European industry and civil society best contribute to the EU external energy policy objectives?

For a number of reasons, EU industry needs to remain fully competitive in an international context:

- To generate the wealth needed to pay for imported energy (competitiveness objective).
- To supply clean-energy products that are appropriate and affordable to third countries (environmental objective).
- To develop indigenous energy resources so that energy consumers in the EU have a choice of competitive suppliers and can therefore negotiate from a position of strength with external suppliers who might otherwise abuse their dominant position (energy security objective).

Civil society can contribute by:

- Accepting the ongoing need to develop new projects in the energy sector (power plants, pipelines, coal mines, wind turbines, electricity transmission, CO_2 storage sites, LNG and coal unloading terminals, etc.).
- Supporting new energy-sector developments for the contributions they make to local, regional and national economies.
- Understanding that all energy supplies come at an environmental cost that is complex and uncertain, but that environmental impacts can be reduced by taking well-understood and affordable steps in the energy sector, such as improving the efficiency of electricity generation.
- Demanding greater transparency about the costs of energy supply so that consumers better understand the tradeoffs that are made by governments when they introduce taxes, levies, obligations, certificate schemes and other measures to influence the energy mix.