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JUAN DELGADO

An energy boost for Europe

The European Spring Summit of heads of state and government meets at this moment to decide on the adoption of a common energy policy. For the first time the EU has put on the table a comprehensive package of measures covering the liberalisation of the energy sector, environmental policy and the external energy policy of the EU. The proposal is built around three axes: the creation of a single market for energy, a common external energy policy and a European environmental policy. Through the integration of these three axes it is aimed to increase the competitiveness of the European economy, to guarantee energy supply and to reduce the emissions of greenhouse gases.

But is it realistic to put in place such an ambitious project? Is it feasible that the European heads of state reach an agreement? Is it possible to achieve the three goals – competitiveness, security of supply and environmental sustainability- simultaneously? Several obstacles have to be tackled before providing with an affirmative answer to the previous questions.

First of all, the structure of the energy sectors across Europe is very diverse: While in France 70 percent of the electricity is generated from nuclear energy, in Poland coal is used to produce 90 percent of the power. While Spain imports more than 80 percent of the energy it consumes, Denmark is a net energy exporter. Such diversity determines that the alternatives available to each Member State to increase its security of supply or to reduce its emissions of greenhouse gases are different and, most importantly, they imply different costs.

Secondly, there are multiple trade-offs between the three energy policy goals and the importance of such trade-offs varies across Member States. For example, the reduction in greenhouse gas emissions has a cost in terms of competitiveness (that will revert in a better environment in the future). This cost is higher in those countries with limited “green” options (wind, solar or hydro) and those countries that have opted for phasing out nuclear energy (such as Spain and Germany). Similarly, supply security might have an environmental cost. For example, Germany has opted for promoting the use of coal, with the subsequent environmental consequences, to reduce its import dependence. The European dimension does not eliminate such trade-offs but helps relaxing them by increasing the range of options available to each Member State.

Finally, in the absence of a single market for energy, the interests of Member States in external policy will continue linked to the origin of their imports. The main gas supplier for Spain is Algeria while Russia is the main provider for Germany. While the Spanish and German markets are not interconnected, the external policy interests of Spain and Germany will differ and the incentives to agree on a common policy will be null.

The different starting points and the different options to address the potential trade-offs imply that a European agreement on energy policy is complex. A possible agreement not only depends on the final goals but also on the instruments designed to reach such goals and on the allocation of the costs of such policies.

Flexibility, consistency and certainty are key concepts for the design of a consensus energy policy. The regulatory strategy should be flexible and adapted to national circumstances. When possible, objectives should be set at EU level and shared between Member States in a way that costs are minimum and profits maximum.

Long-term objectives require long-term instruments especially in a sector where investments have a lifetime of several decades. Setting objectives for 2020, such as the 20 percent reduction in greenhouse gases, without providing the necessary instruments (the European emissions trading scheme does not go beyond 2012) creates uncertainty and endangers future investment.

Finally, a consistent application of regulation across Member States should be guaranteed in order to avoid the emergence of distortions as is currently the case with the CO₂ emissions national allocation plans.

The road is long but necessary. The increasing oil and gas prices, the processes of globalisation and climate change make necessary the coordination of the European energy policies. The diversity of Europe can once again become an advantage if the complementarities between Member States are exploited. The later an agreement is reached, the costlier will be to implement it.

Juan Delgado is a Research fellow at Bruegel, www.bruegel.org, Brussels-based economics think-tank and co-author of the report "Energy: Choices for Europe"