

Interview Andris Piebalgs

‘You can’t expect the energy industry to change by itself’

Modest though he is, EU Commissioner for Energy, Andris Piebalgs, could not avoid the limelight on January 23, when the Commission presented its far-reaching climate and energy proposals in Brussels (see our report on page 14). They may well be the most important legacy of a man who prefers to avoid publicity if he can. European Energy Review talked extensively with Piebalgs about his vision for the future of the European energy market. We got one “scoop”: the second strategic review on European energy policy, to be published later this year, will be about security of supply.

Photo: Thierry Monasse





Piebalgs: 'Nobody questions climate change anymore. What people are questioning are the costs of fighting climate change.' Photo: Thierry Monasse

| by Karel Beckman and Hughes Belin

When we say Al Gore, what is your reaction?

Haha. Great communicator. I learned from him that when you give a presentation, you need slide shows. He made people feel emotionally involved in the climate issue. I think his impact in the US has been great. Partly thanks to him, there is a real chance now of reaching an international agreement that includes the US. For Europe, I don't think he had an influence on our policy.

What do you think about climate skeptics?

Are there any left? I don't see them. I know only one or two. One was Vaclav Klaus (*the president of the Czech Republic, ed.*). I think he wrote a book, but it's not very popular. Nobody questions climate change anymore, not even ExxonMobil. What people are questioning are the costs of fighting climate change.

Your energy and climate proposals have been criticized because they include too many targets. Why is it necessary to have both a CO₂-target and a renewables target?

You can't expect that the energy industry will change by itself. It will stay as it is if you don't compel them to pursue other technologies. They will just pass on the CO₂-cost to the consumer. What we need is new technologies that can enhance security of supply and provide more flexibility – technologies that completely change the way energy markets are supplied. Government has a role to play in this. With just the market instrument that emissions trading is, you can't expect that renewables will be developed. Look at heating and cooling. We have no requirements for renewables there and there has been no change whatsoever. Change does not come by itself.

So we need the renewables target, because otherwise industry will just pass on the cost of CO₂-measures?

Exactly. A couple of nuclear plants will be built, but nothing else.

Some people argue that nuclear is a much more realistic and cost-effective method to reduce CO₂-emissions than renewables. Isn't the renewables target in effect an anti-nuclear measure?

No, not at all. We do not stand in the way of nuclear energy. The revision of the emissions trading scheme will set a long term price for carbon, until 2020. According to our calculations, this will be €39/tCO₂. This means that nuclear energy should become a viable option. In this respect, the United Kingdom will be a test for the nuclear energy industry. (*see story on page 76, ed.*) The conditions for investment are all there: the government has invited companies to develop nuclear power, there's room in the market, reactors are going to have to be replaced, the sites are there, the decommissioning rules are clear, storage is not a problem, the waiting times for approval are relatively short, and there is a price now for CO₂. What more do you want? Let's see how the industry is going to react. My advice to the nuclear energy sector is: "If you claim to be competitive, then this is your chance, seize it, invest in the United Kingdom". If they don't respond, we'll have to ask ourselves what is wrong with the technology.

Is it a good idea to sell nuclear power stations to countries in Northern Africa or the Middle East?

No one can refuse them the right to choose. Every country has the right to decide whether or not to have the technology. The EU has the best nuclear technology and it responds to demand. As to the security culture, China has done it, India also, so it is possible. I'm sure that France will not take

*‘Oil production is not easy, it’s not cheap,
it’s not environmentally friendly’*

any risks, it would be far too damaging for Areva. But of course, we should encourage countries to adopt sources of renewable energy: it’s easier and requires less capital.

You have also set a minimum target of 10% for the use of biofuels in transport. Many people view biofuels as harmful to the environment.

Yes, biofuels have a lot of powerful enemies. Both from NGO’s and industries. But let’s face it. The transport sector is responsible for a lot of emissions. What are you going to do about it? We have proposed measures to increase the efficiency of cars. Let’s hope they will not be watered down. But that’s not enough. You have to do something about the fuel. We have proposed very strict standards for biofuels now. Only biofuels that generate 35% fewer emissions than fossil fuels will be recognized. In addition, their production has to meet strict sustainability criteria. That’s never been done for any commodity! Not even food production has sustainability criteria, but nobody is complaining about that. Our standards are very tough. We protect biodiversity and high carbon plants outside the EU. We want second-generation biofuels (*i.e. biofuels that do not compete with food production, ed.*) to count double. It means we are not pushing member states to start early (*i.e. with first-generation biofuels, which do compete with food production, ed.*). What we are doing, in fact, is creating a partial alternative to oil without any harm to the environment. What is wrong with that? I think biofuels are being demonized.

Why are environmental organizations so much against biofuels then?

I don’t know. Sometimes I think it is because they all come from oil-consuming countries, not from oil-producing countries. There are no NGO’s from Nigeria or Kazakhstan. There people see with their own eyes what oil production does to the environment. Oil production is not easy, it’s not cheap, it’s not environmentally friendly. The same goes for tar sands or coal-to-liquids. So we need alternatives. We say let’s at least replace a part of this oil with environmentally friendly produced biofuels. It’s not easy to make this change, but the criticism is completely wrong. We have responded to all the criticisms. The only criticism I could agree with is with regard to using biomass in electricity, but there we have other opportunities, in transport there is nothing else. You stay addicted to oil forever if you don’t think about changing.

Where will our imported biofuels come from?

I think we will need to look to the East: our future suppliers of biofuels could well be the Ukraine, Russia and even Belarus. These countries have a great potential. They have some biofuels even far exceeding the threshold of 35% less CO₂, up to 70%. In such a case would we be justified in penalizing them with our import duties? It’s a question that we intend to study together with the trade commissioner, Peter Mandelson.

A proposal has been made by the King of Jordan to the European parliament to develop a grand-scale concentrated solar power plant in the African desert, to supply Europe with green electricity. (See story on page 30, ed.) Are you in favour of such an “Apollo” programme, as its proponents have dubbed it?

I am very positive about concentrated solar power. And our new renewables directive will make it possible for EU member states to import renewable electricity from third countries and to count this as meeting one’s renewables target. So there are possibilities there. But I don’t believe in Apollo projects. Innovations in energy will start small, with smaller projects. There is no magic button that will change everything.

How do you see the EU relation with Russia develop?

I see Russia as an opportunity, a chance. I have had a long experience with Russia. (*Piebalgs was born in Latvia in 1957, ed.*) I don’t want to criticize them. Russia is an open country now. I see Russian tourists everywhere. Gazprom has offices in Brussels. They are not closed to the world anymore. It’s a huge difference with the past. Then, our businessmen are making very good deals with Russia. Not only in the energy sector. But in all other sectors. It’s clear that Russia is opting for a market economy. Look at the electricity sector. I always use Russia as an example there. They are going for unbundling. (See story on page 94, ed.) Why? Not because they want to dismantle their electricity monopoly, RAO UES. They realize that without private capital investment they can’t cope. So they decided on this huge step and they are also liberalizing electricity prices. The gas sector is different, true. But this gives me confidence that in the gas sector, where we have this tension, things will also be different in the long term. Yes, Gazprom will have the pipes, but the gas will come from TNK-BP, Eni, any company. Perhaps it’s dreaming on my part. But like RAO UES, Gazprom is vertically integrated. It’s not efficient. At the end of the day it’s efficiency that matters.

*‘My advice to the nuclear sector is:
this is your chance’*

So it means that one day there could be independent gas producers in Russia. And there are clear indications that Russia is interested in closer ties with the EU. They want to reach European consumers.

So why then do we need an anti-Gazprom clause? (The European Commission has proposed “unbundling” legislation that would prohibit energy producers from owning energy infrastructure in the EU, including producers from non-EU countries, such as Gazprom. This has been called by some an “anti-Gazprom” clause.)

That’s very simple. If you have a company that supplies you with 25% of your gas, and growing, how do you deal with this monopoly? As a consumer you have no chance to resist them. They will decide what the conditions will be. You say, well, I surrender – or I will have no gas. So it’s not an anti-Gazprom clause, it is a matter of competition legislation. One of the basic principles of competition legislation is free access to pipes and networks. And if you say, as we do, that integrated companies from inside the EU can’t have a network, you cannot make an exception for integrated companies from third countries. What’s the difference? I tried to explain this to the Russians, that it’s not an anti-Gazprom clause, it’s a fair treatment clause. I can’t treat them differently, the dangers are exactly the same. We are simply trying to create the best market conditions. It’s an absolutely necessary proposal and I hope the Parliament and Council will accept it.

Does it annoy you that Eni made a deal with Gazprom to build the South Stream pipeline? Doesn’t this undercut the diversification strategy of the EU and the chances of the Nabucco pipeline that the EU is pushing for?

No, not at all. South Stream makes me feel better. I was more worried in 2006, when Russia said, we have so many misunderstandings with you, we will try to diversify our customers, we will not go to a market that doesn’t like us. Now it’s changed completely. South Stream is good proof that they care about the EU market, that they want to supply us. It’s new infrastructure, it will not be empty. Why invest billions otherwise? Of course it’s not a Russian responsibility to make sure there is competition in the market. We should arrange that. They are looking for consumers, we are making sure that we don’t get too dependent on one supplier. That’s why we are pushing for Nabucco. It will bring in new suppliers. And if the Iranian problem will be resolved, we will have another supplier.

But the Iranian problem has not been solved yet. Is Nabucco viable without Iranian gas?

It is in its first stage. Iranian gas will be important in the longer term. For the first stage we will have supplies, from Central Asia, from Iraq, and from the Arabian pipeline from Egypt, which will come onstream this year. I am confident that Nabucco will succeed. Turkey is playing a positive role in the whole process. They are working hard to get additional sources for the pipeline. They want to be a transit country. They have contracts already with Iran.

So how confident are you about the EU’s gas supplies? Your predecessor, Loyola de Palacio, once floated a plan to create emergency gas stocks in the EU, the same way as we have emergency oil stocks underneath the umbrella of the International Energy Agency. What has become of this plan?

At the moment we are studying its feasibility. In fact, the results of this study will help us to prepare our second strategic review on European energy policy, which we plan to publish before the end of the year. I’ll give you a scoop: the review this year will be on security of supply. We are asking ourselves these crucial questions. Do we have enough resources in the Union? Where does our energy come from? Do we need to revise the legislation on our emergency stocks? Who will pay? In Romania, for example, what interest is there for a local gas producer to invest when his prices are significantly lower than imported gas? What is the future of lignite and bituminous (oil) shale in Estonia? Of Polish coal? We intend to study all facets of energy production in the EU because we need to use the potential that we have. We tend to have a lot of “dirty” fossil fuels in the EU. It will be a question of balancing competition issues, security of supply and climate.

The Treaty of Lisbon contains a new energy chapter. How significant is that?

Very. It is a new base from which to legislate. Until now, we in the energy directorate have had to use articles from the treaty relating to the environment (article 175) and to the internal market (article 95). Just think, right now, if I want legislation to be passed, I’m not the person in charge, but my counterpart for the environment, Stavros Dimas. And if he doesn’t agree with an article which in his opinion doesn’t concern the environment, I’m in a very weak position to negotiate. The energy sector needs its own legal base to legislate, on interconnections, for example. The Treaty of Lisbon provides for that now. ■