The new European Parliament and the to-be-renewed European Commission are faced with the challenge of managing the legislation that was adopted at the end of the previous mandate – and attacking the unresolved problems that can no longer be put off. We are in for a very rough ride.

Daunting energy challenges for new European law-makers

by Hughes Belin

The European Parliament's conservative group, the EPP (European People's Party) has been made stronger after the European elections in June at the expense of the socialists. But the position of the Green parties in France, Germany and other countries also got stronger. This is not without consequence. French president Nicolas Sarkozy's immediate reaction after the results were announced was to declare that he intends to adopt greener policies. The liberals in the European Parliament, traditionally headed by the British and the French, will certainly renew alliances with the Greens on the subject of free enterprise and consumer protection. But the swing towards conservatism will tip the balance in favour of European legislation with fewer regulations and expenses, as was witnessed already during the Barroso I years. Security of energy supplies will undoubtedly be paramount in all future decisions about energy and climate, far more so than previously. The many parliamentarians (MEPs) from Eastern Europe, who have a different vision of energy than their western counterparts, shaped by their dependence on Russia, will make their voices increasingly heard. This will also affect climate policy. The Polish climate rebellion at the European Summit in October 2008 was a very clear warning. If forced to choose between energy security and climate change, the former is very likely to win. Energy efficiency, a win-win solution (good for employment, climate and security of energy supplies), could be expanded enormously in Eastern Europe, but it will take a lot of persuasion, breaking of taboos and new ways of thinking, both among MEPs and governments. This is one very clear challenge facing the new Parliament and Commission.

Russia

Perhaps the most difficult dossier Barroso or his possible successor will have to deal with in the energy domain is the Euro-Russian relationship. Barroso's legacy in this area is very poor. It is well known that his relationship with Vladimir Putin is not good. For one thing, Putin cannot forgive him for having appointed a Latvian to the position of European energy commissioner. Thus, the Euro-Russian dialogue, patiently put in place by the previous Commission, thanks to the efforts by then Director General for Energy and Transport, François Lamoureux, has seriously deteriorated under the Barroso presidency. The two camps harbour a deep mistrust of each other.

The continuing Russo-Ukrainian gas conflict has clearly shown that the EU is unable to anticipate the ways things will go or to act as an effective mediator between the two protagonists. The negotiations for a new wide-ranging partnership agreement with Russia which, logically, should follow on from the previous agreement that expired at the end of 2007, have floundered completely. The race for giant new gas pipelines, with the EU trying to push for the realisation of the Nabucco project and Russia doing everything in its power to torpedo the project, is mired in misunderstandings. The EU made the mistake of waiting too long before talking to Turkmenistan, a potential supplier for Nabucco, and is in danger of paying dearly for this. Brussels is now about to set up a gas purchasing organisation (the Caspian Development Corporation) with an as yet very unclear mandate. But Barroso himself may be the EU's weakest link when it comes to Russia.

Recovery package

It's been said and repeated at every energy conference in the last few years: the energy sector is suffering from a lack of funding to undertake the vital replacement of ageing power stations and gas interconnections with central and eastern European countries. Not only that, it also has to support the cost of adapting electricity grids to higher loads of renewable energy sources. The reduction in the production of gas in the North Sea needs to be compensated by new LNG terminals. The EU's new energy efficiency Action Plan, an update of its 2006 predecessor, calls for massive investment into energy efficiency in Central and Eastern European countries. Numerous appeals have been made to the European Commission and other institutions such as the European Investment Bank (EIB), but as yet the energy sector does not feel that sufficient elements are in place to initiate the necessary investments. The economic crisis and volatile energy prices are not helping in this respect. The new lawmakers in Brussels will have to reassure investors and provide them with a suitable framework, something which the Barroso Commission has thus far failed to do. The Commission's "recovery package", announced in January, could have done much to stimulate energy investments, but the process of making the choice of projects has turned out to be highly intransparant. Much of the promised money may not even be dispensed. In its plan, the Commission has allocated €5 billion for investments in energy and internet broadband

European Parliament, Strasbourg. Photo: Murat Taner/Corbis

German Chancellor Angela Merkel addresses the European Parliament. Photo: European Commission

infrastructure in 2009-2010, including €1.05 billion for carbon capture and storage (CCS) projects, €565 million for offshore wind projects and €2.365 billion for gas and electricity interconnection projects. This money is spread over a large number of specific projects in different member states, watering down its effectiveness.

In the case of the gas and electricity infrastructure, the question is whether money is the big issue here. 'The main obstacles for gas are the right regulatory conditions for ensuring a fair return on investment. The main issue is guaranteeing tariffs', says Mylène Poitou, Executive Secretary of GIE (Gas Infrastructure Europe). 'But for some projects, smaller ones, the recovery plan can help.'

There has also been criticism of the choice of CCS projects. Jeff Chapman, Chief Executive at the UK's Carbon Capture & Storage Association, says that the selection of projects 'was neither very open nor democratic'. In certain member states there is more than one eligible project. The Commission will have to choose between two eligible projects in Germany, one out of three in the Netherlands and one out of four in the United Kingdom. The offshore wind industry has welcomed the promise of extra funds. 'Project promoters are positive and confident' about the recovery package, says one expert from the European Wind Energy Association (EWEA).

New oil crisis

The Barroso Commission managed to force through an energy-climate package with very clear targets (the famous 20-20-20 by 2020). The new Commission and Parliament now need to ensure that the goals are achieved in all member states. This implies helping them to implement the existing European instruments, such as the European emission trading system (ETS), and being strict with those that fail to comply. A continual check must be kept on the many measures that need to be implemented such as national action plans on renewable energy and energy efficiency. Transport has yet to be integrated into energy policy, but in fact the opposite is happening – the two areas are being separated. The Directorate General for Transport and Energy has been split up. This will make it much more difficult to make the transport sector "greener". It is true that the joint Directorate General for Energy and Transport, set up a decade ago, has not produced the expected synergies. As far as policy is concerned, agreement has yet to be reached on the Eurovignette (European pay toll for lorries). CO_2 legislation for cars is weak, say NGOs. European leaders have also blatantly refused to provide EU funding for cities (and therefore for public transport) in the €5 billion recovery package. Transport is therefore still very dependent on oil and no viable alternative has been proposed, neither on the demand nor the supply side. Credible sustainability criteria for biofuels production have yet to be established by the Commission to underpin the EU's support to biofuels. The result is that the EU is ill-prepared for a new oil crisis. It has failed to anticipate a drastic and sustainable increase in oil prices which experts agree is likely when the economy recovers.

National champions

With the liberalisation dossier, too, we are far from finished. Those who were disappointed with the Third Package are ready to continue fighting for full unbundling, increased power for the Competition authorities and the installment of a European regulator. The outlines for the fourth package are already in place. Most observers agree that the market is far from ideal: the energy sector is dominated by mega-mergers and competition is weak. The Commission's task of policing the situation is becoming increasingly difficult, especially as a result of pressure from member states who favour their own national champions.

Adding all this up, and considering that international climate negotiations are rising to a pitch and the threat of failing energy supplies is looming ever larger, we can safely conclude that the energy challenges of the next five years will be at least as daunting as they have been in the recent past. ■