

AmCham EU's response to the European Energy Security Strategy

AmCham EU welcomes the European Commission's Communication on Energy Security

Executive summary

The American Chamber of Commerce to the European Union (AmCham EU) has a keen interest in EU energy and climate policies, and promotes a balanced approach between the objectives of security of supply, sustainability and competitiveness to transition to a low-carbon economy at the lowest possible cost.¹ In this context, AmCham EU welcomes the European Commission's Communication on Energy Security and calls on the Council for a swift adoption of the Strategy. However, a number of policies proposed in the Communication could have the unintended consequence of weakening Europe's competitive energy market rather than strengthening it.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled €2 trillion in 2013 and directly supports more than 4.3 million jobs in Europe.

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¹ For further information, please see AmCham EU's response to Framework 2030 for Energy and Climate, May 23, 2014.

29 October 2014

Introduction

During the European Council meeting on 20 and 21 March 2014, EU leaders called on the European Commission to conduct an in-depth study of EU energy security and to present by June 2014 a comprehensive plan for the reduction of EU energy dependence, particularly for natural gas. The European Commission presented a comprehensive Energy Security Strategy on 28 May due to be adopted by the European Council in October 2014.

The Strategy identified a number of short term measures as well as medium to long-term goals. Whilst AmCham EU applauds this initiative, we do believe some of the proposed measures could potentially distort competition or the effective functioning of the internal market. Ensuring affordable, diverse, sustainable and secure energy for citizens and industry is key to paving the way for Europe's recovery.

Our comments below respond to the eight pillars for action outlined by the European Commission.

Short-term measures

- 1. Immediate actions aimed at increasing the EU's capacity to overcome a major disruption during the winter 2014/2015*

Given the imminence of winter, AmCham EU believes it is of paramount importance to improve the EU's preparedness in respect of possible disruptions. As highlighted by the European Commission, immediate action should focus on those countries most vulnerable to supply disruption, given their reliance on a single supplier of gas. Energy security stress tests would allow to develop back-up mechanisms in due time.

- 2. Strengthening emergency/solidarity mechanisms, including coordination of risk assessments and contingency plans, and protecting strategic infrastructure*

Solidarity between Member States to manage a supply disruption, should it occur, and closer coordination between them to avert any such disruption, are listed amongst the key short-term goals. AmCham EU commends the European Commission's intention to review existing mechanisms to safeguard security of energy supply. The European Commission's Communication on Energy Security correctly observes that a well-functioning and competitive internal energy market is an effective contributor to security of energy supply. However, we believe that developing a regulatory framework for strategic gas storage needs careful consideration as it may be in opposition to the goal of a competitive internal market. In addition, the Commission proposed to further enhance the protection of critical infrastructure. However, we believe that organisations should not be required to provide specific details about the security of their networks. Sharing this information could actually undermine overall security and run counter to sound risk management practices.

Medium to long term measures

- 3. Moderating energy demand*

AmCham EU commends the European Commission's view that energy demand is one of the most effective tools to reduce energy dependency. AmCham EU member companies have implemented energy efficiency measures in their manufacturing operations and many also provide products that contribute to energy efficiency improvements when used in a range of sectors from buildings to industrial plant machinery

We applaud the European Commission's intention to boost energy efficiency in the building sector. We agree with the European Commission that significant savings can be achieved in this sector. We also acknowledge the recent proposal to achieve 30% energy savings by 2030 proposed by the Commission on July 23. The scope of any future legislation should be limited to sectors not covered by the Emissions Trading Scheme (ETS) to ensure that ETS can function in a cost effective way.

In the buildings sector markets alone do not drive energy efficiency, as has been shown by many studies. Buildings consume almost 40% of the energy in the EU, and savings opportunities are substantial and broad. Regulation and political prioritisation are needed to drive uptake of energy efficient new buildings or refurbishments. The implementation of the EU's Buildings Directive has been slow and the more recent Energy Efficiency Directive lacked ambition, particularly with its weak public sector targets. AmCham EU agrees with the European Parliament's objective of an 80% energy consumption reduction in the EU's entire building stock by 2050. Therefore, a sectoral target for energy efficiency in buildings would help drive this to become a political priority for the EU, and send a signal to industry that this is a good sector for investment.

4. Building a well-functioning and fully integrated internal market

AmCham EU is a strong supporter of the completion of the internal energy market. Despite progress in liberalisation, there are still outstanding issues that impede progress to a fully integrated market and, in turn, enhanced energy security and more competitive prices for domestic and industrial customers. Member States should ensure the effective implementation of the Third Energy Package.

We agree with the European Commission that significant deployment of energy transport infrastructure is essential for the completion of the internal market. Energy grid developments, network updates, addressing bottlenecks, deploying cross-border links, exchanging information on major national decisions and building new connections could contribute to enhanced energy security. The Commission's Energy Road Map should continue to reinforce specific interconnection targets and milestones for integrating the EU's energy grids. Properly functioning markets, access to finance and a stable regulatory and fiscal environment will help attract the needed investments.

We applaud the European Commission's willingness to address the serious threats to the European refining sector. A competitive refining sector is essential to avoid overdependence on imported refined products. Maintaining an adequate level of refining infrastructure and refining capacity should become an integral part of the political debate for EU's security of supply.

5. Increasing energy production in the European Union

All energy sources, including renewable, nuclear, coal and conventional and unconventional oil and gas, should be allowed to compete and innovate on a level playing field. Technological and tax neutrality should be the rule and market mechanisms should play their role.

- *Renewable energy*

AmCham EU supports an efficient policy for cost-effective renewables at a European level and the modernisation of the European grid infrastructure. Such infrastructure development is a prerequisite for the efficient and cost-effective uptake of renewable energy; a future EU framework with a continuously growing renewable electricity share needs to facilitate the related grid evolution and system requirements

Moreover, strong EU governance and better alignment between Member States are needed to further enhance the capacities and the market based penetration of renewable energy sources in Member States, therefore ensuring the security of supply. We encourage the Commission to further promote the integration and competition of renewables on the European energy market, as outlined in the governance paper and the new state aid guidelines for energy.

- *Hydrocarbons*

Europe still has considerable potential for future production of oil, gas and coal. Even in regions that have been producing oil, gas and coal for decades – such as the North Sea for oil and gas – there is still considerable potential for future production. In the UK, a government-sponsored report, the Wood Review (available here), released in February 2014, concluded that cooperation between government and industry could encourage much-needed investment in new exploration, field development and production.

This principle could also work elsewhere in Europe – particularly in Member States where the regulatory and fiscal structures might be negatively impacting investment in exploration and production. To compete with the rest of the world, Europe needs an attractive macro-economic environment with stable and predictable fiscal structures that inspire long-term confidence

The European Commission notes that indigenous production of unconventional gas in Europe could compensate for declining conventional production. AmCham EU recognises that the key to delivering energy security in the long-term is ensuring a diverse energy mix and avoiding over-reliance on one source or fuel. We therefore support an agnostic and objective-based case for shale gas exploration in the EU. It is important that companies should be allowed to conduct exploration in order to gather geological data and evaluate the economic potential of the resource.

Exploration and production of natural gas in Europe is already highly regulated, with existing EU and national legislation already sufficient to cover shale gas activities. New measures should not be introduced before more is known about shale gas potential in the EU. Any new legislative or non-legislative measures should have a strong evidence base, including in terms of cost-benefit balance. With this in mind, we believe the introduction of additional Best Available Techniques (BAT) reference documents on hydrocarbons exploration and production (BREF) at this stage would be premature.

- *Carbon Capture and Storage (CCS)*

The reopening of discussions on the CCS Directive at this point in time before any CCS demonstration projects at industrial size start in Europe could have the unintended consequence of further delaying CCS deployment by increasing the regulatory hurdles and deferring investment decisions. The European Commission and Member States should focus on redoubling efforts to deploy CCS and address existing failures in take-up and deployment of the technology. In particular it

should address in a meaningful way the financing of CCS. The Commission should focus on providing targeted R&D funding. Without new technologies such as CCS, the EU will not be able to meet its proposed ambitious GHG reduction targets.

6. Further developing energy technologies

AmCham EU supports the European Commission statement that new technologies can deliver efficient and cost-effective solutions to boost energy security.

7. Diversifying external supplies and related infrastructure

AmCham EU supports efforts to diversify energy supplies and related infrastructure. The EU should seek to eliminate all legal restrictions and non-tariff barriers to the import and export of oil, gas and coal in all their forms between the EU and third countries.

Given Europe's growing dependency on imported energy and the rapidly escalating global demand, the EU should nurture its relationships with key suppliers and engage in active energy diplomacy towards potential new energy partners, particularly looking to the diversification potential offered by LNG.

8. Improving coordination of national energy policies and speaking with one voice in external energy policy

AmCham EU does not support the concept of common gas purchasing, as it will unavoidably add complexity. Additionally it may distort competition and potentially send a negative message to energy suppliers which in turn could lead to lower diversification and reduced security of supply.