Commissioner Piebalgs' speech

to the Spanish committee of the European League for Economic cooperation

Barcelona 23 April 2009

At 19:30

Señor Presidente

Señoras y Señores (Spanish)

Senyores i senyors (Catalan)

Ladies and Gentlemen

I am delighted to come to this beautiful city, which is testimony to the fruits of political vision, economic confidence and sustainable innovation.

I am greatly honoured to address your Committee. The European League for Economic Cooperation plays an important role in bringing Europe's decision-makers together, nurturing information exchange, intellectual stimulation and wider integration.

May I also thank your chairman, Senador Carles Gasòliba, for his personal invitation on behalf of the League to come to Barcelona and discuss with you about the future of Europe's energy policy. I would also like to take this opportunity to congratulate him for his contribution to Europe and for a fruitful career spent in the service of Europe (including as MEP).

This evening, the subject of our discussions is energy policy. I would like to focus on energy security and what the EU is doing to help Europe's citizens, and its regions, have the energy it needs, when it needs it.

Energy security and Spain

Energy security, together with climate change, is one of the biggest challenges facing mankind. And in Spain it can be felt very acutely. With around 85% of energy demand coming from imports, Spain has one of the highest levels of import reliance in the EU.

The country has also seen its energy demand rise above average in the EU, while domestic production has fallen.

This fall is itself linked to climate change, as Spain's rainfall has fallen, leading to a decline in the output of hydroelectric and nuclear plants.

Last summer, Barcelona had to bring water in by tanker. Barcelona has also had its share of blackouts in recent years. When this happened, citizens had to suffer the noises and nuisances of diesel generators in the city.

Barcelona is not alone. And this is why security of energy supply is now at the top of the European agenda.

Energy security is also at the top of the national and regional agendas. Spain, like my homeland in the Baltic States, has been called an energy island. This is a risky situation for a country so dependent on energy trade. It makes it all the more important that you invest in the energy infrastructures which will bring diversity, flexibility and efficiency into the energy system.

Infrastructure and investment in energy networks and grids was a core theme of the Commission's second Strategic Energy Review. It is also a key concern of the Economic Recovery Plan which sees sustainable energy investment as a means of giving our economy and society a much needed stimulus at this uncertain time. Both of these were on the table of the European Summit last month. And in both cases the Council repeated that energy security was a top priority and that new measures were necessary.

Spain is of particular interest in this regard. Spain and more particularly Catalonia have the potential to become a powerhouse of Europe. On the back of solar, wind, offshore wind and wave energy and geothermal, as well as international LNG terminals and natural gas links to North Africa, Spain is acquiring a highly strategic role in Europe's energy security.

This evening, I want to outline some important changes which are happening at the European level. These will help Spain reaffirm its energy role in Europe.

Although my involvement is at the European policy level, I am very interested in how EU policy is implemented, and supported, by the actions you are undertaking, at the national, regional and local levels.

In Barcelona we have a good example of how local policies can change the energy mix, and consumer behaviour.

Barcelona was the first European city to have a Solar Thermal Ordinance making it compulsory to use solar energy to supply 60% of running hot water in all new buildings. This saves over 25,000 MWh/year. The solar surface area increased more than 20 times in its first five years of operation. And towns around Catalonia and the rest of Spain have followed Barcelona's example.

In 2005 Spain became the first country in the world to require the installation of photovoltaic electricity generation in new buildings, and the second in the world (after Israel) to require the installation of solar hot water systems

Barcelona was also a pioneer in encouraging the use of energy efficient light bulbs. Now this is a European policy. The

Commission last month adopted two regulations to progressively replace incandescent light bulbs with improved alternatives, starting this year and finishing at the end of 2012. The new regulations will save close to 80 TWh by 2020, more than one quarter of the electricity production of Spain, or the equivalent of the yearly output of 10 large power stations. They will lead to a reduction of about 32 million tons of CO_2 emission per year. From small beginnings, great things grow.

Another acorn which is already on the way to becoming a mighty oak is the Covenant of Mayors. This commits more than 350 cities across Europe to go beyond the EU's energy objective of reducing 20% CO2 emissions by 2020. I am delighted that several Catalan cities, including Barcelona and all the cities of its province, Tarragona, have also joined the Covenant.

And I should mention that I will tomorrow visit Construmat. I am sure that I will see there more evidence of the innovation and enterprise which makes this region stand out in developing local and global energy solutions.

Spain is internationally recognised as highly promising centre for energy investments. According to independent analysts (Ernst and Young Renewable Energy Country Attractiveness Indices Report 2008) Spain is one of the top world centres for renewable energy investments. It is not only its geographical location and abundant natural resources which make it highly attractive. It is also the positive political environment, and the country's proven track record. These foster a healthy investment climate, even in these difficult economic times.

If Spain continues to build up its favourable policies, support measures and sustainable investments, it will be well placed to meet its commitment under the new European Renewables Directive to source 20% of energy demand from renewable energy by 2020. I would like to encourage Catalonia to further build up its renewables base and take advantage of the economic opportunities this bring.

The political process at the European level is helping Spain, and Catalonia, realise their energy ambitions.

20-20-20 initiative

The first major step forward for energy policy in the EU was taken in March 2007, when the European Council endorsed the commission's proposals in their first Strategic energy Review: that the EU should commit, by 2020, to:

- Firstly, reducing its greenhouse gas emissions by 20% compared to 1990 levels,

- Secondly, increasing the level of renewable energy from about 8% of its energy mix today to 20% and

- Thirdly, making a 20% improvement in its energy efficiency levels - in other words, reduce its energy consumption by 13% compared to 2006.

In December last year the Council and Parliament succeeded in reaching agreement on concrete proposals to make this a reality, a remarkable achievement in a very short time.

Firstly, the revised EU Emissions Trading Scheme Directive provides clarity regarding the approach that will be followed for the period 2012-2020. The ETS mechanism is the foundation on which EU efforts to reduce its greenhouse gas emissions is built; a trading scheme whereby industry has to acquire credits in order to emit CO_2. This new proposal will provide a robust long-term approach, giving EU industry the transparency and predictability necessary to invest and lead over time to full auctioning of credits for the electricity industry.

Secondly, the new Renewable Energy Directive has been agreed, putting into effect the overall target of 20% renewable energy in the EU's energy mix and 10% of renewable sources in its transport fuel by 2020 in the form of legally binding obligations

on Member States. As I mentioned, Spain's target is fully consistent with its national objectives.

The Renewables and Emissions Trading Directives provide a solid and stable framework in which to prepare for a more secure and sustainable energy future.

These mean that investors can make the necessary investments in new generation, new networks and new technologies in the knowledge that the political framework will remain constant for the foreseeable future. They also mean that the EU will be able to exploit its potentially endless resources of renewable energy, as well as the most attractive energy source of all, which is energy efficiency.

In addition, the third package for the internal European energy market will foster more secure and sustainable energy for Europe. The package is now close to completion. Once it is adopted, it will

help create the necessary economic signals to trigger investment and enable operators to convey the gas and electricity to where it is needed.

It will do this by creating new incentives for investment by unbundling transport and production activities and by increasing transparency and access to market information. It will also increase monitoring and reporting on generation and supply adequacy.

And importantly, it will establish a more formal industry grouping of network operators, the European Network of Transmission System Operators (ENTSO). This will have the clear mandate and responsibility of proposing a 10-year investment plan, and preparing technical codes necessary to integrate markets and open up market access.

At the same time, a new Agency for the Cooperation of Energy Regulators will help ensure the free flow of power around the single market, by resolving technical and legal cross-border issues.

This brings me to the next important pillar of European energy policy: technology. Quite simply, none of our energy objectives, let alone a change to a truly sustainable Europe by mid-century, will be possible without a step-change regarding technology research, demonstration and dissemination.

The global market for windmills and solar/PV panels has already been exploding. Spain is helping this happen. It is the world's second largest producer of wind energy after Germany and a frontrunner in solar and bio-fuel technologies. This is but the tip of the iceberg. Imagine the markets for low-carbon energy and energy efficiency technologies and services that will result when the whole world follows the EU's initiative and commits to reducing greenhouse gases globally by between 50 and 80% by 2050.

You will have noted that on one day last month, Thursday 5 March, records of wind energy production were broken in Spain, with wind producing its highest ever output, amounting to some 11,200 MW of power, equivalent to nearly one third of Spanish demand at that time. For a weekday mid-morning, that's certainly an impressive share. This has required investment in grid capabilities. But it shows what can be done. By the end of this year, *RED Electrica* (the Spanish grid operator) expects Spain to be producing almost a quarter of its electricity from renewable sources.

In this political framework, the low carbon energy industry, including renewables, a smart electricity grid, carbon sequestration, next generation nuclear, electric and hydrogen vehicles, battery technology and energy efficient products and services will almost undoubtedly represent the greatest industrial growth sectors over the next decades.

The EU already has a first-mover advantage in terms of installing renewables, and this has had an effect in promoting European companies, which are world leaders in renewable energy, including Spanish companies such as Gamesa, Abengoa and Acciona Energia. The EU has to use this as a springboard in further efficiencies as well as in new generations of low-carbon technologies.

The European Council has recognised the importance of this challenge, welcoming the Strategic Energy Technology Plan that the Commission tabled together with the first Strategic Energy Review.

In essence the Technology Plan proposes to better coordinate the energy research money spent at Community and national level to ensure that every Euro is well-spent and to invest far more in low carbon energy innovation.

The actions necessary to address the first of these challenges, coordination of spending, are well under way, with the establishment of a new Energy research governance in Europe and the setting up of six European Industrial Initiatives: wind, solar, bio-energy, carbon capture and storage, smart electricity grids and sustainable nuclear fission. The initiatives are being developed in close cooperation with European industry, using existing Technology Platforms. In practical terms, this means integration of public efforts, European industry and researchers. These initiatives have to be targeted to achieve concrete results in a specified time-scale.

In addition to the better planning and the better use of the resources, it is clear that the EU needs to increase funding for energy technology, both publicly and privately. This has been recommended in the most prominent reports published recently, like the Stern Report, the reports from the Inter-governmental Panel on Climate Change, and the International Energy Agency.

As the Strategic Energy Technology Plan outlines, it is necessary to progressively increase resources over the next years to double the current public effort in research. This question will be central to the Technology Financing Plan, to be tabled by the Commission next year.

Strategic Energy Review II

The 20-20-20 targets, the renewables directive and revised emissions trading system, the internal energy market and investment in technology will all enhance security of supply. But they are not enough. The Commission's second Strategic Energy Review endorsed by the European Council last month, focussed on a number of other areas where we need further initiatives to enhance security of supply. These form the core of a European Energy Security and Solidarity Action Plan.

The Commission's Strategic Energy was endorsed by the European Council last month. Heads of State and Government specifically put the emphasis on the need to enhance European

energy security by improving energy efficiency, diversifying energy suppliers, sources and supply routes, and promoting the Union's energy interests vis-à-vis third countries.

Member States have also agreed that, in the interests of energy security, the EU collectively, as well as each Member State, must be prepared to work in solidarity. This means that each Member State must bear its responsibility for its own energy security, as well as help out other Member States when the need arises. This is relevant both for our internal and external policies. This should not be reserved for moments of crisis. It should be our permanent way of doing business.

The gas crisis in January showed how vulnerable Europe is with regard to energy security and external dependence. It proved beyond doubt the core arguments of the Strategic Energy Review: that the EU must provide a strong common and coordinated answer to the energy security challenge by diversifying our

sources of supply and by developing new interconnections within the Community.

The European Council has accepted these arguments and confirmed the strategic importance of six concrete priorities identified in the Strategic Review as relevant for security of supply in the whole EU. These are:

- ensuring more diverse gas supplies from the Caspian via a Southern Corridor,

- completing the Mediterranean electricity and gas ring, notably to better exploit the renewable energy around the Mediterranean,

- connecting the Baltic area to the EU through new interconnections around the Baltic Sea,

- making large-scale offshore wind a reality with a new dedicated network,

- better connecting gas and power networks in Central and South East Europe, and

- increasing LNG capacity where needed.

The Commission has now been tasked by the European Council to rapidly present the detailed actions required to realise new energy infrastructure and interconnection projects. We are also working on a revision to the TransEuropean Networks for Energy which will evolve into a new EU Energy Security and Infrastructure Instrument.

The importance of energy infrastructure investment to our general economic health has been concretely recognised in the Commission's Economic Recovery Plan. This foresees to grant Community support to strategic energy projects Almost € 4 billion (€ 3.980 billion to be exact) is earmarked for investment in gas and electricity interconnection projects, carbon capture and storage and offshore wind projects.

These projects can also provide a strong stimulus to our economy by generating new demand for equipment and creating new jobs for their implementation. The EU support may also serve as a lever to give investors the confidence to put more private finance into the energy sector.

The projects selected represent a careful balance between those addressing our major security of supply issues, and the ones meeting the requirements to be ready to carry out major investments within three years.

In this context, five projects concerning Spain cover either CCS, gas and electricity interconnections, are given priority, among which I would particularly like to mention the France-Spain interconnection.

This project was unblocked last year, after more than a decade of blockage, thanks to the very effective work of the European

coordinator Mario Monti. Both France and Spain have put a lot of effort into finding a satisfactory solution which is to underground the cross-border section. The Recovery Plan foresees 225 million euros to help cover the additional costs.

However, we cannot avoid the fact that, the current economic climate and the credit crunch, together with slowing demand are not good news for energy investors. For energy infrastructure, we absolutely have to avoid any postponing of new projects, as we will only have a much higher price to pay later.

If market operators delay energy infrastructure and generation investments, the risk of bottlenecks builds up for times when the economy will start to grow again. In view of the planning and construction times of these projects, a capacity crunch would be difficult to overcome quickly.

As well as long term risks to security of supply, we have to deal with short term crises. In this respect, the gas crisis in January this year was a painful reminder. The EU urgently needs to establish adequate crisis mechanisms. The European Council has also recognised this. They agreed last month on the need for new measures, notably on gas security, and have called for work to obtain clear guarantees from suppliers and transit partners that supplies will not be interrupted.

I am now preparing a revision of the 2004 directive on the security of gas supply as a matter of urgency. This must provide for appropriate crisis mechanisms to ensure that all actors, including the energy industry, are able to respond, as well as the development of EU for security of supply and the building up of solidarity among Member States through the development of regional plans.

External relations

But ultimately our energy supplies will never be truly secure unless we are able to work together effectively and in solidarity not only within our borders, but with our external partners equally.

As a means of diversifying sources, fuels and routes of energy supply, energy relations play an increasingly important part in the EU's external relations.

Spain's role in our external energy activities has been crucial, starting with the Barcelona Declaration in 1995, which has evolved into today's Euro-Mediterranean Partnership. I would like to congratulate the city for hosting the Secretariat of this important initiative, in which energy will very likely play an important role.

In this context, the project for a Mediterranean energy ring is particularly relevant to this region. But its importance goes far beyond the Mediterranean area. It could even become one of the building blocks for a future European supergrid, bringing greater security of supply to the whole of the EU.

I am also interested in Spain's recent agreement with Russia, with whom the EU is negotiating a successor to the Partnership and Cooperation Agreement. Energy will be an important element of any new agreement. As with other energy partners, it is absolutely crucial that the EU speaks with one voice, conveying a single, coordinated message.

We still have some way to go before the EU gets used to acting as one and speaking with a single voice beyond the EU. But this will come as the EU becomes accustomed to a single energy policy and single energy market at home.

Conclusion

We are in a historically important period of energy policy. Energy actions and decisions are shaping our economy, security, environment, climate and industrial competitiveness as never before. Take the climate change agreement which must emerge at Copenhagen later this year. As part of an ambitious global vision for fighting climate change, we must confront the global challenge of rebuilding our energy systems, fighting poverty and enabling economic development based on sustainable energy.

Spain's special role in our energy future will continue next year, when your country takes over the EU Presidency. I urge you to keep up the momentum on energy policy. But let us also remember that energy policy should be the centrepiece of a wider European sustainability policy rather than an end in itself.

Over the next five to ten years, The EU needs to steer itself towards a truly sustainable future, committing the EU to live and work in a long-term sustainable way by 2050. Energy policy is the

start of this process, but we also need to build agriculture, fisheries, transport, land-use, forestry, housing, and much more into our energy blueprint. We need to catalyse changes in education, research, and the development of our cities.

There are many grounds to believe that such a commitment would be truly welcomed by Europe's citizens, particularly the younger generation that will have to inherit the consequences of today's decisions.

Two thousand years ago, the Roman statesman Seneca said: "Our plans miscarry because they have no aim. When a man does not know what harbour he is making for, no wind is the right wind." Today, the EU has set out clear aims and objectives in its energy policy. We have a clear view of where we want to reach. So let us take advantage of every wind and every current to make sure we reach our destination securely.

Thank you for your attention.

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