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Society for International Development

**VIJVERBERG SESSIONS**

**Session 1: Energy**

**Rabobank**

**Korte Vijverberg 2, The Hague**

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**This sessions was organised**

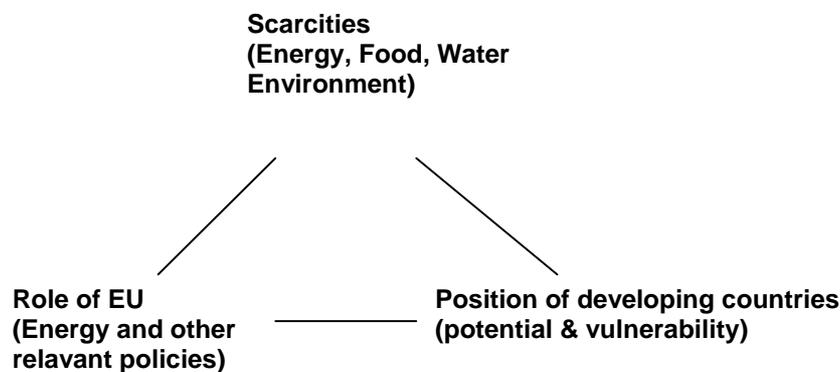
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## 1. Introduction to the Vijverberg sessions

Global energy scarcity and increasing energy needs of emerging economies, like China, have led to changing geopolitical relations. What is our answer and agenda to the changing energy context? The Netherlands as a country can only play a small role; the role of the European Union (EU) is central in these discussions. The focus of discussion is on the triangle:



The four Vijverberg sessions aim to deepen and broaden understanding of the issues behind this triangle, and in mid 2009 the Vijverberg sessions will be followed up with a European conference in Maastricht. The aim is to give policy recommendations to the new European Parliament as well as the new Commission which will be elected and nominated in June and October 2009 respectively.

With respect to energy scarcity the European Union needs a sound and sustainable energy policy which fits into the framework of global energy policies. Starting from such a policy the EU can act towards developing countries.

## **2. Introduction to the theme: Energy**

### **2.1 Energy scenarios (by IEA<sup>1</sup>)**

#### *The global context*

The Middle East possesses the main oil resources but the region is politically not very stable. The spare capacity of oil is low by historical standards, which might lead to difficulties in case of emergencies. The main gas reserves in the world are found in the Middle East and Russia. Only recently development of a gas emergency policy has started. China and India are important energy stakeholders: they have contributed more than half of the increase in global demand for energy since 2000.

#### *Energy scenarios*

The reference scenario stands for a scenario in which current energy policies remain in place without new policies being developed. The alternative policy scenarios takes into account announced government policies as if they were implemented. The scenarios aim to raise awareness about the problems we can expect if we act as we do or plan to do.

#### *Reference scenario*

The global demand for energy grows by more than half over the next 25 years, with dominant growth in fossil fuels. Oil demand increases most rapidly in China, India and other developing countries. If we keep on consuming oil up to 2015 as today, we will have a supply crunch. Predictions with regard to gas production -up to 2030- show that Europe will become more dependent on external gas, probably from Russia and North Africa. The gas resources are sufficient, but infrastructure development is needed quickly.

#### *Alternative policy scenario*

In the alternative policy scenario, the world will become less dependent on oil, which has a positive effect on global CO<sub>2</sub>-emissions. For this scenario large investments in other types of energy production are needed.

However, both scenarios are not sustainable: they are not sufficient to achieve the goal with regard to climate change: temperature rise of less than 2°C.

### **2.2 European energy policy (by CEPS<sup>2</sup>)**

#### *Current status*

Energy security is part of the EU foreign policy since a few years. An energy chapter has been added to the Lisbon Treaty. Security of supply is the central focus alongside with promotion of energy efficiency and development of renewable forms of energy.

However, decisions affecting the fuel mix will remain subject to unanimity.

'Energy solidarity' between member states is mentioned but to prevent abuse of this solidarity (i.e. moral hazard) the European Commission needs more authority with regard

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<sup>1</sup>Energy scenarios were presented by Aad van Bohemen, International Energy Agency, *World Energy Outlook*, Vijverberg Session, The Hague, 20 May 2008. To see the presentation visit:

<http://sideurope.files.wordpress.com/2008/05/presentation-aad-van-bohemen-200520081.pdf>

<sup>2</sup>Main points of the European Energy policy were presented by Christian Egenhofer and Arno Behrens, Centre for European Studies, *Two sides of the same coin? Securing European energy supplies with internal and external policies*, Vijverberg Session, The Hague, 20 May 2008. To see the presentation visit: [http://sideurope.files.wordpress.com/2008/05/presentation-egenhofer-and-behrens\\_20052008.ppt](http://sideurope.files.wordpress.com/2008/05/presentation-egenhofer-and-behrens_20052008.ppt)

to energy, which is a sensitive issue. The European Commission has been working already for more than a decade on better energy policy coordination and coherence between the member states. Recently, a network of energy correspondents has been set up.

#### *Controversial policy areas*

1. Definition of 'security of supply'
2. The role of the internal market. This encompasses underlying differences, current/vested economic interests and the problem of moral hazard.
3. The interdependent relation between Russia and the EU: Russia plays the biggest role in European energy imports, however Russia is also dependent on EU market for revenue.
4. "Speaking with one voice": The EU has no harmonised external position on energy.

### **3. Discussion**

'To solve the energy issues more sense of urgency is needed in Europe.'<sup>3</sup>

#### **3.1 Energy sources and energy efficiency**

We need to grow faster in renewable energy and in nuclear energy. If we choose for sufficient energy and CO<sub>2</sub> reduction, there is no other option than nuclear energy.

The costs of fuel and supply security go up. Renewable energy prices will go down. The EU should step ahead and focus on renewable energy.

The problem is in our energy consumption patterns which are difficult to replace . Replacement is only possible step by step. Bio-fuels are a risky market to invest in: there is no clear, stable framework from the government. Who will pay for it is the key question. In the mean time we are bounded to fossil fuels, there are not enough alternative sources to cover our needs.

We should look at energy use reduction as a solution. The potential of energy savings is bigger than any other source.

Another future scenario<sup>4</sup> is to increase energy efficiency and renewable energy strongly. With such a scenario and the same energy demand we can reach global targets for climate change and it is cheaper than current scenarios. So strengthening energy efficiency and renewables is crucial.

Europe should also look at solar energy from North Africa. We can already afford renewable scenarios for power if we cooperate. Look for example at research about transnational hydropowergrids<sup>5</sup>. The grid will be critical to climate change issues and

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<sup>3</sup> First remark in the discussion.

<sup>4</sup> Energy revolution scenario by Ecofys

<sup>5</sup> Ref. to Policy Paper no. 5 of the German Advisory Council for Global Change see: [http://www.wbgu.de/wbgu\\_pp2007\\_engl.html](http://www.wbgu.de/wbgu_pp2007_engl.html)

should be built into development issues. Developing countries could cooperate in transnational grids. Morocco could for example export wind energy to Europe.

### ***3.2 Energy policy***

In order to develop an energy policy we have to deal with vested interests. An EU energy policy should be transparent (where is the funding coming from) and needs to have political legitimacy. To reach a Common Energy Policy (CEP) is difficult, but even more difficult when nuclear energy is involved. Agreement on an EU nuclear policy is currently impossible due to resistance of some member states. The only possibility is to reach an agreement on green house gases reduction leaving the decision on how to reach the targets with the member states themselves .

A core issue is that perspectives on security of supply differentiate in the member countries. Is the supply policy driven by an economic agenda or a security agenda?

The EU prioritizes energy security above long term concerns such as development of new resources. We need both energy security internally and development of new resources externally for example developing a joint strategy with Africa including energy.

### ***3.3 Policy mechanisms***

We need a global mechanism, like the one started in Kyoto, to pay for carbon emission by everyone. This will reduce consumption of fossil fuels and promote renewable energy.

Energy policies can focus on:

- market forces (pricing mechanisms),
- government regulations,
- subsidising of bio energy.

#### *CO<sub>2</sub> pricing*

One way out is to use CO<sub>2</sub> prices, so that emission costs money leading governments to choose alternative energy sources, whether nuclear or not. If we wish to achieve a common energy policy, we can not leave out nuclear energy.

The question is whether CO<sub>2</sub> pricing works. Eco-tax in Germany has hardly had any effect on CO<sub>2</sub> emission. The price elasticity of the consumer is low, which means that prices do not influence their behaviour very much.

#### *Low rent for capital investment*

Renewable energy can be cheaper than fossil energy. The current costs consist mainly of investments. We have a big effect if we reduce cost for capital due to low interests. It is a question of time, not a technical or economic question. Everything is available but we need policies, we can not wait for markets.

#### *Government regulations*

Bio-fuels are a risky market to invest in: there is no clear, stable framework from the government. Instead of subsidizing renewable energy, it would be better to regulate.

### *Subsidize bio-energy models*

It is needed to subsidize development of new types of energy models. Subsidization can be effective only in niches, such as energy use for low income households, thus in sectors where the price is not yet driving innovation.

### **3.4 Linking energy policy with other policies**

We need an energy policy before we can link it with other areas. Policy coherence on national level is already lacking so what to expect on EU-level?

Linking agendas is pushed for by the public. Prices go up and people see Chinese shopping for oil in Africa. The feeling is that we need to do something about energy. In 10-15 years the political debate will completely change.

For the EU, climate change has a higher priority than energy. We can still afford energy. The big picture is: how to make a secure and climate friendly environment? In the near future EU will only consume 10% of worldwide energy consumption.

If we link agendas, do we speak of a hierarchy of agendas?

All agendas should fit into each other, but the climate change agenda is at another pace than the energy agenda, so we should link where possible. For example we could link the energy and climate agenda in the relation with Russia. Russia has legitimate points on energy security but participates also in Kyoto.

The recent developments in food scarcity make links between energy and food production. It has pushed aside the focus of many to link energy policy with environmental policy.

There is need for policy coherence, also from development perspective. We do not only need a European energy policy but we need to look also at dimensions of climate and environmental issues, even sustainable development.

We need to show solidarity with people who have no access to energy. An energy policy should be linked to a development policy.

Linking agendas of security, climate change, internal Europe and the developing world is needed. Saving energy in Europe is in the interest of developing world (pollution, climate change). Other questions are:

- How can we foster developing countries to produce sustainable energy?
- How do we deal with vulnerabilities of developing world? DO new scarcities and the MDG's interfere?
- How do we deal with pollution and climate change effects on vulnerable countries?
- How about the relationship between democracy and scarcities<sup>6</sup>? Authoritarian regimes are sustained by other (oil) interests. It is difficult to match long term interests in case of energy and climate and short term interests of the electorate.

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<sup>6</sup> Ref. Thomas L. Friedman, *The First Law of Petropolitics*, Foreign Policy, May/June 2006, [http://www.foreignpolicy.com/story/cms.php?story\\_id=3426&print=1](http://www.foreignpolicy.com/story/cms.php?story_id=3426&print=1)

- How to manage forests for climate change? Do we compensate forest rich countries?

### ***3.5 Geopolitical relations***

Are bilateral agreements between the European member states and Russia to be preferred or is it better to cooperate and act as a united European front towards Russia?

How does increasing nuclear energy in the EU influence relations within the EU and with Russia? We need a common strategy to Russia, a policy mix of all scarcities.

If we are successful in the EU with our energy policy and we do not need energy from the Middle East anymore, China and India will still need their increasing share of energy from the Middle East.

With regard to China shopping for oil in Africa: do we take a cooperative approach which is needed for climate change and scarcities? We should engage China much more.

## **4. Concluding remarks**

The first priority is to take action to reach energy savings, followed by further development of renewable energy. Several times it was stated that it is needed to include nuclear energy in the solution, but this will be a very difficult negotiation issue for a European energy policy.

A European energy policy can focus on market forces (pricing mechanisms), regulating framework from government, or subsidising of bio energy initiatives. It is important to learn from experiences in different countries. On the whole there was enough sympathy among the participants for a regulating framework, making it less risky for companies to invest in renewable energy.

Linking energy policy with other agendas like climate change, food scarcity and development is promoted. However the question of whether there will be a growing tension between all these agendas remains. It is rather difficult to link it all.

Geopolitical relations need to be taken into account when looking at a European energy policy. In this session we only touched upon the subject. We plan to continue the discussion in the Maastricht conference in 2009.