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**Europeanising
EU Energy Policy**

Discussion Paper

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Key note speech at the Final Ceremony of the "ZEI Class of 2010", Bonn, June 25, 2010.

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Europeanising EU Energy Policy

Let me start by welcoming all of you. The report ZEI just published about the activities over the last 15 years shows the substantial contribution of this institute to Europe's integration. Having one of my close officials as Senior Fellow here at ZEI, I know of the quality of the programme, the diversity of the personal background of each of you and your interest for public policies.

I. The context: Europe's challenges

Europe's challenges are well-known. As described in Professor Kühnhardt's latest book "Region Building", the world is moving at great pace around new centres of gravity. These, notably in Asia and Latin America, are putting a "stress test" to Europe's capacity to remain competitive, secure its social model and provide leadership in the world.

Do not understand me wrong. This emerging multi-polar world is essential for the stability and sustainability of our societies. It is at the heart of the European efforts to promote stronger regional integration based on the positive experience we have gained over the last 60 years. We should not fear this movement but rather seize this as an opportunity to strengthen ourselves.

None of the tasks in front of us such as dealing with climate change, ensuring sustainable growth, achieving financial stability, securing durable

peace, combating terrorism, can be achieved alone. Working in concert with strong partners around the globe is essential.

What is called for is not a new "hegemon" or a super-UN but rather more assertive regional partners sharing the same core values. In this respect, the initial but positive momentum of the G20 process following the financial crisis is a positive sign.

Not only did Europe bring life to this new, more representative, format of international summits but it has also so far managed to lead the agenda. The European proposals on financial regulation prepared in view of tomorrow's Summit in Toronto show that we can provide leadership when necessary and when united. I can only hope that the same feeling of shared interest will lead to decisive progress for the other herculean tasks in front of us.

The question is simple: either Europe unites and effectively turns out as one centre of gravity and guarantor of a multi-polar world or I fear that we will be heading towards a bi-polar system (a G2 which members I do not have to name).

II. Where does Europe stand?

Europe has always been more than a marketplace. It's the greatest and most successful experiment in economic and political integration in the world. It's a community of law and values. It's an area of cooperation and solidarity. The engine of all this progress is the community method: strong European institutions, including a Commission that can develop and implement policies that are in the overall European interest. Following nearly 10 years of institutional debates, Europe recently got new tools which, if used well, could help us live up to the new challenges.

Many commentators, including from academic circles, like arguing about the nature of the new Treaty. I will be straight. I do not see the Lisbon Treaty as a defeat for the community method, as a victory for intergovernmentalism. The Treaty of Lisbon reinforces the European project. It rein-

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forces Europe's institutions. It provides greater coherence, effectiveness and legitimacy to our decisions.

Nearly all legislation is now adopted by co-decision, with a significant expansion in qualified majority voting – especially in the field of justice and home affairs, for instance.

The competences of the Commission have been acknowledged and reinforced, including its near monopoly on legislative initiative and its executive functions. It gains new competences, notably in the areas of economic and monetary union, external relations and energy.

Europe has a new face to show to the world, in the person of the High Representative, who is also Vice President of the Commission. This position streamlines work by merging three previous roles, avoiding duplication and confusion. It strengthens coherence in external action, and brings together all Europe's external policy tools, both in policy development and policy delivery.

Finally – in what is just the briefest of summaries – a new, permanent, President of the European Council is contributing to a reinforcement of the Union, namely through an increased coherence and leadership in the European Council. The key role played by Mr Van Rompuy in the Euro crisis is a good illustration of this.

III. A good start

All of these innovations are major steps forward. Their general thrust is clear: more European Union approach, more Community method for more joint European action. And that is as it should be. Because when we follow a community approach, based on the respect of the respective competencies of each institution and a loyal cooperation, we achieve more.

Having said this, no Treaty is perfect. My advice however is that we should stop duelling about the shortcomings of the Lisbon Treaty. We should rather focus on making the most of this new instrument and concentrate on concrete implementation.

In this respect, I believe that we had a good start. Let me take three examples to illustrate this sense of optimism:

1. Stronger economic governance

The worst monetary crisis since the Euro's launch led not only to exceptional and temporary solidarity measures but also to a significant review of the rules on fiscal discipline and economic governance. The euro has quickly become one of the pillars of the European success. It has proven to be a strong anchor for stability and low inflation. It rapidly established as the second largest reserve currency. The events over the last months revealed however severe structural imbalances. Confidence has taken a hit because of the crisis in Greece, of course. And while it is true that the deterioration in public finances is partly due to attempts to limit the impact of the financial crisis, it is also a result of the failure to reduce debt levels during the period of economic growth.

To put it bluntly, some Member States - by no means just Greece - have not undertaken the structural reforms that were needed and have not complied with the Stability and Growth Pact and its principles. And the crisis has shown that existing mechanisms for fiscal discipline and imbalances are simply not up to the job. Clearly, the economic governance had to be improved. The Commission was quick to act. Its proposals, praised by the Heads of State and Government last Thursday, entail essentially:

Earlier scrutiny of the Member States' budgets in a peer review exercise to ensure governments pay more attention to respecting the rules. Qualitatively, we must also have a smarter scrutiny and look not only on the debt ratio (3 and 60%) but at the overall evolution of the debt, its composition and the macroeconomic structural weaknesses.

At the same time, we need to look at the policies. Policy choices have budgetary implications. And yet up until now, we have always looked at the policies in spring - the former Lisbon reports - and the budget in the autumn - the Stability and Convergence Programmes. This doesn't make

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sense. We should look at the policies and their implications for budgetary discipline at the same time. That is what will be established under the so-called "European Semester" for economic policy coordination. It's about joined-up economic governance.

This is not about taking over Member States' tax systems. This is not about breaching national sovereignty. On the contrary, the "European Semester" will allow Member States and their national parliaments to benefit from an early analysis of both their budgets and their macro-economic performance.

Obviously, if corrective action is still not taken, then it must be possible to apply sanctions. The sanction regime is also being reviewed to be effective.

2. An agenda for economic growth

If sound public finance and monetary stability is necessary, it is not sufficient. The beleaguered "Lisbon Strategy" drawn 10 years ago also needed to be fundamentally reviewed in order to offer a more focused and pragmatic plan of action.

Europe still has strengths; it is the world's largest market (500 million people) and stands for just over one fifth of the global GDP. Our competitiveness makes us the world's largest exporter (nearly one fifth of global exports), the largest investor abroad (40% of global foreign direct investment), the most attractive investment location (a yearly inflow of some € 400 billion) and by far the largest provider of international emergency and development aid (nearly two-third).

Still, the crisis has shown that short term growth and sometimes bubbles have hidden an ingrained lack of competitiveness. It has also revealed the importance of a solid industrial base and the urgency to secure industrial leadership. Business as usual is not an option. The bottom line is that Europe has a growth deficit which is putting our future at risk. To regain growth, we need to invest in structural changes and concentrate our efforts on the most important levers.

“Europe 2020” is a package of measures for smart, sustainable and inclusive growth. It reflects our determination to capture all growth and competitiveness opportunities. In today's world, we simply cannot sit back and wait for growth to happen.

Europe needs to defend its place better in the new, emerging world economic and political order. It must be flexible, dynamic and innovative to seize opportunities when they appear, as the global division of labour evolves. It must be able to deliver value added, with concrete solutions to people's problems - tackling climate change, confronting poverty, addressing scarcity of resources and dealing with demographic and health issues. It must remain a place where people want to live and investors want to invest. I want Europe to marry dynamism and quality of life, tradition and modernity, trade and generosity.

To reach these goals, targets and flagship initiatives have been set along the following three priorities:

- Smart growth by developing an economy based on knowledge and innovation.
- Sustainable growth by promoting a resource-efficient and competitive economy.
- Inclusive growth by fostering a high employment economy delivering social and territorial cohesion.

For me, the essence of this strategy is its recognition that the industrial dimension is critical. One cannot make a living from Intellectual Property Rights. Our ability to stay in the lead will depend on Europe's capacity to offer an attractive environment to pursue studies, conduct research and develop as well as produce new products and services. It will depend on our ability to promote large industrial initiatives in key sectors for our future of a scale comparable to Galileo (global satellite positioning systems) or ITER (nuclear fusion). If we fail, we will disappear from the economic landscape.

3. A voice of authority on the world stage

On the external front as well, progress is in sight. An agreement was just reached last Monday on the setting up of the “European External Action Service”. This common "diplomatic corps" should therefore be in place later in the year.

This new step has the potential to lead towards a common foreign policy. The results obtained through the common commercial policy which we practice for some 50 years have shown our strength as a group. Do not be mistaken, it is not only about defending European interest, it is also about adding a firm pillar to contribute to a new world Governance aiming at more stability and prosperity for all.

IV. Energy as a case study

Allow me now to say a word about my own field of responsibility. Energy is a good case study since it entails all relevant and topical subjects: geopolitics, competitiveness, innovation, sustainability, quality of life and ... exemplifies the need for more Europe.

I feel that there is now a chance to achieve what the Founding Fathers had envisaged some 60 years ago. We are in the middle of a process of Europeanization of the energy policy. We finally have the chance to realize what was envisaged with the European Coal and Steel Community and shortly afterwards the Euratom Treaty. After disappearing from the radar screens (despite two major oil crisis in the seventies) Member States have finally come to realize that the national framework was too narrow.

The reasons for this are essentially:

- The establishment of a single European market. Our energy companies which used to be regionally structured and focused on essential supply, have become European in terms of their legal form, entrepreneurial objectives, strategies and cooperative ventures.
- The power game on our Eastern borders has come as a wake-up call!

- The necessity to mitigate climate change leaves us no choice but to conduct an integrated energy policy.

In short, it is both our vulnerability (being dependent from outside supply sources) and the opportunities of a market of a continental scale that have been recognized. Europe has the critical mass to provide a competitive market leading to attractive prices and promoting innovation. An individual Member State is too small as a negotiating partner for matters such as gas in Russia, Turkmenistan or Azerbaijan. It is too small also for handling issues without frontiers such as climate change. Political leadership, notably on the German and French side led to an important energy/climate package in December 2008, the so-called 20-20-20 objective. The scene was set: by 2020, the European Union had to achieve 20% of energy generation through renewable sources, increase energy efficiency by 20% and reduce its CO₂ emissions by 20%.

With this objective in mind, the Lisbon Treaty which for the first time lists energy as a common policy (article 194) provides the legal reference but more importantly the additional momentum and confidence to achieve a truly European energy market. This is the reason why I believe that the time has come to "Europeanise" the energy policy of this continent. That means a policy framework where:

- Companies compete to provide competitive prices and a high quality of services,
- Infrastructure networks provide connexion from the South to the North and the West to the East,
- Renewable sources are prospering in harmony with what nature is providing us (wind in the North, sun in the South, water in the mountains, ...),
- Energy is being used efficiently in using latest technologies, and
- Supply is being secured through diversification of sources and routes.

V. Targeted actions needed

That crisis is not over, and we are still seeking the best way out. But what is clear is that finding the right direction is much easier in the new institutional setting.

Beyond the Treaty, it is the determination of individuals to stick to the European spirit that counts. Europe's unity is Europe's most valuable asset, especially in times of crises.

We can turn challenges into opportunities only if we stand together, give a collective response, and never lose sight of the values that have kept us together for more than 50 years: peace, prosperity and solidarity.

Teasing out all the opportunities these challenges hide, and using the new tools available to us in the best way possible, will call for unprecedented and continual intellectual effort.

But in doing so, we should also review our approach. To summarize it in one sentence, I would say that Europe today does a little of everything, but not enough to the extent needed. To be effective, our action needs to be targeted where we can make a difference. In these areas such as industrial competitiveness, monetary policy, energy and transport or foreign economic relations, leadership and vision is called for to avoid old national differences.

This is where you, the graduates of ZEI, are expected to contribute – analysis, interpretation, fresh ideas and leadership for the future.

Thank you and best wishes for your professional responsibilities.

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