

24th MEETING OF THE ENERGY CHARTER CONFERENCE

“15 YEARS (1998-2013) OF ENERGY INVESTMENT PROMOTION AND PROTECTION

UNDER THE ENERGY CHARTER TREATY”

Nicosia International Conference Centre, Cyprus

Ministerial Session

Address by Mr Fabrizio BARBASO, Deputy Director-General for Energy, European Commission

Ladies and gentlemen, I would like to take the opportunity to give you an update on recent EU policy developments with a specific focus on investments in energy infrastructure. As you may know this is one of the EU's key priorities of the coming years: to secure private and public investments in both generation and transportation of energy.

Adequate, integrated and reliable energy networks are an essential element of the EU energy policy goals and of the Union's overall economic strategy. Developing our energy infrastructure will allow the Union to deliver a properly functioning internal energy market. It will also enhance security of supply, enable the integration of renewable energy sources, increase energy efficiency and allow consumers to benefit from new technologies and intelligent energy use. Energy infrastructures are indispensable to make the transition into a competitive low-carbon economy happen.

The European energy system is in transition. The short term priority is to complete the internal energy market (by

developing the missing interconnectors, ending the isolation of a number of Member States, removing internal bottlenecks). Since infrastructure investments have a long time horizon, the energy infrastructure planned today must also be compatible with long term policy choices. The EU has set itself the target of becoming a low carbon economy by 2050. This date seems far away, but it is already affecting the choices we are making today.

Our long term scenarios indicate clearly that the development of smart and flexible infrastructures is a no-regret option. The key to infrastructure is investment. And the key to investment is finding the right balance between market pull and policy push.

Changing infrastructure needs

Much of Europe's current energy infrastructure is old, many power plants have been functioning for over 40 years. Besides the need to replace this old capacity, Europe needs a modern network which is able to incorporate large quantities of (intermittent) renewable power. It needs a larger market to ensure mutual back-up systems for renewable sources. A wider consumer base will create greater efficiencies and competition, keeping costs down. High voltage long distance cables will help move electricity throughout the EU. Gas is likely to play a growing role as a back-up for renewable power. At the same time security of supply remains a key

concern, and diversification of supplies will remain an important objective.

Studies show that tackling the challenges of increasingly variable low-carbon generation while maintaining high standards of security of supply is much cheaper if done at European level, compared to the overall cost of fragmented national policies.

And we are in fact talking about very large amounts of money. The investments needed for a modern, resilient EU-wide energy system are estimated to be in the region of 1 trillion euro by 2020, with 200 billion EUR for transmission alone (500bn for generation, 300bn for distribution). In practice this would require a doubling in annual investments compared to 2010 levels.

Getting investment in infrastructure

Stable and predictable policies are the starting line for getting markets to invest in large-scale energy infrastructure projects.

With the energy and climate goals of “20-20-20 by 2020”, the EU has set a clear policy framework until 2020. The Commission will publish in early 2014 a 2030 policy document, to steer the work towards a new policy framework consistent with the aim of ensuring the low-carbon transition by 2050, taking into account the current economic/financial

conditions and the need to strengthen the competitiveness of the EU society.

If we are to complete the internal energy market and achieve our policy goals at a manageable cost, while fostering growth and jobs, we also need to find effective and efficient ways to promote investments in energy infrastructure.

Supply side infrastructure

As I said, building energy infrastructure is a long-haul business. High up-front costs take a long time to recoup. Long planning procedures and bureaucracy increase the risks for new projects. Different traditions and practices in different countries hold up cross-border projects.

These are just some of the issues the EU has addressed in the recent European Infrastructure Regulation.

This regulatory instrument along with a financial envelope of 5.8 billion euros up to 2020 under the Connecting Europe Facility open up new possibilities to develop the energy networks of the future. In October a list of about 250 projects of common interest was adopted mostly addressing bottlenecks in gas and electricity infrastructure, but there are also a few projects focusing on oil and smart grids. These projects may be eligible for financial support, in particular if they are not commercially viable.

The package not only provides financial support. It also gives a stronger focus to EU-wide priorities. It helps nurture a stable and investor-friendly climate. And it ensures more efficient permit granting, as well as greater transparency and dialogue with citizens.

Realising investments in transmission infrastructure is expected to create almost half a million additional jobs and boost GDP in the EU (by 0.42 percentage points) over the next 7 years. A study that was finalised earlier this year for the Commission (Booz & Co, Benefits of an Integrated European Energy Market) furthermore shows that by 2030 up to 30 billion can be saved per year for the entire EU if the gas market was fully integrated, and up to 40bn EUR per year in case of fully integrated electricity market. These are net benefits; cost of investments is already factored in.

Demand side infrastructure

Beside supply side infrastructure, we also need to look at the needs and behaviour of the consumers. Infrastructure for the demand side is therefore another policy priority of the EU, which has started to be addressed by the EU's 2012 energy efficiency directive. Demand response mechanisms and infrastructure developments are complementary sides of completing the internal European energy market.

The deployment of smart grids must be speeded up. An efficient, low-carbon network relies on consumers - large and small – to adapt to the new system.

We need a new, more interactive system where consumers can adjust their demand according to the availability – and price – of energy. We also need new services where customers have more flexible contracts. A totally new approach to consumers must be developed.

Effective public support systems for infrastructure investments

I would also like to briefly address the role of public intervention in a competitive energy market. There is no doubt that some public intervention is necessary, for instance to support renewable energy sources not yet competitive and cogeneration, to ensure that supplies satisfy demand, and to reinforce the network infrastructure.

In the EU we currently are facing the situation that each Member State has different, often contradictory systems of public support, which is not really effective and risks defragmenting the single market. Often state interventions are taken too soon or may even create one market failure by trying to remove another, for example through poorly considered price regulation or static renewables or fossil fuels subsidies or capacity mechanisms hastily put in place following a national logic.

And there is another issue. Once support is introduced, it should be withdrawn in a predictable and gradual way. Not suddenly; or even worse, retroactively, as we have seen in some Member States. This risks destroying the very market which the government was helping to create in the first place, and is of course a major deterrent to much needed infrastructure investments. In fact this situation has even given rise to some investors initiating dispute settlement cases under the ECT's provision on investor-to-State dispute settlement.

These are just some of the questions which are addressed in a recent Commission Communication on state intervention in the energy market. This document gives the EU Member States the necessary information, guidance and best practice in order to make good choice for their national support schemes. I believe the guidance offered by this document may also be of interest to other countries who are facing similar dilemma's.

ECT investment protection

Ladies and gentlemen, I have described some of the challenges we are facing in order to attract much-needed energy infrastructure investments in Europe. I am of course aware that these challenges are not unique to Europe, and that many countries around the world are developing their own strategies to attract energy investments.

I welcome the opportunity provided by today's conference to share our views on this important matter. I also would like to express my appreciation for the contribution of the Energy Charter Treaty to setting conditions for a stable, transparent and non-discriminatory investment climate. These provisions make the Treaty a very relevant instrument for any country wishing to attract investors in its energy sector.

I also outline the invaluable contribution of the investor-to-State dispute settlement mechanism, which I already mentioned before. This provision is a jewel in the crown of the Treaty, and has over the past 15 years proven its practical value. It gives investors a tool to enforce the rights provided by the Treaty. Any country adhering to the Treaty sends a strong signal to potential investors that they are welcome and can expect a fair and equal treatment. Of course, improvements are possible, for example by applying transparency rules.

I believe that this is one of the Treaty's trump cards in pursuing our objective to convince new countries to join. Adhering to the ECT rules will make a country more attractive for investors and it will protect the rights of companies based in that country if they make investments in other ECT countries. This is a strong and convincing message, that I hope will be heard by the observers and interested countries that are with us here today.

Thank you for your attention.