



European Economic and Social Committee

Employers' Group



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Securing Essential Imports for EU Energy: New opportunities or new threats?

EU DEPENDENCE ON ENERGY IMPORTS – MAIN TOOLS FOR ITS REDUCTION

The EU is highly dependent on external energy resources. More than half of all the EU's energy consumption relies on imports. Instability in the Middle East along with a deterioration in EU-Russia relations and changes in the structure of demand for energy means that energy security looks set to remain at the top of the EU's agenda over the next few years.

The new European Commission has made sure that energy policy is one of its main priorities. It is vital to increase our energy security and to establish a genuine energy union in the years ahead. In May 2014, the European Commission published its EU Energy Security Strategy, which was subsequently revised in light of the decisions adopted at October's European Council meeting. The document outlines the principal short and long-term measures needed to improve our energy security.

There is a need for closer cooperation and for an exchange of information between the EU's Member States about our energy

needs and backup plans. The stress tests conducted by the European Commission have clearly shown that in the event of a disruption in the gas supply, many Member States rely on the same alternative sources; accordingly, they would be unable to ensure sufficient amounts of the energy sources required.

It is therefore absolutely essential to establish a genuine energy union. The EU would be able to improve its negotiating position with its energy suppliers if it could speak with one voice. A fully integrated internal energy market would guarantee energy security for all EU Member States in the event of any disruption. There is no longer any place for national energy policies within the EU. All energy policies must form part of both EU and regional strategies.

Yet if we want to create a fully integrated internal energy market, we will need significant investment in our infrastructure. The EU's Member States must ensure that their networks have full interconnectivity. This will require public co-financing in order to ensure that those projects which are not profitable in economic terms are also covered.

The participants of the debate stated that the EU's energy mix should include all types of energy, from traditional fossil fuels and nuclear energy to new technologies such as shale gas and renewables. As regards the diversification of resources, the EU should continue to explore potential new sources within the EU and enable new directions of supply via LNG terminals.

Increasing energy efficiency has the potential to significantly increase the EU's energy security, especially in the construction and transport sectors. In recent decades, EU industry has made significant progress in terms of energy efficiency.



THE CROATIAN PERSPECTIVE: REGIONAL PROGRESS REGARDING THE SECURITY OF ITS ENERGY SUPPLY

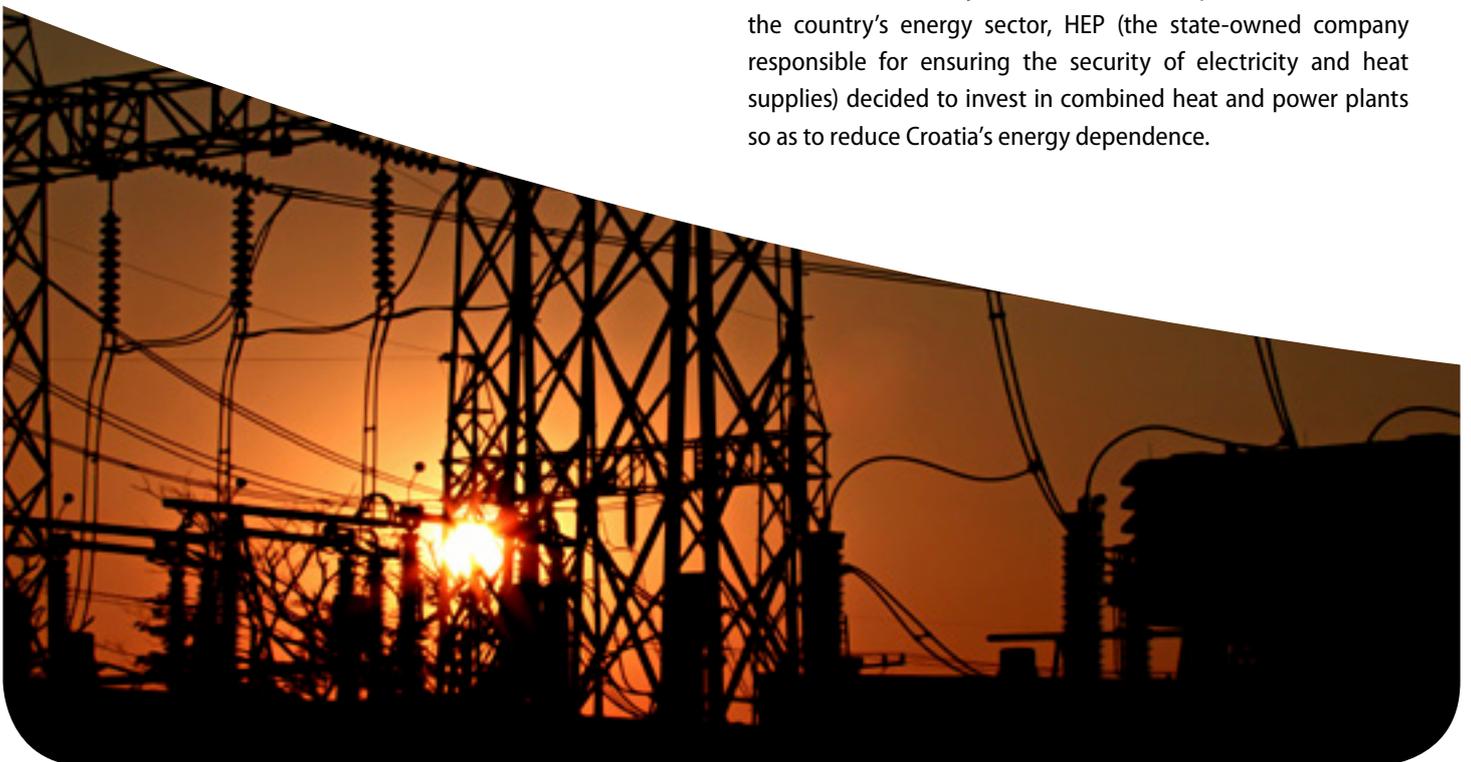
Given its strategic geographical location, Croatia wants to play a leading role in fostering regional cooperation in the field of energy. It will certainly be a challenge for the country to reach the climate targets set by the European Council and this will require major investments in innovation and in the modernisation of existing facilities.

Like many other EU Member States, Croatia is heavily dependent on imports of energy resources. In order to reduce its imports, the Croatian government fully supports gas exploration in the Adriatic Sea and improvements in energy efficiency. This will represent an opportunity for those SMEs that are the most effective in terms of innovation and help boost R&D and employment in green technologies.

As part of its energy strategy, Croatia for many years has strongly advocated the use of renewables, particularly wind and solar energy. However, the Croatian experience has revealed a number of challenges in financing such projects. The promotion of renewables must go hand in hand with policies that can guarantee sufficient return on investments (without subsidising green energy and, in consequence, increasing financial burdens on fossil energy).

Grid interconnectivity in the region is satisfactory in terms of infrastructure, but rather chaotic and poorly organised in terms of consistency of regulations. Transfer fees are levied at each border – as not all countries in the region are EU members, the procedures and fees in question vary, which limits the potential for market development. The fees collected by the Transport System Operators are supposed to be reinvested in improving interconnection capacity. Unfortunately, this is rarely the case.

Numerous energy facilities, such as hydropower plants, are old, which means that major investments are required. To modernise the country's energy sector, HEP (the state-owned company responsible for ensuring the security of electricity and heat supplies) decided to invest in combined heat and power plants so as to reduce Croatia's energy dependence.





CLIMATE CHANGE AND RENEWABLES – PROS AND CONS

The European Union is responsible for around 11% of global CO₂ emissions. The panel agreed that while Europe should retain its leading role in terms of setting ambitious climate goals, it must not lose the global battle for competitiveness as a result.

There is a need for a balanced approach towards climate policy; competitiveness, security of supply and climate issues must all be taken into equal account. Global results can only be achieved if all players agree to reduce their CO₂ emissions. Success at the Paris COP conference in 2015 is crucial if we are to reach this goal. Emerging and developing economies must be willing to take part in greening the economy and to take financial responsibility for reducing CO₂ emissions.

A balanced approach is also needed for the process of greening the economy. A green economy provides business opportunities and growth in those sectors that are developing the technologies needed for greening; however, energy intense sectors of the economy are finding it difficult to adjust and are therefore becoming less competitive.

While Europe is attempting to increase the share of renewables in its energy mix, the example of Germany shows the numerous challenges that countries face as a result of this process. The German Renewable Energy Law (subsidising renewables) increased the cost of each kWh for regular consumers by 6.4 Euro cents – regardless of its source. In 2014, the subsidies financed by consumers will reach a total of EUR 24 billion. Analyses have shown that the Feed-In Law is neither a cost efficient way of preventing climate change nor a measurable driver of innovations.

Renewable Energy Sources (RES) can only make a very limited contribution to “firm capacity”: i.e. the coverage of annual consumption peaks. Backup power stations are needed to compensate for insufficient RES output and to provide reliable capacity and security of supply.

In order to complete the RES system, considerable overcapacities must be installed; equally, backup power stations are needed while grids must be significantly expanded and sufficient, energy efficient storage capacities also need to be developed. An innovation break-through is required in the field of energy storage to make full use of the potential of RES. Therefore, it is absolutely essential to boost R&D in the innovative energy sector.

In the right circumstances, renewable energy creates huge potential especially for SMEs. Innovative technologies not only generate growth and jobs but they also allow all companies to cut their costs. One interesting example of Croatian energy entrepreneurship was presented: small wind and solar energy plants created close to end users can increase the energy mix and reduce energy costs for individual users. However, backup systems are needed as these plans and entrepreneurs are facing difficulties in terms of financing such projects.

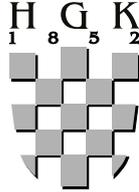
EU has significant potential in the area of solar energy (particularly Spain, Southern Italy, Greece and Croatia). Although the cost of solar energy has been falling steadily in recent years, the cost of producing photovoltaic cells still makes it much more expensive than traditional energy sources or other renewables.





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This document provides a summary of the discussion entitled “Securing Essential Imports for EU Energy: new opportunities – or new threats” which was held in Zagreb, Croatia on 14 November 2014. The conference was organised jointly with the Croatian Chamber of Trades and Crafts, the Croatian Chamber of Commerce and the Croatian Employers’ Organisation.



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Employers’ Group

About the Employers’ Group

The Employers’ Group brings together entrepreneurs and representatives of entrepreneur associations working in industry, commerce, services and agriculture in the 28 Member States of the European Union. Our members are genuinely committed to putting their own experiences to good use in order to further the European venture.

The European Economic and Social Committee is the only European institution that brings together entrepreneurs and people fully involved in the economic and social life of their home country. We make the voice of business heard at European level.



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