



***Reconnecting European energy policy to energy challenges
for Europe***

Paolo Scaroni – CEO

European Parliament hearing

Strasbourg, 10 September 2013

There are three fundamental results everyone hopes to achieve in the energy sector:

- Competitive prices;
- Environmental sustainability;
- Maximum security of supply.

In other words, Europe's energy policy must guarantee consumers and undertakings all the energy they need, when they need it, at a competitive price on the global market, while remaining environmentally sustainable.

I have the impression that, maybe because of the lack of a clear political mandate from Member States, or maybe due to ineffective legal instruments and for a lack of luck, or because of a combination of all these factors, Europe has missed these three targets.

Despite years of legislative and regulatory activity, Europe's energy is amongst the most expensive in the world, energy security is reducing and greenhouse gas emissions (GHG) objectives are only being met "thanks" to reduced consumption.

Let's have a closer look at the competitiveness of our energy.

While I'm speaking, consumers and businesses all over Europe pay three times more for their gas than they would in America. The energy bill in the US has been halved in the course of the past four years, mainly thanks to the exploitation of shale gas.

In Europe, on top of not having any shale gas for the time being, our energy bill is burdened by indirect costs. Only last year, European consumers have spent over 30 billion Euros to subsidise renewable sources, a colossal amount. In Italy, for instance, subsidies amount to over 11 billion Euros per year and for about 18% of the energy bill, an incredibly big amount. This situation, nonetheless, will endure for the coming years.

Europe's results are no better on environmental protection. Whilst discussions on the 20-20-20 Strategy were taking place in the corridors of Strasbourg and Brussels, the international price of coal dropped by 30%. Electricity generation from coal boomed, and so did GHG emissions. As a result of this trend, cleaner gas-generated electricity decreased by 25% between 2010 and 2012.

The mechanism created to regulate emissions (ETS certificates) proved ineffective in influencing market dynamics. As a result, CO² prices dropped because of oversupply on the European emissions market, and today the price of carbon is

around 5 Euros per ton, compared to 22 Euros only four years ago. Therefore, coal's economic competitiveness suffered no harm from emission certificates.

With regards to the EU's security of supply, gas power plants - which are the natural antidote to the intermittency of renewables - are closing down because they are not competitive enough. In Germany, for instance, forecasts point at the potential dismantlement of over 10GW of gas powered capacity by 2015, while around 7GW of new coal-based capacity is expected to be built in the same period.

Hence, either bad luck, or the inability to foresee the consequences of certain provisions caused our energy policy to miss the targets it had set for itself only five years earlier.

Let's go back to our competitiveness - or lack of it. The dramatic price difference for an essential good like energy represents a serious problem for industry when facing international competition. Businesses increasingly move to the US, which are also blessed with a highly skilled, competitive and flexible workforce, and a lower cost of borrowing compared to Europe's average. As a result, Europe risks becoming poorer and more isolated.

We need a "new deal" on energy in order for Europe to be looked at with renewed trust. The European Parliament and the Commission must become proponents of concrete solutions to our problems.

I realise this is not an easy task, and there are no magic recipes available, even for us who deal with energy night and day.

However, we do have a few ideas.

Firstly, we need to clean up our energy bill from all unnecessary extra costs. I am specifically referring to subsidies given to renewables.

Some say renewables are cheaper than other energy sources. If this were true, they would not need the amount of subsidies they depend on to be viable. The reality is that, unfortunately, they are just too expensive.

For this reason, we must target our financial resources only on new renewable energy research, so as to achieve in the future, renewable energy generation, which does not need to be subsidised.

This alone is not enough to address the competitiveness gap between Europe and the US. And we also know that this gap cannot be resolved by US natural gas exports.

Leaving aside the complex issue of how much gas could actually get to Europe, the main issue would be its cost. American gas must be liquefied, shipped and then re-gassified before it can get to us. This means that, if and when it gets to Europe, it would cost roughly twice as much compared to the price paid by consumers and undertakings on US soil.

We must find our own solution to this problem.

Brussels and Strasbourg must play a central role in allowing and encouraging exploration and production of shale gas in the EU. There is shale gas in Europe, we must just find out how to exploit its potential like the US did before us. This is essential to make cheap energy available, and fuel Europe's economy.

Meanwhile, we will need to nurture the relationships with our traditional energy partners: Algeria, Norway, Russia and Libya. We are close neighbours of these countries and we are bound by historical commercial ties, which make them our natural counterpart in energy trade. Algeria, Norway, Russia and Libya have the opportunity to make us more competitive. It is in their own best interest to support a large, neighbouring market full of potential and opportunities.

Re-launching the constructive dialogue with exporting countries is yet another challenge that must be addressed and pursued by our executive arm in Brussels and by you, our legislators.

Thank you.