

**UK SUPPLEMENTARY RESPONSE TO THE EUROPEAN COMMISSION'S GREEN PAPER**  
**“ A EUROPEAN STRATEGY FOR SUSTAINABLE,**  
**COMPETITIVE AND SECURE ENERGY”**

The UK submitted our main response to the European Commission's Green Paper “A European Strategy for Sustainable, Competitive and Secure Energy” on 24 June 2006<sup>1</sup>. As the UK's Energy Review was ongoing at that time, we committed to submitting a supplementary response once the outcomes of the Review had been published.

The UK's Energy Review was published on the 11<sup>th</sup> July 2006<sup>2</sup>. The remit of the review was to examine the UK's progress against our medium and long-term energy goals (as set out in 2003) and consider options for further steps to achieve them. The UK's energy goals are:

- *To put the UK on a path to cut our carbon dioxide emissions by some 60% by about 2050, with real progress by 2020;*
- *To maintain reliable energy supplies;*
- *To promote competitive markets in the UK and beyond, helping to raise the rate of sustainable economic growth and to improve our productivity; and*
- *To ensure every home is adequately and affordably heated.*

The Energy Review also reaffirmed our two long-term energy challenges: tackling climate change, along with other nations, as global carbon emissions from human activity continue to grow; and delivering secure, clean energy at affordable prices, as we become increasingly dependent on imports for our energy needs.

These translate into the UK's broad vision for our European Energy Policy, as set out in our previous response to the Green paper: for *reliable, affordable and sustainable energy for Europe*. As we noted previously, it is important to strike a balance between these elements; skewing the debate too far in one direction will detract from all of our objectives and make them harder to achieve. These objectives are interdependent: competitive markets are a prerequisite to underpin other policy initiatives, play a significant role in security of supply and spur technological advances; energy efficiency measures contribute to all three; diverse and secure sources of supply strengthen a competitive market and support our climate change and carbon saving goals. There are strong links between our energy policy and achieving our climate change objectives, action on energy at the European level must positively contribute towards achieving our climate change goals.

The Energy Review affirms the UK's commitment to competitive energy markets as the best way to deliver secure energy supplies and competitive prices and to tackling climate change internationally. It also concludes that we need to create a strong economic incentive for more energy efficiency and investments that help reduce carbon emissions; an effective EU Emissions Trading Scheme is key to this.

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<sup>1</sup> For ease of reference, the UK's first response can also be found at:

<http://www.dti.gov.uk/energy/policy-strategy/international/eu/page28034.html>

<sup>2</sup> The Energy Review can be found at: <http://www.dti.gov.uk/energy/review/page31995.html>

## Supplementary Comments on the Green Paper

The UK's main response covered all of the areas outlined in the Commission's Green Paper. However, there are several areas that the UK wishes to highlight and elaborate further:

### 1. EU leadership in meeting the sustainable energy challenge

The EU's leadership in this area has been irrefutable to date, but action is needed now to ensure that the Union continues to demonstrate this leadership over the long-term.

- **Energy Efficiency:** The UK calls for an ambitious energy efficiency action plan, including proposals for developing world-leading product standards under the Eco-Design Directive, including on stand-by power consumption across a range of products. Markets for best products should be encouraged by setting a firm agenda to progressively raise standards, based on mandating and encouraging more efficient technology adoption and extremely low-drain stand-by rates. This should be coupled with better consumer information, such as improved energy labelling to ensure demand-pull for efficient products.
- The UK would like to see successor agreements to the voluntary agreements between vehicle manufacturers and the European Commission, due to end in 2008/09, finalised as soon as possible. This must include consideration of all options, including mandatory targets with trading.
- **Energy Technologies:** The Renewables Road-Map should go beyond simply stating our collective ambition for renewables deployment and be used as a tool to address current market shortcomings and give investors, business and consumers the right incentives to find the balance that will effectively meet medium term renewable and energy diversity goals. The Road-Map should also resolve the tension between renewables deployment, wider environmental imperatives and other market directives. It should also bring together the many different strands of EU Energy R&D policy to offer co-ordinated effort similar to the approach adopted for the Environmental Technologies Action Plan.
- **EU ETS:** Emissions trading is the best long-term mechanism for securing least-cost emissions reductions across the EU. Decisions on allocations for phase II (2008-2012) need to be robust, transparent and fair. There is also a need to strengthen the EU ETS scheme for future phases post-2012. Changes should include: providing greater clarity on when and how caps/limits on emissions will be decided in the future; and harmonising the scheme, particularly the way that allowances are allocated. As the largest regional carbon trading scheme in the world, the ETS has the potential to become the hub for a global carbon market.
- The UK is committed to the inclusion of aviation in EU ETS by 2008, or as soon as possible thereafter and believes that serious consideration should also be given to including surface transport in the scheme.

- **Carbon Capture and Storage:** The UK recognises the significant role that clean coal technologies and Carbon Capture and Storage could potentially play in the future EU energy mix, but recognises that this technology is in its infancy and requires further support; therefore the EU should continue to work with international partners to both develop CCS's potential, through the Zero Emissions Fossil Fuel Power Plant (ZEP) Technology Platform, and to establish the legal basis and status for CCS through the amendment of international legal frameworks. The UK calls for the recognition of CCS within the EU ETS in order to create a value chain for CO<sub>2</sub> stored using CCS.

## 2. **EU external energy policy: climate security and energy security**

Energy security and climate security are fundamental to the overall security of the EU. They are also mutually reinforcing. As underlined in the UK's White Paper on International Development (July 2006), the largest growth in global energy demand will be from developing countries, especially the large emerging economies. Their particular vulnerability to the impacts of climate change makes it especially important for the EU to promote clean energy among developing countries and, eventually, that they be included in agreements to reduce growth in energy related greenhouse gas emissions. The following actions should be incorporated into the activities taken forward as part of the EU's external energy policy, in order to reinforce links between EU external policy on climate change and energy security.

- **China:** EU support for early deployment of CCS technologies through the Near Zero Emissions Coal plant announced at the 2005 EU-China Summit; and launch an EU-China study of mutual interdependencies that will pave the way for more effective collaboration on the trade and investment frameworks needed to promote the rapid deployment of clean and efficient technologies.
- **India:** Build upon existing collaborations on clean coal technology, such as the EU-India Energy Panel; promote greater engagement on Carbon Capture and Storage.
- **Russia:** Promote domestic and commercial energy efficiency, including ending gas flaring, through existing mechanisms and any new structural arrangements, including trading arrangements.

## 3. **EU external energy policy: Russia and other FSU countries**

Russia and the Former Soviet Union countries are vital to the EU's security of energy supply in the future; our priority should be to establish a well functioning Eurasian natural gas markets.

- Greater emphasis should be placed upon implementing the St Petersburg G8 Statement of Global Energy Security Principles in the EU's relationship with Russia. This should be achieved through the new Partnership and Cooperation Agreement (PCA) and other instruments that involve the EU and Russia in the energy sphere.
- The EU should review its representation in the Caspian / Central Asia region: improved representation is essential to securing the EU's objectives; this

representation must be the right level, be properly resourced and have the right competencies to add value to the relationship between the EU and the region's Governments.

#### 4. Market liberalisation

Liberalisation and competition in EU energy markets can only be achieved through concerted EU level action but it is clear that the current legislative framework is not delivering the competition required. Further legislation is required in a number of areas, e.g. unbundling, transparency, regulators' powers and duties, in order to create the framework for a genuine single market.

- **Current legislation:** It is essential that the Commission continues to act to enforce the current legislation completely, including by using its competition powers to the full – in the wake of its current sector inquiry – to achieve the aim of a fully functioning internal market.
- **Unbundling:** Effective unbundling of network business is essential for fair and non-discriminatory access to the network for all system users. Ownership unbundling is the best way to guarantee fully independent network operations, but where ownership unbundling is not possible the structural separation of the system operator function could be considered, through creation of an “independent system operator”.
- **Transparency** The UK supports the work that ERGEG has done on guidelines on information transparency in electricity markets. These are a good basis for a proposal for mandatory guidelines from the Commission. Further mandatory guidelines on transparency in gas markets are also needed.
- **Powers of Regulators:** National regulators must have broadly similar powers and duties and be independent of government. They must have competence to regulate issues with a cross-border, as opposed to a purely national, dimension and cross-border enforcement powers to ensure compliance with EU rules. Moreover, a mechanism for regulating such cross-border activities is needed. We propose that the existing co-operation between national regulators should be developed further by enhancing the role and powers of the European regulators' group (ERGEG).

#### 5. Security of supply:

As the European markets become more integrated, our levels of both interdependency and diversity will increase. This suggests a greater role for Member States both to improve understanding the consequences of a supply disruption and to co-operate in resolving it.

- The UK supports early constitution of the Gas Co-ordination Committee with the Terms of Reference drawn as broadly as possible.
- Securing planning consent for infrastructure is a key factor: the Commission should consider ways of co-ordinating and expediting the planning processes for major infrastructure which is needed for the EU's security of energy supply.

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