

# ENERGY IN THE EU

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IPCC REPORT ON CLIMATE CHANGE



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## THE FIRST ISSUE OF THE ČEZ BULLETIN – WHY?

Dear readers, you are holding the first issue of the Monthly ČEZ Bulletin **Energy In The European Union**, which we have decided to issue within the framework of the European Agenda Section (SEA), ČEZ, a.s. The objective of this monthly is to provide you with information about European integration activities in the energy sector, which have been characterised by a vast number of events recently, with expectations of even more intensive European Union activity in this area. It is evident that in recent years, energy has become one of the key topics of the European Union, and given the relatively bleak forecasts concerning the European Union's future energy self-sufficiency, it is becoming a central issue for all EU member states, as well as various European organisations and associations. At present, the energy policy must react to a number of challenges, in particular the continuing difficult situation on the oil and gas markets, the high rate of dependency on imports, the rising worldwide demand for energy, the need for greater transparency in energy markets and the further integration and interconnection of national markets in conjunction with the

approaching liberalisation of energy markets. These are very current issues, which are the subject of various discussions at a European level. In order to provide information about European activities in the energy sector, we have decided to publish this monthly, which not only addresses European energy policy, but also the new legal regulations in the energy sector, events of a European and international scale and events within the framework of the ČEZ Group in relation to the European agenda. In the conclusion of this bulletin, we will always introduce a topic concerning the energy sector in greater detail. The central topic of this issue is the European Commission's „energy package“ of January this year. This is a series of documents that should become the basis for the European Union's future energy policy. We wish you an enjoyable read and hope that if you ever need to find out something new about European events in the energy industry, you will reach for a copy of our monthly on European events.

Your SEA

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## EUROPEAN COMMISSION'S ENERGY PACKAGE – A NEW POLICY FOR EUROPE

**The European vision for future energy policy was introduced this January in the European Commission's energy package. This is a collection of proposals and measures forming the basis of an action plan for the energy sector which should be adopted at the spring meeting of the European Council this March. The first reactions to the European Commission's energy package are included in the conclusions of the meeting of the Energy Council, held on 15<sup>th</sup> February this year.**

After approval of the foundations for the new energy policy by the Council of Europe, the new energy policy will be implemented through concrete proposals from the European Commission, which should be prepared in the course of this year. The key document in the energy package is the Strategic Review of the Energy Industry containing proposals for new effective measures at European Union level. Among these measures, the European Commission put particular emphasis on those that ensure full energy market liberalisation. In this area, it offers two alternatives for consideration: effecting ownership unbundling at the network level, or the establishment of independent system operators, who would be responsible for the operation, maintenance and investments into networks, while the networks would remain in the ownership of

vertically integrated companies. It follows from the conclusions of the Energy Council that due to disputes between member states, neither of the alternatives has yet been chosen, and the Energy Council has merely recommended the effective application of existing legal regulations and effective unbundling – but not ownership unbundling. Among the other measures, the European Commission states the need to adopt more rules on transparency leading to the greater transparency of markets not only for market players, but especially for customers. In the strategic energy review, the key importance is stressed of deepening the links between individual member states, as are measures in response to the power outages that occurred last year. The priority in this respect should be the strengthening of cooperation between transmis-

sion network operators. On the level of energy regulation, the European Commission emphasises strengthening the authority of the national regulatory bodies through three possible alternatives. The first alternative consists of strengthening the European Regulators' Group for Energy and Gas (EREG) into „EREG +.“ The second option is the establishment of a new European regulatory body and the last option involves the granting of reviewing authority, against strictly defined resolutions of national regulatory bodies, by the European Commission. This should be a solution similar to the one that already exists in economic competition. The core of the new energy policy for Europe is also the limiting of greenhouse gases. According to the European Commission, Europe's economy must be redirected to become highly energy-efficient (reduction of

electricity consumption by 20% in 2020) and produce low CO<sub>2</sub> values. Thanks to new coherent measures from the European Union, essentially confirmed in the conclusions of the Energy Council, sustainability, supply security and competitiveness of the European energy market should be achieved in areas such as renewable sources (target 20% share for renewable energy sources in energy consumption in Europe), biofuels (binding target of 10% share for biofuels) and energy efficiency. One of the means to implement these measures is to be the supervision, by the European Commission's Directorate General for Economic Competition, of the fulfilment of fair economic competition on the energy market.

## EUROBAROMETER SURVEYS AWARENESS OF ENERGY TECHNOLOGIES


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Eurobarometer, an institute of the European Commission that performs periodical and ad hoc surveys of the awareness and attitudes of member's state citizens, has published the conclusions of its extensive survey on the awareness and perception of energy technologies. One of the main declared benefits of the study called „Energy Technologies: Knowledge – Perception – Measures“ is the fact that (for the first time) it includes findings from the 10 new member states. In general, EU 25 citizens do not link the most urgently perceived problems to the energy sector: instead, 64% of Europeans named unemployment as the most crucial problem, followed by

criminality with 34%, etc. Only 14% of citizens gave the energy industry problem such importance. If Europeans think of a specific topic related to energy, they mostly think of energy prices (33%). In this area, Czechs and Slovaks greatly exceed the EU average – a full three quarters of the citizens in these countries think primarily of prices in connection to energy! An interesting piece of data is the „acceptability“ of various energy sources. It is no surprise that 4 out of 5 Europeans support renewable energy sources (RES). Nuclear energy has 20% support, 36% have a „balanced“ attitude towards the atom, and 37% are against. Nuclear energy has the greatest support in Sweden (41% are fully „for“) and in Slovakia and Lithuania (37%), while in the CR there is 34% support (and 42% with a „balanced“ attitude). And where does nuclear energy have the greatest number of opponents? In Austria, of course; 80% of the citizens of this country reject it entirely. As for the attitudes of EU citizens to the necessary measures individual governments should take, most people support the guarantee of low prices for consumers (45%) and the

securing of uninterrupted supplies (35%). Environmental protection comes only after these factors (29%). However, Czechs are more sensitive to ecological measures and give them priority over securing continual supplies (these are important e.g. for the Estonians, Finns and Dutch).

### **And what conclusions did Eurobarometer draw from the analysis of such a vast volume of data?**

Europeans consider energy important, but do not include it amongst the most important issues. They expect a lot from renewable sources, but nuclear energy also has its place in the energy mix, according to citizens. More than energy savings, EU citizens support structural savings and the strengthening of research and development. Expectations linked to energy are not often a source of major concern. Citizens in the new member states are more sensitive to energy prices. It would seem that in the EU, the phrase – the shirt is closer than the jacket – still applies. 

## NEW TRENDS IN THE UNITED STATES' ENERGY POLICY

**„Spreading hope and opportunity depends on stable energy supplies, which will keep the American economy running and preserve a clean environment... Diversification of America's energy sources is in the interest of our lives.“**

This is how President Bush introduced the topic of the USA's energy policy in the traditional State of the Union address, presented to Congress on 23<sup>rd</sup> January. The speech was met with considerable media attention and commentaries from around the world. The British weekly **The Economist** carried an image on its front cover of the Statue of Liberty holding an energy-saving light bulb instead of the traditional torch under the heading „The Greening of America“. Bush's speech put the greatest emphasis on the objective of reducing petrol consumption by 20% in the next ten years, particularly by using vehicles that run on biofuels. In this way, the USA would reduce oil imports from the Middle East by three quarters of the current import



volume. The instrument to achieve this objective is the demand for the mandatory consumption of alternative fuels; here Mr Bush pinpoints the ambitious goal of increasing current consumption fivefold by the year 2017. The primary motivation is clear: to improve the country's security by reducing its reliance on politically unstable, or actually hostile, regimes. Ecological activists in many countries reproached the President's alleged one-sidedness, claiming that Mr Bush practically failed to mention the threats of global warming, support for public transport, etc. **The Economist**, mentioned above, also pointed out Mr Bush's excessive stress on energy security, but particularly found Mr Bush's „new“ energy policy to be lacking economic instruments, particularly carbon tax

and emissions trading. But even the current American administration seems to be aware of the fact that energy policy must respect the environment. Mr Bush wants to support all means of procuring energy, which fulfil two basic conditions: they reduce energy dependency and are environmentally friendly. This approaches the political objectives declared by the European Commission in its „Energy Package“ dated 10<sup>th</sup> January of this year. Clean coal processing technologies, solar and wind energy – and also clean, safe nuclear energy; the President puts all these on the same level. The EU also places energy security at the top of its energy policy – undoubtedly, many Europeans, along with Mr Bush, realise that the „political“ price for importing energy resources from certain places in the world is often much higher than their momentary financial value.

## SUSTAINABLE ENERGY WEEK IN THE EU AND MANAGENERGY LOCAL ENERGY ACTION 2007 CONFERENCE

From Monday, 29<sup>th</sup> January until Friday, 2<sup>nd</sup> February of this year, the first „Sustainable Energy Week“ was held in Brussels and several other places across Europe within the framework of the Sustainable Energy for Europe campaign. The initiator was the European Commission itself, and the sustainable energy week was organised, apart from the EC, also by the German presidency, public authorities in Italy, the Brussels Spanish Murcia regions, the city of Grenoble and a number of institutions engaged in „sustainable energy,“ such as ManagEnergy, EREC (European Renewable Energy Council), Energie-Cités, CCRE (Council of European Municipalities and Regions) and others. Sustainable Energy Week included a conference on European cooperation in the field of energy efficiency, the presentation of the „Intelligent Energy for Europe II“ programme, a conference of European players in the transportation sector; with the Spanish Sustainable

Energy Week in Murcia also hosting the Sixth ManagEnergy Local Energy Action Conference (ManagEnergy is an initiative of the European Commission's Directorate General for Transport and Energy, the goal of which is to support the activities of cities and regions in energy efficiency and the use of renewable sources). The last named event took place from 30<sup>th</sup> January to 1<sup>st</sup> February and offered an opportunity to grant the „ManagEnergy Local Energy Action Award 2007“ to the city of Barcelona. It won the award for the best evaluated project called „Sustainable Energy Solution in Barcelona.“ The city particularly appealed to evaluators because of its measures to support the use of solar energy, which has an actual legislative nature in Barcelona: all new buildings and buildings undergoing reconstruction must use at least 60% solar radiation energy for hot water consumption. We can only wish the Catalonian metropolis a lot of sun from an overcast Prague in March!

## SECTOR INVESTIGATION BY THE EUROPEAN COMMISSION

**In 2005 and 2006, the European Commission undertook an investigation of the energy sector based on Article 17 of (EC) Regulation No. 1/2003. It particularly focussed on the existing barriers for the creation of a fully functional European electricity market.**

This investigation also concerned the Czech Republic and the ČEZ Group. It took place in two phases; the first was concluded with a preliminary report dated 16<sup>th</sup> February 2006. In connection with this report, the Commission then conducted a public consultation, within whose framework the SEA submitted its standpoint. The entire investigation was concluded with a final report issued by the Directorate General of the European Commission for Economic Competition, dated 10<sup>th</sup> January 2007, as part of the energy package. This report summarises the first and second phases of the investigation, as well as the public consultation. Its conclusions contain the general identification of problem areas in the energy sector. Based on this report, the Commission intends to adopt specific measures towards market players,

or submit proposals for the issuance of new legal regulations. The SEA actively participated in the entire investigation, submitted the standpoint of the ČEZ Group and applied its comments in this respect within the framework of the hearing organised by the Commission. Thanks to this active participation, the Commission removed its original reproaches towards the ČEZ Group from the final report, meaning that neither the ČEZ Group nor the Czech Republic are mentioned among the „main culprits“ of the not quite optimally functioning internal market. The SEA's participation showed that being „active in Europe“ pays off and that monitoring the activities of European institutions should be a matter of course for a company like the ČEZ Group. The Commission sees the main causes of the dysfunctionality of the common market in the following areas:


market concentration, vertical closure, market integration, transparency, price information, economic competition at the level of sales and balancing markets. Overall, the Commission intends to inhibit existing monopolies, the misuse of their dominant positions, the structural conflicts of interest and the lack of liquidity and transparency. The investigation was accompanied by a Commission inspection, particularly in Germany and France. The Commission intends to continue its investigations in the coming year as well.

## REVIEW OF LEGAL REGULATIONS IN THE ENERGY SECTOR

**The liberalisation of the energy market would not be possible without the stipulation of the precise rights and obligations of member states and players in the energy market.**

A number of legal regulations, in the form of guidelines, directives or resolutions, were adopted at an EU level for this purpose. Without legal regulations and supervision by the Commission, respectively the EC Court of Justice over their fulfilment, a common market, within the framework of the EU, would not be achieved. For example, EU law stipulates that from July 2007, all customers must be able to choose their electricity supplier. At present in the Czech Republic, all entities, including households are eligible customers. In this column, we will inform you about new drafts of legal regulations in the area of communitarian law, their approved wording and the impact on the Czech Republic and the ČEZ Group.

In this introductory edition, we offer a review of existing valid communitarian regulations for the energy sector. Of the vast number of regulations, we have chosen the most important ones. These are Directive

2003/54/EC dated 26<sup>th</sup> June 2003 on the joint rules for the internal electricity market, implemented in the Czech Republic by Act No. 458/2000 Coll., directly applicable Regulation (EC) No. 1228/2003 dated 26<sup>th</sup> June 2003 on the conditions of access to the network for cross-border trade in electricity, Directive 2005/89/EC dated 18<sup>th</sup> January 2006 on measures to safeguard security of electricity supply and infrastructure investment, Directive 2006/32/EC dated 5<sup>th</sup> April 2006 on energy efficiency among end users and on energy services, Directive 2004/8/EC dated 11<sup>th</sup> February 2004 on the support of combined heat and electricity production based on a demand for usable heat in the internal energy market, Directive 2002/91/EC dated 16<sup>th</sup> December 2002 on building energy efficiency, and others. All EU legal regulations are officially declared in the Czech language in the Official Journal of the European Union, and their wording is binding. 

**5<sup>TH</sup>-6<sup>TH</sup> MARCH** The German presidency, respectively the Federal Ministry of Food, Agriculture and Consumer Protection, are organising the conference „Fuels for the Future – Renewable sources show the way ahead for rural Europe.“ The conference takes place in Nuremberg. 

**6<sup>TH</sup>-7<sup>TH</sup> MARCH** An African – European Energy Forum 2007 will be held in Berlin under the title „Towards European-African Energy Partnership“. The event is held under the auspices of the General Federal Ministry of Economic Cooperation and Development and the European Commission. 

**8<sup>TH</sup>-9<sup>TH</sup> MARCH** On these dates, the Council of Europe, the EU's supreme body, composed of the prime ministers and heads of state of EU member countries, will meet. Energy, being one of the main priorities of the German presidency, should be an important point on the agenda of the prime ministers and presidents.

**21<sup>ST</sup> MARCH** The respective ministers from member states will meet for a discussion over a joint lunch in Brussels. The topic of discussion will be the European Strategy for Fuels.

**29<sup>TH</sup>-30<sup>TH</sup> MARCH** On these dates, the high representatives of the European Commission and experts from member states will meet in Berlin to discuss the topic of „Finalisation of the Unified Electricity and Gas Market – Joining Economic Competition and Security of Supplies“ within the framework of the High Level Workshop. Participation in the conference has been promised by the Commissioner for Energy, Mr Piebalgs, and the Commissioner for the Protection of Economic Competition, Ms Neelie Kroes. One of the tasks for this event is to prepare conclusions for the June EU Council (of Ministers) for Energy.

**30<sup>TH</sup> JANUARY** The UCTE (Union for the Coordination of Transmission of Electricity) has published its final report on the power outage in Europe on 4<sup>th</sup> November last year. The report states that Europe urgently needs joint activities in this field. According to European Commission member Andris Piebalgs, the EU must take a lesson from the November blackout and should strengthen common security standards, among other things. [↗](#)

**2<sup>ND</sup> FEBRUARY** The Commissioner for Energy Andris Piebalgs discussed with the Norwegian Minister for Oil and Energy, Mr Enoksen, the possibilities of strengthening the development of technologies for the capture and storage of carbon substances. Commissioner Piebalgs valued Norway's experience in this area and their potential for use in the EU.

Details about EU/Norwegian cooperation in the energy sector [↗](#)

**7<sup>TH</sup> FEBRUARY** Commissioner Piebalgs presented a speech at the EPP seminar in Brussels on the topic of „Challenges for the European Energy Industry“.

The full wording of this speech is available [↗](#)

**14<sup>TH</sup> FEBRUARY** Belgium, the Netherlands and France announced an agreement on the closer integration of their electricity markets. Within the framework of the agreement, a common stock market was created in Belgium and the use of interconnectors for mutual trade is to be strengthened. Among other things, a more intensive convergence of prices is expected in these three countries. [↗](#)

**15<sup>TH</sup> FEBRUARY** The ministers of EU member states who are in charge of energy met in Brussels at the meeting of the (EU) Council for Energy. The main topic of discussion was the draft „package“ of energy measures which were submitted in January by the European Commission (see also Section 3 of this issue of the Monthly Bulletin). The Czech Republic was represented by the Minister for Trade and Industry, Mr Martin Říman.

For conclusions from the Council meeting, see [↗](#)

**20<sup>TH</sup> FEBRUARY** The environment ministers of EU member states met for the first time during the course of the German presidency. One of the main topics of the meeting was global climate change and the battle against it. Among other things, the ministers approved objectives in the area of international climate change beyond the timeframe of 2012. The Czech Republic was represented by Environment Minister, Mr Martin Bursík. [↗](#)

## IPCC REPORT ON CLIMATE CHANGE

**On the 2nd February the International Panel for Climate Change (IPCC) published its second report on global climate change over the past three years. Allegedly, 600 scientists from 40 countries around the world participated in processing the report. This time, the panel's conclusions are deemed far more radical – glaciers and oceans allegedly show „undeniable“ signs of overall warming of the Earth's climate.**

It seems the three-year study provided scientists from the IPCC with sufficient grounds to claim that it is „90% certain“ that human activity is responsible for the increasing concentration of greenhouse gases (GHG) in the atmosphere since 1750. UN panel members blame higher GHG concentrations for the rise in temperatures and greater extremes in weather fluctuations. Global warming would be even worse if it weren't for the rising concentration of aerosols, which reflect a large amount of solar energy back into space. According to IPCC scientists, glaciers in Greenland and the Arctic are thawing, which causes a visible rise in the levels of the world's oceans. The authors of the report did not dare to predict the speed at which ocean levels would rise, but the fact itself is allegedly undeniable and the only question is its future intensity. The

report itself is full of numerical data, much of which has the character of „what if...“ This includes e.g. a thesis, according to which the „doubled concentration of GHG compared to the situation before the industrial revolution would probably lead to an average warming of 3 °C“. Why the conditional claims? The same IPCC report gives the answer: the future GHG concentration level is hard to estimate, because it depends on the development of the global economy, respectively the volume of emissions in upcoming years. What scientists believe is certain, however, is that in the past 100 years, the average temperature has risen by approximately 0.74 °C. Of the last twelve years, eleven are among the twelve warmest since 1850. What will the consequences of global warming be? In terms of weather, the continuation of heat waves and extremely high

temperatures, rising precipitation towards the earth's poles and its fall in subtropical areas are considered „very likely.“ Achim Steiner, Executive Director of the UN Programme for the Environment, considers the IPCC report a „full stop after the scientific debate“, ending all the question marks regarding the human impact on the growth of GHG concentration levels and its risks for the planet. Now, political measures should be implemented with the aim of inhibiting the consequences of these trends. „The scientists have done their work. Now it is up to the governments of individual states to incorporate these complex and undeniable findings into their political programmes,“ he says explicitly. However, making this wish come true will be a greater nut to crack than the collection and analysis of an admirable volume of data, as

carried out by the IPCC participants. European politics will face the even hotter issue of how to force China to undertake the obligations adopted voluntarily by the EU in recent years. It is „very likely“ that this country will replace the United States as the greatest air polluter in the next few decades. It is also very likely that for at least another decade, China will not join the battle against emissions to an extent comparable with mature countries of the world. Hence the EU is not only faced with the issue of how to battle the consequences of global warming on its own territory, but also how to protect its economy from the rising „ecological dumping“ of countries still standing aside from efforts to clean the planet's atmosphere. However, that is a different „topic of the month“ ...