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A new energy policy for a new era

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Conference on European Energy Strategy – the Geopolitical Challenges

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I would like to thank the organisers from the newspaper 'Diário de Notícias' for inviting me to join you here today in Lisbon to speak about the challenges of our future energy policy.

Ladies and gentlemen, energy is a subject that affects every citizen and business in Europe. And most of us are aware that Europe has entered a new energy era. As global demand for energy has grown, the market has shifted in favour of energy producers, and prices have gone up. We are also increasingly dependent on external supplies for our energy: in 25 years' time between 80% and 90% of Europe's oil and gas demand will be met by imports from third countries.

This new energy era demands a new energy policy. In March the European Commission published a Green Paper which outlined an approach to achieve our aim of sustainable, secure and affordable energy supplies. And in the next six months Europe will have to take some key decisions about our future common energy policy, which will shape the price and security of our energy supply for years to come.

So this morning I'd like to share my thoughts on the shape of Europe's emerging new energy policy.

An open and competitive energy market is crucial for success, but...

So what should a European Energy Policy look like? The Green Paper showed that it will need to have many facets. Our new policy must include:

- greater investment in new capacity and technology
- more interconnections between Member States
- higher energy efficiency
- more diverse energy sources and
- a truly common European voice on international energy supply issues.

Later this morning, you will have the privilege to hear President Barroso's insights on this. But first, I would like to talk to you about the importance of developing a proper Single Market for energy within Europe.

Why? Because meeting our aim of secure, sustainable and affordable energy supplies depends on market-based competitive electricity and gas prices. Security of supply is enhanced through correct market signals which will lead to both the investments we need to see within the EU and a diversification of supply. And sustainability is boosted by correct price signals, which give incentives for greater energy efficiency.

It is clear that at present there is no such thing as a competitive Single Market for energy in Europe. And this is where I come in as Commissioner for Competition. Competition policy and the enforcement of EC competition rules for state aid, merger control and anti-trust all have a key role in delivering efficient and effective energy markets. When I started in this job two years ago I got the clear impression that all was not well. So I launched a proactive sector inquiry into competition conditions in the electricity and gas sectors.

.... such a market does not yet exist

And the fact is that the sector inquiry has found significant problems. I'm sure you are familiar with our initial report and its findings:

- first, there is too much market concentration, creating scope for incumbents to raise prices
- second, a lack of liquidity and too much tying of infrastructure and supply prevent successful new entry and reduce consumer choice
- third, there is very little cross-border integration. For gas, it is difficult to secure transit capacity on key routes. For electricity there are long-term capacity reservations and insufficient inter-connector capacity
- fourth, there is a worrying lack of transparency and
- fifth, prices are not determined on the basis of effective competition.

What are we doing about this? We hope to publish the final report early next year, and to this end we are carefully assessing stakeholder comments on our interim report. The final report will include new analyses of the LNG market, the downstream electricity market and the functioning of the power exchanges.

At the same time, we are taking action on the competition implications of the recent wave of proposed mergers in this sector, and continuing individual case investigations. As you probably know, we launched dawn raids at utilities companies in six Member States last Spring, and we are taking these cases forward.

However, competition law cannot by itself open markets and resolve all the shortcomings identified in the sector inquiry. If we really want to deliver the goods, we must complement competition enforcement with a better framework of regulation.

Time to move from problems to solutions

Over the past months, it has become clear that the Commission's analysis of the problems is widely shared. Now it is time to develop consensus around solutions. The proposals the Commission will present early next year will be result oriented and pragmatic, based on open dialogue with stakeholders.

Let me elaborate on some of the possible solutions.

Transparency

Transparency is an obvious candidate for improvement. We cannot go on fumbling in the dark wondering why the light has gone out. When winters get cold in the North or summers get hot in the South, we should know where the gas is, so that it can be moved to where it is needed.

Regulators must be given the necessary independence and tools to monitor the market. This includes being able to exchange potentially market sensitive information.

Such transparency is also crucial for market participants. If authorities struggle to get the information they need, competitors of vertically integrated incumbents must be really desperate for more transparency! Not to mention customers trying to manage their purchase portfolios on an opaque market.

In the gas sector, we are making good progress with the entry into force of the Gas Regulation's new transparency requirements this summer. It is high time for electricity to catch up!

Ownership unbundling

But transparency alone is not enough to create well-functioning energy markets.

For me, an absolute priority must be to resolve the systemic conflicts of interest resulting from the vertical integration of the energy giants. With the infrastructure in the hands of incumbent supply companies and electricity generators, opportunities for discriminating against competing suppliers abound. Similarly, integrated companies have an incentive to take account of potential losses to their supply branches when contemplating investment decisions that could provide badly needed capacity in transport, storage and interconnectivity for competing suppliers. Our sector inquiry has shown that the current level of unbundling is insufficient. Stakeholders tell us that network companies still favour their own supply or generation businesses.

Speaking very personally, I see only one way forward if we are to restore credibility and faith in the market. Europe has had enough of "Chinese walls" and quasi-independence. There has to be a structural solution that once and for all separates infrastructure from supply and generation. In other words: ownership unbundling. Then we will finally see an end to discrimination, and we will also have laid the ground for a system of proper investment incentives.

I see growing support for this important step forward - from regulators and from large parts of the market. It is something I look forward to pursuing with my colleagues in the Commission over the next few months. And listening carefully to President Barroso talking about this issue, I know he will be actively involved in the discussion.

Long term contracts

Ladies and gentlemen,

The sector inquiry pointed to another major source of problems for non-incumbent suppliers: access to adequate amounts of gas. Similarly, customers are all too often locked-in with their traditional supplier. Market opening becomes an illusion because there is no one else who can supply.

These problems are largely due to the cumulative effect of long-term contracts, often coupled with anti-competitive practices such as restrictive clauses or market sharing arrangements.

Long-term contracts can be both good and bad. On the positive side, they offer purchasers a guaranteed supply, and better management of the risks related to adverse price movements. But it is vital that the benefits of this security are not outweighed by the negative impact on competition and overall consumer welfare.

Where almost all gas coming to the market is locked in for the long-term, the cumulative effect is likely to be that new entrants cannot buy enough gas to build up a business, or access enough customers to create a sustainable customer base.

In such cases, I think we have no other option but to act to ensure that a reasonable amount of gas returns to the markets each year.

Regulatory aspects

Our sector inquiry has showed a grave absence of market integration. Further harmonisation of market design will be needed to create a single European network for network users.

But in order to achieve any substantial progress in this field, it is crucial to improve regulatory cross-border coordination.

Strengthening national regulators through increasing their independence and harmonised powers would make a big difference. A system of close cooperation and coordination would need to be set up, to ensure coherence and guarantee full consideration of cross-border aspects.

However, I wonder whether this will be enough. Achieving the Single Market needs investment in network infrastructure, in particular between Member States. This requires confidence from investors, which in its turn means that regulatory decisions need to be predictable and based on economic principles rather than political objectives.

This needs further serious reflection, to make sure that European regulation has real teeth.

Europeans expect a common energy policy that answers the challenges

Ladies and gentlemen, the ideas I have mentioned today will mean changing current structures and instruments. And, like any change, this is likely to meet some resistance. Resistance from groups that hold important interests in the status quo is a natural part of the political landscape. Please rest assured that the European Commission listens to every constructive suggestion that has been communicated to us. But let's not forget that industry as a whole will benefit from an improved functioning of the single energy market. Indeed a recent study by the International Energy Agency found that medium-sized industrial, commercial and service-sector companies reaped the greatest benefits from electricity market liberalisation where it has already taken place. Change will help the competitiveness of our companies and our economy as a whole.

And I ask you, what is the alternative? 27 mini energy markets with an average of around 18 million consumers each, or a market of over 490 million consumers? From my own business experience I know which will be more attractive to investors and suppliers!

Do we want to see a repeat of the last couple of years, where one part of the Union has power shortages, whilst ample gas lies in storage a few hundred kilometres away? Or would we prefer a situation where we pull together to ensure all of our citizens are assured of the energy they need for their daily lives? Where energy solidarity is a reality across the Union?

As a Union, we will benefit from presenting a united front in order to ensure our security of supply and maximise our bargaining power vis-à-vis large external suppliers. That this is possible and beneficial is demonstrated by our collective approach to Russia over the last Christmas period and at the recent European Council in Lahti, Finland.

Time is not on our side. So let's leave foot-dragging behind and focus on what we can do, now, to face up to the reality of world energy markets.

Conclusion: the Commission is committed

Ladies and Gentlemen, this morning I have shared my thoughts with you on what the new energy landscape means for the European Union. And these are the thoughts I'd like you to take away with you.

First, Europe's citizens expect the European Community to deliver sustainable secure and affordable energy. To do this, we will need a European Energy Policy. And we will need to translate this policy into action by implementing an ambitious package of solutions. Given the issues at stake, everyone - governments, parliaments, citizens and businesses alike – has to pull together constructively.

Second, achieving an open and competitive internal energy market will be crucial to the success of our European Energy Policy.

And last but not least, the Commission will do all we can to deliver sustainable, secure and affordable energy to our citizens and businesses, so that each time any one of us goes to turn on the light, all it takes is the flick of a switch.

Thank you for your attention.