CEEP’s Position on the TTIP Explained in ITRE’s Public Hearing

By Paweł Olechnowicz

The EP’s Committee on Industry, Research and Energy (ITRE) and the Committee on International Trade (INTA) organised a public hearing with experts on the “Impact of TTIP on ITRE policy areas” on the 24th of February. The Chairman of the Board of Directors of CEEP, Paweł Olechnowicz, presented CEEP’s position on the matter. Here below, his intervention.

1. UNDERSTANDING THE TTIP: We understand that the TTIP represents a major boost for the EU in the competitive world. Nowadays, we are conceding ground to such external competitors as China and India, as well as other emerging economies. We also observe the rapid development of the United States’ economy, not only due to the shale revolution, but also due to an innovative and dynamic approach to economic solutions. Should we join our efforts, talents, and knowledge to push our economies ahead and make them more resilient to other economies? CEEP’s answer is clear: we support the concept of the TTIP as enabling more investments and securing more new employment opportunities.

2. DIFFERENCES BETWEEN ECONOMIC SECTORS IN THE EU: Creation of a free trade zone with the US is very tempting, and the TTIP is supported by many sectors, as, for example, the EU’s automotive industry, whilst there is a lot of debate within the food industry, and a somewhat divided approach from the chemical industry. I am very optimistic...
that the parties will reach positive solutions, but we in the EU, should realise that problems connected with the TTIP need to be categorised into two parts. One concerns EU/US relations; the other relates to internal matters for the EU itself.

3. WHAT ARE OUR NEEDS? US coal has zero (‘0’) custom duties already, and can be freely exported to the EU. We, should have the same access to crude oil and gas, which will strengthen our energy security, whilst heightening the chances of further development of the EU’s energy-intensive industries (refinery, chemical, fertilizer, steel, and others). Today, we observe a very dynamic development of the chemical industry in the US, thanks to low energy and raw material prices. The graph illustrates booming investments in the nitrogen sector with 53% of its investment coming from the EU. We should be aware that the EU has lost a lot of new jobs. We realise that lower prices of energy and raw materials are not only connected with easier access in the US to cheaper sources of energy, but are primarily due to lower taxes and lesser environmental regulations. This is what should be taken into consideration by the EU’s legislators.

4. WHAT DOES THE EU NEED TO IMPLEMENT BEFORE IT CAN APPROVE OF THE TTIP?

At first glance, it seems that the TTIP for the above sectors is not acceptable: for example, in the chemical industry, we have 6.5% import duties protecting our chemical and derivatives market. When the TTIP is in force, this branch of the chemical industry might be eradicated within five to ten years. We must take measures, therefore, to secure the future of such threatened industries. That is why we suggest:

4.1. A waiver period

A waiver period up to 10 years should be considered for tariff reductions for those products, that are particularly energy-intensive. The purpose is to allow time for energy and gas prices across the Atlantic to approximate, therefore 10 years may be necessary.

4.2. Bilateral safeguard clause:

The parties shall have the right to increase their import duties, informing the other party of the reasons for their decisions. Such measures should be obligatory through the validity of the TTIP.

4.3. Internal Regulations (REACH):

We welcome the information received from the DG for the Internal Market Industry Entrepreneurship and SMEs that the
REACH Regulation will not be affected and those from the US will have to comply with the registration obligations.

5. CO₂ EMISSIONS: This should be treated as a very important economic issue, which is connected very much with the final price of goods. CO₂ emissions in 2013 amounted in the US to 16.55 and in the EU to 7.35 tonnes per capita. If we note that the cost of a decrease of one tonne of CO₂ is around $600, one can easily see that American production is much cheaper than in the EU, and the question arises as to how to overcome this discrepancy. We acknowledge the enormous American efforts concerning CO₂ reduction, but as you can see, they are still not enough, resulting in an unsatisfactory outcome giving the US a tremendous edge over the EU’s industries. I would like to suggest that ITRE arranges a special study on this issue, as the very interesting study prepared by the European Parliament in 2015, titled: ‘TTIP impacts on European Energy Markets and Manufacturing Industries’, unfortunately, does not tackle this issue.

6. INTERNAL: the EU’s requirements to enable the creation of more favourable conditions for EU industry under the TTIP: As I said, CEEP supports the TTIP, but we have to review some EU regulations, as we should provide equal opportunities which means fair competition, leading to further development of industry in the EU and the creation of more jobs.

6.1. Carbon leakage list: Energy-intensive industries, should be put on the carbon leakage list up to 2020, and beyond to 2030, under the condition that they fulfil the requirements of BAT – at least 25% of leading world producers. The presence of such a list should assure, 100%, CO₂ allowances free of charge. I would like to draw your attention to the fact that some industries/companies which are already on the carbon leakage list, do not enjoy full benefits. The ailing refinery industry in the EU, which is much more efficient than its American equivalent, only enjoys the said benefits up to 73.9%.

6.2. Affordable energy: Indigenous energy should be more intensively supported by the EU. The coal-power plants surpassing, at least 43%, of their efficiency, should enjoy derogation concerning CO₂ emissions up till 2030.

7. FINAL REMARKS: It is evident to me that in the industries represented by me, both energy and energy-intensive, the EU does not enjoy such favourable conditions as the Americans do, but we in Central Europe, want to create new jobs and develop our industry to decrease relatively high unemployment. The TTIP should help us in our efforts. I advocate for special consideration of the situation of energy and energy-intensive industries, reform of the whole ETS system, including MSR, and acceptance of my proposal concerning the carbon leakage list.

Paweł Olechnowicz
Chairman of the Board of Directors, CEEP
Croatian company, HEP, joins CEEP

HEP (Hrvatska elektroprivreda) – Croatia’s leading energy company – has become the 25th member of Central Europe Energy Partners (CEEP). Less than two years after Croatia joined the European Union, the country’s oldest power company strengthens the position of this powerful association which represents the interests of Central Europe’s energy and energy-intensive industries.

At CEEP, we strongly believe that access to low energy prices is one of the key drivers of economic growth. We make energy producers and consumers across the Central Europe to speak with ‘one voice’. Now, with HEP onboard, this voice will be stronger, given the company’s position and Croatia’s role as one of the region’s energy bedrocks.

Together with HEP, we share the understanding of the role of the energy sector in stimulating economic growth in Europe. I am glad we will be working together on encouraging the EU to create a stable legal environment and strengthen the security of energy supplies, declared Paweł Olechnowicz, Chairman of the Board of Directors, Central Europe Energy Partners.

HEP has been engaged in electricity production, transmission and distribution for more than a century, and with heat supply and gas distribution for the past few decades.

As a new energy partner on the EU internal market, I am pleased that CEEP recognised HEP as its strategic partner in connecting different parts of the EU within the framework of the Energy Community and the Energy Union. HEP, on the other hand, has recognised the opportunity in profiling its interests in electricity production, transmission and distribution, heat supply and gas distribution, which, in the EU framework, is far more effective through partnership with other interested parties, who have similar or the same interests. It is clear that the essence of decision-making at the EU level depends on well-targeted articulation of one’s own interests said Perica Jukić, Chairman of the Board, HEP d.d.
The CEO of Wardyński & Partners, Mr. Tomasz Wardyński, answered the CEEP Report’s questions regarding CEEP membership, perspectives of the energy sector, and the added value of being part of the Central Europe Energy Partners project. Wardyński & Partners, one of Poland’s largest and oldest independent law firms, joined Central Europe Energy Partners as an affiliated member in December last year.

Cristina Dascalu (CD): What do you want to accomplish as a CEEP member?
Tomasz Wardyński (TW): Wardyński & Partners is a local law firm and, as such, it believes that regulatory measures considered at the EU level should respond to the needs of the Central and Eastern European (CEE) energy sector, and duly serve the development of the CEE economy. The CEE energy industry must become an active player contributing to the development of legislation applicable to the sector. It must also take a stand in relation to challenges presented by third countries. We want to be a part of this endeavour.

(CD): What will be the main challenges for the energy sector, from your perspective, within the coming years?
TW: The CEE energy sector is faced with challenges brought about by climate protection needs and industry-related regulations. The ever-increasing amount of regulation and frequent regulatory changes impede long-term planning and the implementation of the best options. It has become a challenge to finance new development projects, and the need to take necessary measures is often obstructed or prevented by various regulatory procedures.

(CD): What do you think you can contribute in terms of strengthening CEEP, and therefore, the entire energy sector?
TW: As experienced energy sector lawyers, we understand the impact of regulation on the industry. We want to act as ‘facilitators’ who will transform the maze of acquis communautaire into a set of manageable rules benefiting other CEEP members. Also, the reverse is possible: we are able to come forth with suggestions of regulatory measures that will bring the desired effects to the energy sector. We would like to support the energy industry in its search for the best European-level solutions to market challenges.

(CD): What should be CEEP’s priorities for the next two years, once again, from your perspective?
TW: It is crucial to maintain a balance when pursuing many different, but equally important goals, concurrently. CEEP should develop a proposal on how to find a fair balance between the climate protection and sustainable development rules on the one hand, and the need to increase competitiveness and particularly important for our region – speed up economic growth on the other. CEEP should be able to work out specific solutions based on the stated positions and inputs of its members.

(CD): Any additional comments or thoughts?
TW: To be a part of CEEP is a great honour for us. We want to be useful and take full advantage of the opportunity which CEEP offers its members.
As a MEP and a member of the ITRE Committee, I fear that we in Europe face a double energy crisis – in terms of competitiveness, but also security of supply.

Former Energy Commissioner Günther Oettinger has said “Europe can no longer afford to adopt a unilateral climate policy”. And former Industry Commissioner Antonio Tajani has said “We are creating an Industrial Massacre in Europe”. They are right.

The EU has set aggressive targets for emissions reductions, which have meant gross over-investment in intermittent and expensive renewables. Brussels has forced the closure of low-cost coal-fired power stations. It has created a cat’s-cradle of subsidies; incentives; feed-in tariffs; renewables obligations; quasi-carbon-taxes like the Emissions Trading Scheme; capacity payments for spinning reserve; and so on. And it has resolutely set its face against low-cost alternatives like coal and indigenous gas.

When I challenged the new EU Energy Commissioner Cañete on this issue, his solution was simply “a more integrated European energy market”. That’s fiddling at the margin, and ignoring the real issues.

Energy pricing in the EU is driving industries, jobs and investment off-shore, often to jurisdictions with lower environmental standards, thus potentially increasing global emissions, while we undermine European economies. Let’s look at some examples.

Take aluminium. Since 2007, the European aluminium smelting industry has closed 36% of its capacity – eleven smelters out of 24. It’s lost around 42,000 jobs – many of them high-value jobs in R&D. And this is not because of lack of demand, which has been rising. So imports have been rising rapidly, and now amount to over 50% of European consumption. We’ve been exporting production, and jobs, and emissions.

But it’s not just aluminium. The steel industry is facing very similar problems. Between 2007 and 2014, EU production fell by 20% (despite increased consumption). An eye-watering 80,000 jobs were lost. And industry insiders tell me that a ton of steel made in Shanghai involves double the emissions of the same ton of steel made in Europe. Again, we’re exporting jobs and emissions.

Chemicals face the same problem. Twenty-two chemicals plants have closed in the UK since 2009. According to Jim Ratcliffe, CEO of chemical giant INEOS, the chemical industry in Europe could be extinct in ten years unless we address the problem.

It’s the same for petroleum refining. It’s now cheaper to import refined petroleum products from the USA or Russia than to refine it here in Europe. Seventeen refineries in Europe have shut down in the last seven years. A 10% capacity decline. Ten thousand direct and forty thousand indirect jobs lost. And a UK Government research study shows that overseas refineries typically emit 35% more CO2 per unit than UK refineries.

And there is a similar story to tell in the cement and glass industries.

In the UK, we could be building new coal generating capacity, as Germany is doing, but our government is running scared of the Green Lobby and a few dozen demonstrators. These people hate prosperity and growth and industry.

They have also been guilty of spreading black propaganda about both nuclear power and shale gas. Yet nuclear and shale gas are two of the safest and cleanest generation technologies available. Many commentators also believe that Rus-
sia is quietly backing anti-shale campaigns, desperate to protect Gazprom and Russian gas exports.

Green campaign groups are damaging our economy and undermining employment. They're not Friends of the Earth. They’re Enemies of the People.

The EU sets fanciful targets for increasing manufacturing in Europe – but its policies are driving deindustrialisation on a grand scale.

Typical of the EU’s failed policies is the Emissions Trading Scheme. It was designed as a “market mechanism” to allocate carbon emission rights efficiently, and to send “price signals” to the market to promote energy efficiency and investment in low carbon technologies. But it’s become a dog’s breakfast.

Despite the huge administrative burden and cost of operating an emissions trading scheme, the emissions price remained too low to deliver any kind of incentive.

So the EU designed the back-loading system, intended to take permits out of the market and drive up prices. This failed so badly that several member-states devised their own add-on schemes – like George Osborne’s Carbon Price Floor – to drive the price up. The ETS already undermines EU energy competitiveness compared to the rest of the world.

One of the major problems of the EU is that it is wholly unable to come to terms with failure. So we have projects like ETS which have clearly failed, yet which are nonetheless kept on life-support long past their sell-by date.

The threat is not merely to pricing and competitiveness. There is also a threat to security of supply. Many commentators are predicting possible blackouts across Europe.

This situation started with the Climate & Energy Package. Originally proposed by the Commission in 2007, it involved swingeing reductions in CO2 emissions – down 20% by 2020 compared to 1990 levels.

The EU also aspires to a reduction of 30% by 2030, and has set a target of 80% by 2050 – which is only 35 years away, and would involve the almost total deindustrialisation of Europe.

Nothing we do will affect global emissions. The UK is responsible for only 2% of global emissions – the EU around 12%. With an estimated 1200 new coal-fired power stations in the global pipe-line, emissions will go up for decades, despite green posturing.

It is often argued that renewables costs are coming down. But wind energy offers little scope for further cost reduction, and operation and maintenance costs are coming in higher than expected. It’s true that solar is getting cheaper, and will eventually become competitive, despite the costs of back-up. But then we shall wonder why back in 2015 we were wasting billions on old-fashioned, inefficient, clunky technology.

We need to abandon hopelessly expensive renewables. We need to exploit lower-cost energy sources, like coal, and indigenous gas. And we need to provide a reliable and consistent regulatory environment to facilitate investment in all affordable energy technologies, including nuclear.

Most politicians are obsessed with climate hysteria, and with what they call “sustainability”, while industry is focussed on survival. So while I often find myself in a minority in the parliament, it is gratifying to find that major energy-intensive industries largely agree with my vision. But the issue is urgent. Europe cannot prosper until current energy policies are reversed.
Establishment of the European Energy Union – An EU Presidency Perspective

By Marija Zjurikova

February 6th, 2015, Riga – Latvian Minister of the Economy, Dana Reizniece-Ozola, together with Maroš Šefčovič, Vice-President of the European Commission for Energy Union, hosted a high-level Energy Union Conference, that launched the ‘Riga Process’ of establishing an Energy Union, by creating a platform for a broad dialogue and ensuring the input of Member States, academia, civil society, NGOs and industry during the initial phase when the concept is still being developed.

Current global changes in the energy landscape, as well as existing energy security challenges, underline the need for the transition of the EU’s energy policy. For Europe, it is clear that significant progress has been made; however, there are still tasks that we need to fulfil. Europe still relies too heavily on fuel and gas imports, the EU’s internal energy market is not yet complete, and we are facing challenges of high energy costs and challenges in the R&D sector. Current political momentum provides the opportunity to ensure better performance of the EU energy sector, and this should not be missed.

Creating a European Energy Union is one of the key priorities identified in the Strategic Agenda of the new Commission. Heads of states and governments have also stressed the need for a resilient Energy Union with a forward-looking climate policy. President Juncker stressed that Europe needs to create an Energy Union by pooling resources, connecting networks, and uniting our power when negotiating with non-EU countries.

Development of the European Energy Union concept is one of the main priorities for the Latvian Presidency of the Council of the European Union in the energy sector. The main aim behind it is the clear need to promote a fully-functioning internal energy market that delivers secure, competitive, and sustainable energy. Such a union should be a new broader paradigm of the energy policy that will allow us to deal efficiently with the challenges that we are all still facing.

The Commission has proposed a five-dimensional solution to the establishment of an Energy Union. To address all challenges that we are currently facing in the energy sector, each dimension should be linked to the others. It is foreseen that the final vision of the Commission will be published by the end of February. To ensure a broad stakeholder consultation before the publication of the strategic paper, the Latvian Presidency, together with the Commission, hosted a high-level Energy Union Conference, which
Establishment of the European Energy Union – An EU Presidency Perspective

launched the ‘Riga Process’ to establish an Energy Union.

The conference gathered more than 300 representatives of governments, civil society, academia, industry and other stakeholders. During the conference, discussions that covered all aspects of energy policy, indicated a clear need for the improvement of European energy policy and stressed the common understanding that the creation of the proposed European Energy Union is very much a necessity. At the same time, complicated issues such as common gas purchases were not avoided. Discussions indicated that a balanced approach and equal attention to all five dimensions would lead to a successful strategy which needs to be empowered by the list of concrete measures and actions to be implemented. Overall, the debate on the Energy Union has resulted in the need for a more consumer-based approach.

From the Latvian Presidency perspective, regional co-operation is essential to implement and manage an efficient energy policy, including development of energy-efficient industry and promotion of renewable energy as a foundation behind the strengthening of the EU’s energy independence. The Baltic Energy Market Interconnection Plan is one of the most successful examples of regional co-operation that could inspire other regions to work together. However, there is a need, not only to look at our neighbours within the EU, but also at the broader context, defining the place of Europe in global energy development and outlining appropriate instruments to promote joint interests.

The Riga Process will be continued in Brussels in March, where the energy ministers and then heads of governments will discuss the implementation of the strategy that is to be proposed by the Commission. The implementation of concrete actions and development of the governance structure of the Energy Union would represent real progress. ⚫

Marija Zjurikova
Counsellor for Energy Policy
Permanent Representation of Latvia to the EU

US to Support India’s $160 Billion Solar Energy Drive

India audaciously plans to create a solar industry on the scale of China’s and President Barack Obama has pledged U.S. financial support for it. Obama declared, during his recent visit to India that the U.S. will “stand ready to speed this advancement with additional financing.” The Indian Prime Minister, Narendra Modi, stated his aim that India would install by 2022, as much photovoltaic capacity as China is targeting for 2020 (100 gigawatts).

India’s ambitious plans need $160 billion and would require the spread of solar panels across an area of 480,000 acres, the equivalent of three times the size of Mumbai, India’s most populous city, as well as a massive cut in government bureaucracy.

Presently, India has 3.3 gigawatts of capacity installed, compared with China’s 33.4 gigawatts and the latter has plenty of top panel makers, whereas India has no major PV manufacturers. (PW)
Energy Union: Another Buzzword in Brussels

By Cristina Dascălu

As one can see from the current plethora of debates, everyone in Brussels and beyond, from the worlds of politics, industry, and academia, agrees that the construction of an Energy Union is not an option - if ever it was - but rather a must. At stake is nothing less than the EU taking control of its own energy future and, it goes without saying, its economic and strategic position. Hence, it seems that the EU has come to terms, finally, with the idea that energy is too important to be ignored. The way in which the Energy Union will evolve from a buzzword to a concrete, implemented project is still to be defined, whilst opinions and suggestions nurture the ongoing debate.

Investors look for the predictability and implementation of any agreed strategy, consumers for low-priced bargains, producers for good, reliable buyers, the EU for increased co-operation, security and solidarity, Member States for the maintenance of their power and influence, companies for mergers to grow stronger, and so on and so forth. All of these interests, more or less convergent, should be met within this Energy Union concept, which, we hope, will not end up as a ‘body with too many uncoordinated heads’.

Nevertheless, we have a momentum, a buzzword, a five-pillar structure, a ten-point plan, a communication paper to come, and plenty of debates all around. We’ve seen how energy security evolved from a by-product of internal market in-tegration to a boiling discussion topic, when energy security per se, has been a relatively new concern in EU policy-making (mentioned for the first time in 2006 in a Commission Green Paper).

Some speak about the risks, especially the Centre for European Policy Studies (CEPS) which has presented dark scenarios behind the establishment of an Energy Union, the darkest one being that it is a bureaucratic attempt of the Commission to re-package a previous agenda of an internal energy market (denied by the EU’s representatives). Secondly, it perceives that Member States may give in to the temptation to make Energy Union become a vehicle for asking the EU to pay for what they should pay for themselves, or to do, what they have failed to do in the past (look at how many countries would like it to become an energy hub or other such entity). Finally, it suspects that the Energy Union will become a platform for anti-Russian sentiments and actions (the chances of this are low, though many voices in Brussels urge a re-defining of relationships with Russia, which is too big a producer to be ignored).

Others like mentioning ‘solidarity’ as a keyword. We find it on many lips when speaking about an Energy Union, as governments retain the right to determine the general structure of their energy supply, the choice of their energy-mix, and the conditions for exploiting their energy resources (Art. 194 TFEU).
Energy Union: Another Buzzword in Brussels

Another crucial element of the Energy Union will be its’ infrastructure, and in this respect, we have a list of priorities, namely: address the vulnerability of energy islands and increase reverse flow capacity; and better connect the East with the West, and the South with the North. On this particular point, CEEP’s most recent report: ‘Completing Europe – from the North-South Corridor to Energy, Transportation and Telecommunications Union’, will, and is already a valuable source of inspiration for the EU’s decision-makers. Linked to this point, is Juncker’s investment plan. One can see from the discussions held that this plan is perceived as being more of a strategic communication plan than anything else, with ‘leverage’ as a keyword, and based on some money which is not really “new money”.

We’ll have the occasion to digest the European Commission’s Communication on the concept of the Energy Union end of this month, and the discussions will be continued during the Energy Council, beginning on March, the 5th. This will provide an opportunity for addressing the above-mentioned issues in the European Council, to be held that month, as well.

All in all, we should avoid traps, rely on what we have (e.g. solidarity?, leverage), meet as many interests as possible, and be ready for anything, for the ‘road to hell is paved with good intentions’.

Cristina Dascălu
Communication Officer, CEEP

‘The UK launches CfD auction to support renewable projects’

The British Department of Energy and Climate Change (DECC) has launched auctions for new 15-year Contracts for Difference (CfD), offering EUR 435m in support to low carbon projects in the UK. The less established technologies such as offshore wind and some biomass technologies will get EUR 350m, starting in 2016-2017, and spread over three years. The auctions will be divided according to the maturity degree of the renewable technology.

Established technologies, such as solar and onshore wind, will receive EUR 87m in total for projects commissioning from 2015-2016. (PW)

‘Slovakia considers gas pipeline to Romania and Bulgaria’

Slovakia’s latest plans for developing a new gas pipeline worth EUR 750m to EUR 1.2 bn to supply gas from western European hubs through Slovakia into Ukraine, Romania and Bulgaria (and eventually, Serbia), could soon bear fruition, as the Slovak gas transmission pipeline network operator, Eustream, aims to sign a Memorandum of Understanding with its Romanian and Bulgarian counterparts in the next few weeks. The proposed 570-km project could transport up to 20bcm/year. (PW)
Economic Instruments and the 2015 Paris Climate Conference: the Catalyst of Carbon Pricing (Policy Brief)

As the Paris Climate Conference will take place at the end of this year, the Climate Economics Chair’s Scientific Committee at the Paris-Dauphine University has proposed an international carbon trading system that binds countries, with the highest average CO2 emissions, to pay the most. This international bonus-malus carbon pricing mechanism comes at a time when there is a consensus on the need for a credible and challenging climate agreement.

As shown by the collective action for the protection of the ozone layer under the Montreal Protocol, the success of a multilateral agreement rests on three pillars: strong political commitment, an independent and rigorous monitoring system, and economic instruments that transmit the right incentives. To contribute to a successful climate agreement at the Paris conference, progress will need to be made on each of these issues. The Climate Economics Chair has focused its research efforts on the pillar of economic instruments, and has come up with the following concrete proposals:

A) LAY THE FOUNDATIONS FOR A UNIVERSAL AGREEMENT. The trajectories needed to reduce the risk of average warming to no more than 2°C, were quantified in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC). They require that all major emitters of greenhouse gases participate in a collective emissions reduction effort from 2020. The challenge for the Paris climate conference in December, 2015, will be to lay the foundations for a universal agreement, committing all countries to this course of action. This means that governments must agree on tough commitments to reduce their emissions, within the framework of a strengthened monitoring system. To this end, the right economic incentives must be established, pertaining both to governments and to economic actors. One way of implementing this, would be to introduce double international pricing of greenhouse gas emissions by 2020.

B) INTRODUCE GLOBAL CARBON PRICING. The experience of the Kyoto Protocol has shown the difficulty, if not the impossibility, of making an international carbon price emerge by means of an allowances trading system between state actors. In order to drastically curb emission trajectories, The international consortium behind the project consists of US major ExxonMobil (30%), Japan’s Sodeco (30%), India’s ONGC Videsh (20%), and Russia’s Rosneft (20%). However, Russia’s regional and federal budgets will still be $9 billion the richer in tax revenues over the next ten years, as a result of oil produced by the Berkut platform. (PW)
global carbon pricing should be rapidly introduced. An international ‘bonus-malus’ carbon pricing system, calculated on the basis of average emissions per capita, could be introduced at a rate of $7-9 per tonne of CO2 equivalent from 2020. A ‘bonus-malus’ mechanism, which simultaneously defines the price to pay for emissions, above a certain threshold, and the use that the money raised should be put to, seems appropriate. In such a system, any country exceeding the average level of emissions per capita would pay a specified amount on every tonne emitted above the threshold. Symmetrically, countries that emit less than this benchmark level, would receive compensation calculated on the number of tonnes saved compared to the world average. By construction, this mechanism would balance from year to year and would benefit countries that manage to maintain or reduce their per capita emissions below the global average.

According to simulations carried out by the Climate Economics Chair (Table 2 and Figure 1), a rate of $7 to $9 per tonne of CO2 equivalent would release sufficient resources to transfer $100 billion a year to countries with low emissions per capita.

C. Lay the Foundation of a Transcontinental Carbon Market. The most realistic way of introducing an international carbon price into the global economy is to lay the foundation, between 2015 and 2020, of a transcontinental carbon market, based on prototypes developed in Europe, China and the United States. This would allow an international reference price for carbon to emerge, and it would be a benchmark enabling economic actors to incorporate into their costs, the value placed on climate protection, whilst committing themselves to energy transitions compatible with controlling climate risk.

D. The Principle of “Common But Differentiated Responsibilities”. The introduction of double carbon pricing would be based on the principle of “common but differentiated responsibilities”, aimed at reconciling joint action on climate change and the priority of access to development. Nevertheless, it should distance itself from the binary interpretation of this principle that has prevailed to date. Already questionable in the 1990s, this binary representation of the world has since become totally inappropriate: of the top ten emitters of CO2 from energy production in 2011, - accounting for 80% of global emissions, - there were four emerging countries, four developed countries and two oil-producing countries. In the Copenhagen and Cancun agreements, this principle took the form of a promise to transfer $100 billion a year from North to South, a promise that remains hypothetical in the absence of a consensus on the distribution of funding sources.
among donors and on the criteria for allocating funds among recipients.

E. STRENGTHEN MONITORING, REPORTING, VERIFICATION (MRV). Twenty years after the introducing the United Nations Framework Convention on Climate Change UNFCCC, there is still no clear and consistent MRV for greenhouse gas emissions which applies to all countries. Setting up a system of financial transfers on the basis of a carbon contribution of $7.9 per tonne of CO₂ requires that such a harmonised system be first established. Indeed, the volume of transfers to be made can only be known, if emissions of all countries participating in the scheme are calculated and reviewed annually. There is thus a very strong incentive for the least developed countries, all of which have emission levels below the world average, to join the common MRV system. One of the fundamental difficulties with regard to protecting the common good of climate stability is the absence of a supranational authority.

The joint MRV system should be based on calculations and measurements validated by the IPCC, whose function is also to produce and develop the many standards required for the accounting of greenhouse gas emissions. Its deployment should be implemented through the UNFCCC’s technical bodies, which will need, on an annual basis, to verify and consolidate national greenhouse gas inventories, along with the registries where reduction commitments will be registered. This process calls for larger resources, as well as requiring more transparency and communication on the part of all stakeholders.

The central agenda of the conference will be to reach an agreement among the governments that ratified the UNFCCC in 1994, and advance in a co-ordinated way along the road to the decarbonisation of economies.


Figure 1 – Influence of the base year chosen on the ‘bonus-malus’ by large groups of countries (1990-2011), calculated on the basis of $7.5/tCO₂eq

Source: Climate Economics Chair calculations, based on World Resources Institute
President Obama’s Plan to Drill the Mid-Atlantic

By Ian Brzezinski

At the end of January, U.S. President Obama and his administration announced an unprecedented initiative to allow oil and gas drilling off the coasts of the mid-Atlantic States. It sets the stage for eventual development of the region’s outer continental shelf and its estimated holdings of some $23-170 billion of energy resources.

This is part of a broader package of policies intended to generate a balanced compromise between the demand to further leverage America’s rich oil and gas reserves, and the need to protect the nation’s most pristine environments. This package was rolled out, via two announcements, during the last week of January and calls for opening up new areas to oil and gas prospecting whilst closing off others, including a key wilderness area in Alaska.

DESIGNATING A NATIONAL WILDERNESS AREA

On January the 25th, the White House announced that President Obama would propose that Congress designate 12 million of the Arctic National Wildlife Refuge’s (ANWR) and 19 million acres in Alaska, as wilderness. That designation provides the strongest level of federal protection afforded to public lands, and would, in effect, make that territory off-limits to oil and gas development. This would be the largest wilderness designation in the fifty years following the enactment of the Wilderness Act.

Created in 1980 by President Jimmy Carter, ANWR is home to a vast array of wildlife, including caribou, grey wolves, musk oxen and a number of endangered species. It also holds vast reserves of oil and gas, including some 10.36 billion barrels of undiscovered technically recoverable oil, according to estimates of the U.S. Geological Service. Obama’s proposal to designate ANWR a wilderness was immediately criticised by the Republican leadership of Congress, and particularly its delegation from Alaska, which has fought long and hard to open the refuge to oil and gas development.

OBAMA’S 5-YEAR OFFSHORE DRILLING PROGRAMME

Two days after President Obama’s ANWR announcement, Secretary of the Interior, Sally Jewitt, released the Administration’s 2017-2022 Outer Continental Shelf Oil and Gas Leasing Draft Proposed Programme (DPP). That programme would close additional off-shore areas of the Arctic to drilling, but would open up others, as well as additional regions in the Gulf of Mexico. It also proposes allowing oil and gas
operations on the outer-continental shelf of the Atlantic Ocean, off the coasts stretching from New Jersey down south to Georgia.

By law, the U.S. Department of Interior is required to develop a five-year schedule of lease sales of territories of the nation’s outer continental shelf. Jewitt’s DPP initiates a discourse with the public and industry over the Department’s plan. It is the first phase of a three-phase process that, over the course of a year, leads to the Final 5-Year Programme. Due to environmental reviews, and other requirements governing oil and gas lease sales, drilling the proposed areas is unlikely to commence after that, for several years.

The DDP also calls for closing portions of the Beaufort and Chukchi Seas to protect maritime wildlife, a setback for the oil and gas industry. The latter also fears that this would establish a precedent of concern to those who seek to drill in other offshore regions in the United States, whether off the coast of Alaska or in the Gulf of Mexico.

The United States will serve as Chairman of the Arctic Council, an international body that co-ordinates the policies of nations with territories in that region. By closing off these areas of the Beaufort and Chukchi Seas, the White House, some argue, would bolster the credibility of its plans to use its Chairmanship to press for greater environmental protection of the Arctic.

PROSPECTING THE MID-ATLANTIC CONTINENTAL SHELF

The DPP’s proposal to open the mid-Atlantic Coast to limited off-shore oil and gas operations addresses a region that is less technologically challenging and less undisturbed than the Arctic. The Department of Interior estimates that this area holds 3.3 billion barrels of recoverable oil and 31.3 trillion cubic feet of natural gas. As these figures are based on two-dimensional surveys completed in the 1980s, many energy experts claim that the true reserves may be higher.

These deposits are clearly significant. The estimated Mid-Atlantic oil reserves compare to the tight oil plays in the Williston Basin that stretches across North Dakota, Montana and South Dakota, and features 4.8 billion barrels of proven reserves. The Western Gulf holds 4.1 billion barrels of proven tight oil reserves. The Mid-Atlantic’s oil and gas reserves would both add substantively to the U.S.’ overall proven reserves of 36.5 billion barrels of crude oil and lease condensate, along with its’ 354 trillion cubic feet of natural gas.

THE PERILS OF COMPRISE

The Obama’s administration’s effort to strike a fair balance between the growing demand for energy and the need to protect sensitive wildlife areas has yielded a sound compromise, but it is one that so far has angered most, and satisfied few. While there are exceptions, the oil industry has focused on fighting the effort to close off areas of the Arctic to drilling, and environmentalists are aghast at the idea of initiating drilling in the Atlantic.

Nonetheless, by setting the stage for additional drilling in the waters of the Arctic and the Gulf of Mexico, and initial drilling in the Atlantic, the DPP underscores a bipartisan commitment in the United States to reinforce the nation’s position as a globally significant producer of oil and gas. Any additional access to reserves and the resulting increase in production, will only add to the growing momentum to liberalise policies governing the international exports of U.S. oil and gas.

Ian Brzeziński
Senior Fellow at the Atlantic Council. He is one of the project directors of the recent study: ‘Completing Europe - From the North-South Corridor to Energy, Transportation, and Telecommunications Union’, which is the result of a joint effort by the Atlantic Council and CEEP.
Romanian Energy Topics for 2015

By Radu Dudău

The major trends of 2015’s world energy were largely set in the second half of 2014. Undoubtedly, the stunning oil price plunge that began in June has been the overwhelming development, causing major economic and political effects on a global scale. Significant consequences have already followed, concerning the patterns of energy consumption and the prospects for technology and infrastructure investments, apart from the economic and geopolitical standing of quite a few oil and gas-producing nations.

A driving factor within the energy world is the expectation that a global agreement on binding carbon emission targets will be reached in November, 2015, at the Paris COP21 Conference on climate change. This expectation is driven by goals largely opposed to the current fossil fuel-based global economy. However, energy market trends are affecting the efficacy of climate policies, as the attractiveness of investments in renewable energy sources (RES) and energy efficiency diminishes in a market of cheap and plentiful diesel and gasoline.

A few topics will continue to dominate the Romanian energy policy-making landscape. The deregulation of natural gas prices, despite the clear and indisputable nature of Bucharest’s international commitments, will likely continue to be subject to political interference. Indeed, the new leadership within the Energy Department decided to postpone until July the 1st, the first step of the price deregulation schedule for household consumers – a step that was initially set for October the 1st, 2014. Unsurprisingly, the government plans to capitalise on the coming wave of cheaper gas and low household demand in the summer time. It remains to be seen whether the European Commission – which is yet to validate the delay proposed by the government in September, 2014, in the price liberalisation calendar – will agree to yet another change that risks lending an erratic element to the entire process.

Another development to watch out for on the topic of gas market liberalisation is the transition for non-household consumers from the formerly regulated to a liberalised, unregulated market, as of January the 1st, 2015. On the 6th of November, 2014, the National Authority for Energy Regulation (ANRE) decided that, in the brief time left until the year’s end, the gas utilities would have to negotiate with their regulated clients, new contracts in free market terms; otherwise, the old contracts would simply be extended with gas prices set by the suppliers. However, such a precarious information and negotiation process was hardly the correct way to commence the development of a workable, unregulated market.

The deregulation of natural gas prices will likely continue to be subject to political interference. The O&G fiscal regime is yet another piece of unfinished work potentially providing major consequences. Announced as imminent during 2014, a new royalties system was expected to begin on January the 1st, 2015. Instead, the government procrastinated and
Romanian Energy Topics for 2015

referring the matter to Parliament. The issue has been hyped in public, mainly through the notion of the government’s take being too small, and accordingly, has been debated in contests of populist politics which have capitalised on the resulting confusion and poor, public information.

There has been widespread belief that the “old” royalties via the 2004 Petroleum Law were due to expire at the end of 2014, yet this notion has rested on confusion about the 10-year stability clause in Petrom’s 2004 privatisation contract. In effect, oil and gas royalties were fixed for 30 years, as per the concession agreements concluded by the title holding companies with the Romanian National Agency for Mineral Resources (ANRM). Therefore, new royalties can only apply to new concession agreements.

Another reason why the issue cannot linger for yet another year is that the ANRM announced its intention to open a new – 11th – tender round for oil and gas perimeters this summer, hence, any new fiscal O&G regime ought to be in place before that date.

Oil and gas companies are generally interested in clarity and predictability in fiscal and regulatory matters, so they are keen to see the royalties matter decided upon and stabilised for at least 20 years.

The fate of RES and their legal support scheme, Law 220/2008, will also need clarification. Since 2013, the number of green certificates bestowed on each RES technology type has been reduced by Government Ordinance, with the difference due to be paid as of April 1st, 2017. Combined with a drastic price fall of green certificates and the diminished capacity of the National Transport System of electricity to take up growing volumes of intermittent power generation, the future of Romanian RES is uncertain. The problem is only compounded through a context of low oil and gas prices, in which investments in relatively expensive RES equipment are discouraged. By the same token, costly energy efficiency spending becomes harder to justify economically. Thus, the context does not really favour climate protection actions by means of RES, energy efficiency and capped carbon emissions.

Other than the policy-making sector, some major energy development directions will mostly (though by no means exclusively) depend on geology. Shale gas prospects are a case in point. The results of Chevron’s exploration works in Vaslui county which finished in 2014, will define the future of shale energy in Romania. For Black Sea offshore developments, a final investment decision is expected in 2015, and, once again, deep-water geology will have a major role to play in it.

Finally, 2015 will be the year of new gas transport projects, which are to connect at regional level, the Southern Gas Corridor to Central Europe’s North-South Corridor. Domestically, the Black Sea coast will have to be linked to the National Transport System. One such proposal is Transgaz’s Danube Pipeline, meant to link Giurgiu to Arad, and to extend to Tuzla (Constanța county). Another notable concept, Eastring, was proposed by Slovakia’s TSO of Eustream. Eastring endeavours to connect Romania’s Isaccea (Tulcea county) to Medieșu Aurit (Satu-Mare county), and transit 85 km of Western Ukraine to Slovakia’s Velke Kapusany. In any event, one gas transport solution will have to be pinned down in the first months of 2015.

All-in-all, 2015 can be a year of opportunity for Romania, if its regional role is better understood and acted upon.
The 1st European Round Table on Coal and Steel was held on the 28th of January in the European Parliament, enjoying broad interest from MEPs, as well as other European institutions representatives. This new format, combining two key industries: coal and steel, was launched by the MEP, Prof. Jerzy Buzek, Chairman of the ITRE committee, together with MEP, Dr. Christian Ehler, an ITRE Committee Member.

The meeting was opened by Prof. Buzek who underlined that for the sake of climate policy, the EU shouldn’t decrease the competitiveness of its industry in the global market. Carbon leakage, in his opinion, is not crystal-clear in the industrial situation. The European Commission’s proposals, such as the Market Stability Reserve, are not helpful in this context. He was enthusiastic about the sustainable usage of coal mainly by Clean Coal Technologies, but not the strengthening of unreasonable policies for industry.

The keynote speech was given by Prof. Klaus-Dieter Borchardt, Director – Internal Energy Market in the European Commission. He started by raising the question of where we are at this moment with the coal and steel industries. The European Commission does not think that coal is a fuel of the past. In the 6th Framework Programme, as one of the main support tools for R&D, coal was not covered in its support tools. At this stage, however, with Horizon 2020 being already operative (we can call it the 8th Framework Programme), coal has been addressed as an important element. What should be raised is that 28% of domestic energy production in the EU is based on coal. The essential role of coal is to participate in our quest for energy security as an indigenous source of energy.

We need to remember that new opportunities for coal come together with new technologies, and they should be the key targets for the usage of coal in energy production. We also need to remember that coal can, and should, be used as a back-up for renewables. Coal power plants have not been used properly in terms of technologies, and we should focus our attention on sustaining the major improvements in the usage of coal. The European Commission’s idea on CCS is a key element to be developed. For long-term improvements, we need a reasonable energy-mix with important roles for coal and steel. Renewables are not the only possible future energy sources for industry. We should not ignore fossil fuels and their high position in the energy mix. Certainly, Europe needs a master plan for coal, and we should work on this as our key priority.

Roger Helmer, MEP, underlined that the European Commission supports CCS, but as far as we know, the only reasonable technology, at the moment in terms of capturing CO2, is CCU - Carbon Capture and Usage. In his opinion, the EC should listen more carefully to industry and coal should be treated as a fuel of the future and not as a relic of the XXth Century.

Prof. Borchardt, from the European Commission, added that CCS is not the only solution available, and we should focus on the development of a Clean Coal Technologies Strategy, as it is badly-needed. In terms of energy security, fossil fuels are of most importance, since they cover most of the energy production in the EU.

In conclusion, Dr. Ehler pointed out that a ‘Master Plan for Coal’ would be an excellent idea, incorporating the active input of industry. He was optimistic that the new Commission, under President Juncker, was shifting its priorities towards economic growth and security. In his opinion, after ten years, clean coal technologies have finally become an element of the EC’s policy.

CEEP and EURACOAL were the NGO partners to this event.

By Jakub Przyborowicz

Jakub Przyborowicz
Co-ordinator - European Institutions' Affairs Supervision of the Working Groups, CEEP
The 57th Special Energy Dialogue at the Reichstag was held in Munich as a side event to the Munich Security Conference, and focused on the geopolitics of gas in times of crisis. The event was held at the invitation of Prof. Dr. Friedbert Pflüger, Mr. Janusz Reiter and Central European Energy Partners (CEEP) on the 5th of February, 2015.

Ambassador Wolfgang Ischinger, Chairman of the Munich Security Conference, opened the discussion by stating that we are facing some of the most serious security challenges to the architecture of Europe in recent history, and underlined that energy security is an essential part of the subject matter.

Mr. Christopher Delbrück, Chief Executive Officer of E.ON Global Commodities, gave an outlook on the European market by 2030, when domestic production will have dropped by 40% and exports will cover more than half of the demand. Significantly, reducing gas consumption or heavily relying on LNG imports are not options for Europe from a competitive perspective. Also, given that the majority of LNG is already tied up in long-term global contracts, and alternative supply sources prospectively only represent ‘a drop in the ocean’, Europe needs enduring energy partnerships and new long-term supply deals.

Mr. Jean-Marie Dauger, Executive Vice-President of the global gas and LNG business, GDF Suez SA, described how markets are getting away from the concepts of peak-oil and peak-gas, and a general sense of abundance is setting in. Securing gas supply and flows will still remain a major concern for the next decade. While US energy security was definitely enhanced through the shale revolution, Chinese demand for gas, aimed at substituting coal from energy generation, will continue to compete with the European demand for gas. Therefore, according to Mr. Dauger, the best way to ensure Europe’s competitiveness and security of supply is definitely through diversification.

Ambassador Carlos Pascual, Fellow at the Center for Global Energy Politics at Columbia University, described the geopolitical implications of the drop in oil prices for the gas sector. As the oil price unexpectedly reached $45, with an oversupply and modest demand, the political risk for the long-term is more oil coming onto the market – not the other way around, as in the past. Despite an expected change in investment patterns in the US, he does not foresee the US shale oil and gas supply reduction to be a sharp one. In conclusion, Ambassador Pascual suggested that the current geopolitical situation surrounding oil and gas creates an opportunity for Europe to diversify.
CONFERENCE:
Presentation of the ‘Completing Europe – from the North-South Corridor to Energy, Transportation and Telecommunications Union’ Report to the European Commission
IN CO-OPERATION WITH DG ENERGY

During a high-level conference, CEEP together with Atlantic Council will officially present the ‘Completing Europe – from the North-South Corridor to Energy, Transportation and Telecommunications Union’ Report, in Brussels, on the 24th of March, in co-operation with DG Energy, represented by its Director-General, Dominique Ristori.

The keynote speaker on this occasion will be the Vice-President of the European Commission for Energy Union, Maroš Šefčovič, whilst the other main presenters will be the President of the Board of Directors of CEEP, Paweł Olechnowicz, and a representative from the Atlantic Council, David Koranyi, Director, Eurasian Energy Futures Initiative, who was a Co-Director of the report.

Prof. Jerzy Buzek, MEP, Chairman of the ITRE committee, will also take part in the event.

This significant report highlights a critical element in the process of addressing Europe’s weaknesses: infrastructure development across Central Europe in the energy, transportation and telecommunications sectors. The study is structured around these three dimensions, without forgetting, of course, the required financial investments. The document is available on CEEP’s website.

The event will be hosted in the Berlaymont building and access will be possible by invitation only.

ENERGY DIALOGUE AT SEIMAS:
COMMON EUROPEAN ENERGY POLICY - VIEWS FROM BRUSSELS, BERLIN, AND VILNIUS

Energy Dialogue at Seimas is a Chatham House rule - roundtable discussion forum, organised in co-operation with the German Embassy in Vilnius, the German-Baltic Chamber of Commerce (AHK), the Polish-Lithuanian Chamber of Commerce, the Association of Lithuanian Chambers of Commerce, Industry and Crafts, and Central Europe Energy Partners (CEEP). It is intended to be a forum for dialogue and discussion among 30-40 selected guests on current topics of energy policy and energy integration between Lithuania and the Baltics, Germany, and Europe. The event will take place on the 13th of March.

THE EUROPOWER ENERGY CONFERENCE

The upcoming edition of EuroPOWER’s Energy Conference will be a great opportunity to talk about the energy and gas market, the EU’s Energy Security Strategy, the challenge for RES national action plans, and smart grids as a catalyst for co-operation between various sectors.

The event will take place on the 8-9th of April, in Warsaw.

For registration:
http://en.konferencjaeuropower.pl/

3rd COALTRANS POLAND™ – A COMPREHENSIVE TWO-DAY EVENT

The 3rd Coaltrans Poland™ is a comprehensive two-day event providing insight into key issues impacting on Poland’s coal industry today, and in the future. With draft import licence legislation and EU emissions’ regulations presenting significant challenges for the industry, there has never been a more important time to understand everything that is happening in the Polish coal market. The event is to take place on the 26-27th of May, in Sopot, Poland.

For registration:
www.coaltrans.com/poland/details.html