

CAN NATURAL GAS SAVE EUROPE'S DAY?

EMPOWERING THE EUROPEAN 2050 ROADMAP WITH NATURAL GAS

Lunch Speech delivered by Coby van der Linde (CIEP) on 7 June 2012 at the World Gas Conference 2012, Kuala Lumpur

Ladies and gentlemen, first of all, I wish mr. Nabuo Tanaka, who should have been your lunch speaker today, a swift return to health. It is unfortunate for him that he cannot join you here today.

He was going to address the important topic of the global energy challenges post-Fukushima. As we all know, natural gas has played a very important role in supplying Japan with energy in the past year, when nuclear capacities were idled. Japan is now making steps to transform its energy mix, contemplating an energy future with no or less nuclear in the mix.

With his experience in the international energy policy scene, as previous executive director of the International Energy Agency (IEA), he would have been your ideal expert to lead you through the global energy challenges.

Instead, you get me, a European, also involved in discussions about energy policy and energy transformation, in my case the European 2050 energy roadmap.

As a signalling device, the 2050 energy roadmap has not been a blatant success for the natural gas industry. With a remark that the natural gas industry can play an important role in the European energy mix until 2030, and the lack of any mentioning of its role post-2030, the policy document must have been a great disappointment to the gas industry. Out of the black box of the energy model of the EU, the scenario's or pathways all show a declining share for natural gas in the European energy mix.

For the political debate following the Commission's 2050 Energy Roadmap report, this signal not to seriously engage the natural gas industry in the discussions about the future energy mix, is a missed opportunity. Rather than inviting the industry to help realise the substantial gains in energy efficiency needed for the policy to decarbonise to succeed, or to stimulate gains in reducing the transportation footprint, investor uncertainty has increased. 2030 is not that far away for an industry with long lead times and infrastructure that would function and must be amortised way beyond that date.

Moreover, the 2050 energy roadmap tries to convince stakeholders that the plans should be realised within the framework of the internal market and without jeopardising security of

supply, the other priorities of energy policy. But already, new interventions in the market regulations are contemplated to facilitate raising the share of renewables, which leaves uncertainty about the functioning of the internal market.

A debate is now underway whether a 2030 signpost is needed for both CO2 emissions and for the share of renewables. The various stakeholders disagree. Proponents of a renewables target argue that they need to maintain momentum, while proponents of just a CO2 target wish to maintain the market as the main instrument. The outcome of this debate is important for the natural gas industry.

Nevertheless, keeping the gas industry guessing about the post-2030 role of gas in the energy mix could disconnect Europe from the optimism about clean growth that is prevailing here at the World Gas Conference for almost all other regions in the world.

In other words, by stressing renewables as much as the 2050 energy roadmap did, and forgetting to stress the space for clean growth with a role for natural gas, can deny Europeans the positive energy that has been oozing through the industry, with the recent successes of bringing new natural gas to markets and the rapid development of new natural gas use in for instance transportation.

For a European, battered every day with bad economic news and the sometimes painfully slow crisis-management at the political level, the upbeat atmosphere about clean growth, as was mentioned by Malaysia's prime minister Najib Razak, and IGU president Datuk Abdul Rahim Hashim in their opening addresses, sounded quite unfamiliar in my European ears, particularly because it linked natural gas and new energies.

We have just come from a meeting on the IGU Taskforce 3 on Geopolitics and natural gas, where it became clear that much of the past experience with geopolitics and natural gas was related one way or the other to Europe and its concerns about pipeline supplies. New natural gas pipeline infrastructure and LNG has helped to increase the comfort level, and embracing its unconventional gas potential could raise this comfort level further. Both Mr. Voser and Tillerson alluded to the role natural gas can play in accommodating the new energies in our energy systems, stressing the role of natural gas as an enabler of clean growth rather than the often heard argument in political energy debates in Europe, that natural gas is a fossil fuel and stands in the way of a rapid expansion of wind and solar energy.

Moreover, the case for gas is challenged by the role of biomass in cleaning up coal, as long as CCS is not commercially available or is not accepted by the public as a plausible route to sustainability. The role of gas in facilitating clean growth has been largely unrecognised in the European 2050 energy roadmap.

The case for gas needs to be made by gas, with its innovative strengths and benefits better laid out to the public and policymakers. The logic of this route may be obvious to the

delegates of the World Gas Conference, but coming from the European debate, this is less obvious to others than one would expect. It certainly does not reflect the type of discussions that have going on in here in Kuala Lumpur. It is however clear that the narrative of natural gas in Europe is falling behind the optimistic story of gas elsewhere in the world.

The prospect of greater import dependency is part of that European story. Although, it must be said, that for Europe, renewables offer only a temporary diversification benefit. Biofuels and biomass need to be imported and expanding their share in the energy mix will present new diversification challenges. Also the rapid expansion of China's wind and solar manufacturing base introduce import dependency elements into substantial parts of the renewable value chains.

International integration of energy value chains, fossil or renewable, was not so long ago, one of the successes of globalisation; where deeper international energy markets, international investments and competition were seen as important instruments to make energy more about economy and less politics.

Does that imply that Europe is turning away from internationalisation? Perhaps; here the immediate economic problems and the current psyche of the Europeans play an important role. The doom and gloom that has Europeans in its grip do strengthen the drive towards seeking answers for future challenges in national policies rather than European ones. In part this is due to the institutional make up of the current European energy policy. Although it is a shared responsibility, the decarbonisation drive is very much a national affair, based on European targets. Currently we are creating 27 different markets for renewables, each with its own preferences, regulations and support schemes. The internal energy market that was created in the past 15-20 years is relatively losing relevance as a result. National governments of EU member states are becoming more interventionist in the energy market in their attempt to realise their 2020 goals and ready themselves for the post-2020 energy roadmap policies. This is affecting energy policy-making at the EU level, the efficiency of EU regional markets, and the integration or connection of the EU in the international energy economy.

Policy competition is one of the problems that market participants have to grapple with and new inefficiencies or market bottlenecks are introduced while pursuing decarbonisation at the national level. The impact is not so much on the share of the new energies in the European energy mix, which is growing, but it is on investors across the whole spectrum of the energy sector due to growing regulatory uncertainties arising from policy competition among member states. In a time of large economic difficulties, uncertainties about the level and type of support schemes are growing, and question the foundation of everyone's business case.

Let me say a few words about the crisis in the Eurozone, because I think it matters for the energy future too. It is clear that the continuing difficulties also impact other economies

around the world. The calls to bring the European economic house in order have been strong and widespread. And Europe should be able to do just that, if it weren't for the difficulty to make further steps in political union. The current crisis has unveiled, after many years of successes, the limits of monetary and economic integration without political integration. In the past, the EU, when facing adversity, was able to make a next step in integration, but now the stick with which to jump over the current hurdle may be too short, despite the efforts apparently in the making at the moment.

European citizens, if they ever existed, have since the fall of Lehman Brothers in 2008 again become Greeks, Germans, Spaniards, Dutch, Austrians, Italians, Hungarians, British, Finns, Portuguese and so forth. From the beginning of the crisis, the problems were not European problems, but problems of individual member states. Voters were not informed of the complexity of cause and effect, and that is also part and parcel of the way the Eurozone worked and had been made to work.

Solidarity is very difficult to muster at this stage, with many citizens across the EU being confronted with the effects. Many politicians have already lost their mandate and the European voters are beginning to vacate the stable middle. They criticize the group in society that benefitted from globalisation, and deplore the fact that they are made to carry the cost. Some already believe they have nothing much to lose and vote accordingly. The socio-political crisis is not just a European problem, we also see it elsewhere; the financial and economic crisis has unleashed forces in some societies that we still are learning to understand both in depth and scope. We do know however that the national reflexes are growing stronger.

The availability of secure and clean energy will be an important part of future economic prosperity of nations. In Asia and elsewhere, natural gas is seen as an important element of that future growth. At the same time, also in these societies the introduction of new energy sources and new technologies is important to sustain that growth.

This is where I think Europeans and others can come together. If the 2050 energy roadmap can be transformed to a policy document that signals that Europe is interested in clean growth, period, without politicians picking winners and losers, the roadmap can turn into an outreach to other countries to realise clean growth. It can also become the foundation for deeper energy relations, based on trust and respect, and where Europe with its energy partners cooperates to realise cleaner growth without denying exporting countries their markets.

If that were to happen, this European, instantly is much more optimistic about the role and place of natural gas in the future European energy mix, and the way Europe or its member states communicate and act in energy relations.

Under the current circumstances our politicians might have to engage in some gymnastics to embrace the space natural gas can offer to the European energy economy to engage in clean

growth, and realise serious energy savings. My message to the natural gas industry is that you, through IGU and separately, can help policymakers find their way to such clean growth.