

## **Energy Security and Climate Change: What role for Europe?**

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*Speech to University of Kent, 31 March 2009*

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The three subjects I have been invited to talk about tonight – and it is three and not two, because the European Union's role in all this is a subject in its own right – are ones which have often been addressed in our political discourse quite separately; and yet they are ones which now are so closely inter-connected as to require to be looked at in the round if we are to find our way through the range of often seemingly contradictory considerations about how best to handle them. For a long time the climate change agenda was seen as a fairly peripheral one, the property of the Green movements which have grown and proliferated across Europe and more widely. Concerns about energy security have ebbed and flowed with the price of oil but have seldom been the object of effective government action. Both subjects have tended to be treated within government by highly specialised bureaucracies at daggers drawn with each other, each regarding the other as the enemy, whose favoured prescriptions must be resisted at all costs. And as for Europe, in this country at least, debate has been highly politicised and polarised, dominated by institutional considerations about national sovereignty and integration with precious little thought being given to the detailed subject matter and whether or not it lends itself to more effective treatment at a national, regional or global level. Most of this – what could be called “stove-piped”-discussion is now more and more widely seen as beside the point and inimical to the search for the necessary policy responses. And all three issues have moved much closer to the centre of policy-making world-wide than has ever been the case before.

Before looking at each of these issues in turn, a few general observations could be useful to bring home just how formidable the obstacles we face really are. The first is a matter of time-scales. The sort of responses needed if we are to check and then to reverse climate change, and if we are to augment our energy security, will have to be set and sustained over decades. Already the talk is of setting carbon emissions targets for 2030 and 2050; the investments in energy supply – pipelines, oil and gas exploration in difficult environments, the development of nuclear power stations and of renewables take quite a few years before they produce results; just look at the dates being cited for the earliest possible production of electricity from new nuclear power plants in this country. And yet the normal time horizon for our politicians is infinitely closer than any of these dates, and this is particularly the case for democracies where the date of the next election tends to dictate the political priorities. So there is a serious disconnect between these two sets of timetables, one which risks always favouring the short term over the longer term. Just how dangerous this could be for any hope of successfully managing the challenges of climate change and energy security is already evident as siren voices are raised arguing that the present financial and economic crisis makes early and necessarily costly action on climate change unaffordable until the crisis is overcome, or that the recent sharp fall in oil prices resulting from the economic downturn means that dealing with energy security is less urgent.

A second general observation is that both the proponents of taking firm and early action to deal with these two challenges and the critics of such action are prone to an even greater degree of exaggeration, often leading to unsubstantiated assertions, than is usual in the public discourse of any free society. This exaggeration muddies the waters of a better general understanding of what is at stake and complicates the task of assembling a broad consensus behind the action required. Not all the scare stories put about by

green campaigners fall into this category, but quite a few of them do; and so do claims that world production of oil and gas have peaked or are about to peak and are now necessarily entering a period of irreversible decline, pushing prices well beyond even last year's stratospheric heights. And when these claims fail to materialise, that damages the overall case for taking action.

Thirdly there is a tendency to look for what I would call "silver bullet" solutions, for some magic formula which will, on its own, solve the challenges of climate change or energy security. And this sort of approach then often goes hand in hand with a vigorous, sometimes violent, rubbishing of all other approaches to solving these problems; a good example is the attitude of many environmental activists towards civil nuclear energy. But, if experience tells us anything, it surely points towards the need for a multi-faceted approach to both of these problems with a whole range of policy options being brought into play; and if one, necessarily partial solution is ruled out, then more weight is put on the others, very possibly more than they are capable of bearing.

One final general remark, about the European dimension of all this. It really does make no kind of sense to think that either climate change or energy security can be handled exclusively at the national level by a medium-sized country like our own. Climate change is a global problem of which the British element of carbon emissions is very small – in the low single figures in percentage terms; but the European element is pretty substantial – nearly 20% – and so the European Union, if it can act as a unit, as it has been doing for some years now since the negotiation of the Kyoto Protocol, can make a real difference to the global outcome. Similarly on energy security it used to be thought that Britain with its North Sea oil and gas assets was in a completely different situation to that of its EU partners, with quite different interests. That was always, I thought, a rather short-sighted view, given our dependence on the European Single Market for our prosperity; but now that we are again becoming steadily more dependent on imports from outside the EU for our energy requirements, it is clear that broadly speaking we share the same vulnerability as our EU partners and that reducing that collective vulnerability to the greatest degree possible is in our interest as much as theirs.

2009 is going to be a critical year for the global climate change negotiations being conducted under the aegis of the UN. The big international meetings so far held – at Bali in 2007 and, most recently, in Poznan last December – have merely scratched the surface of what needs to be negotiated if post-Kyoto arrangements are to be agreed in Copenhagen this December. And success is no sure thing, quite the contrary. Admittedly the change in the attitude of the two principal developed country hold-outs from Kyoto, the United States and Australia, is a welcome step in the right direction and a source of encouragement. But the intrinsic complexity of the subject matter and the difficulty of reconciling the interests of more than one hundred and ninety countries is daunting indeed. One thing is certain. Agreement will not be reached if everything is still up in the air when delegations go to Copenhagen. Experience shows that solutions cannot simply be shaped up at the last moment at huge international gatherings of that sort. The building blocks for a successful outcome have to be identified well before that. So time, ingenuity and flexibility will be at a premium all the way through this year.

Of the many issues that will need to be settled, three stand out, burden-sharing, research and technology transfer, and institutions. Of these burden-sharing of agreed carbon emissions limits will be by far the most difficult. We have already seen just how difficult burden-sharing can be even in a relatively like-minded regional grouping such as the EU, and also how great the risk is that burden-sharing arrangements will so weaken any

overall package as to make it ineffective, and incapable of reversing climate change. The EU negotiations last December just about scraped by that test; but they do not leave room for any further weakening if the EU is not to lose its essential role as a leader in the developed country peer group. But burden-sharing between developed countries is going to be child's play compared with burden-sharing between them and developing countries. It is easy enough to discard the two extremes, on the one hand arrangements which simply exempt developing countries, including the largest amongst them like China and India, from any binding limits or disciplines, which was what happened under Kyoto, and on the other arrangements which simply subject all countries, developed and developing, to the same limits or disciplines. Neither of these is remotely negotiable. But between these extremes lies a wide margin where agreed arrangements will need to be found, and that without undermining the overall effectiveness of any scheme. There will almost certainly be the need for some kind of underlying bargain between the two biggest carbon emitters, the US and China. And it may well be necessary to look beyond the carbon cap-and-trade schemes which most see as essential to implementing any binding targets agreed to and to consider some world-wide level of carbon tax, although certainly not a global tax itself. Such an agreed rate of carbon tax could conceivably come further down the road than the immediate post-Kyoto arrangements.

One of the keys to getting an agreement on burden-sharing will lie in the fields of research and of technology transfer between developed and developing countries. Since the main industrialised developing countries like China, India, Brazil and Mexico still require several times as much energy input to produce one unit of production as do their developed competitors in Japan, Europe and North America there is already much potential scope for saving energy and thus reducing carbon emissions. A really massive research effort could greatly increase that scope and extend it into the areas of greatest pollution such as the use of coal. That is why research into and pilot projects for carbon capture and storage, for which the European Union has earmarked some €10 billion, is of such vital importance. Successful carbon capture and storage technology could open up use of the large coal reserves in China, India and Eastern Europe without driving a coach and horses through limits on carbon emissions. So one wonders whether even the large sums currently earmarked for research into carbon capture and storage really measure up to the challenge and the potential. More widely than this, there will need to be provisions which encourage technology transfer between developed and developing countries. The idea of creating "green" jobs in the developed countries hardest hit by the present financial and economic crisis is a laudable one and an important aspect of economic stimulus packages being put together, but it is essential that this activity functions within a genuinely open world economy and is not pursued in an autarchic or protectionist way.

And then there is the question of institutions, which many people might not include amongst their priority items, but which will become genuinely important should there be an agreed outcome at the Copenhagen conference. The sort of arrangements which I have referred to will certainly not be purely self-executing; and it would be a triumph of hope over experience to believe that anyone will accept binding commitments of this kind if there is not some kind of international machinery for monitoring progress towards and encouraging respect for these commitments. The current UN arrangements for handling environmental issues, principally the UN's Environment Programme, headquartered in Nairobi, are clearly inadequate for such a task. So there is a strong case for devising a more robust institution with a wider mandate, probably a fully-fledged UN organisation or agency such as those for health and refugees. And it could make sense to include within any such new institution's remit issues of energy policy and supply

which currently fall outside the scope of any of the UN's institutions but which, as we shall see when we look at the issue of energy security, are ever more closely connected to environmental issues.

That Europe has an energy security problem is hard to deny in a period when we have seen oil prices first rocketing up and then collapsing, with both inflationary then deflationary, and in both directions de-stabilising, economic consequences; and when a second Russian gas supply interruption has left a number of member states damaged both industrially and socially.

On present policies that insecurity is set to increase as Europe's capacity to generate indigenous energy supplies lags and as dependence on a few capricious and sometimes politically motivated overseas suppliers of fossil fuels increases. Nothing the European Union can do will make that problem of energy insecurity disappear completely. But the EU can, by its policy responses, vary the degree of its dependence on imported energy and the extent of its vulnerability.

It cannot be said too often that any European response has to begin at home. With the benefit of hindsight it clearly was a mistake that, during the incubation of the Single Market in the period up to 1992, the energy sector was simply left on one side on being too difficult and sensitive. Now we have a long way to catch up and progress remains agonisingly slow. It is crucial that the Commission, which has led the way with its proposals for sharpening competition policy and unbundling what are effectively national monopolies, does not slacken in its advocacy of such measures even if they do have to be achieved in stages; and that member states such as Britain which have given strong support to these proposals continue to do so. But more than that needs to be done. There needs to be greatly increased capacity for gas storage so as to make the EU less vulnerable in the short term to interruptions of supplies. Member states are required to keep a minimum amount of oil in storage against such an eventuality. Why not the same for gas? And there needs to be a concerted policy to build inter-connecting gas pipelines between the existing national networks thus both facilitating the creation of a single market and reducing overall vulnerability. In parallel there needs to be strengthened EU action to encourage the development of renewables, and energy efficiency and conservation. If all this should require a measure of central financing from the EU budget, why should that be considered a no-go area? This would surely be a better focus for the EU budget than devoting yet more resources to the Common Agricultural Policy? Last week's European council meeting took a first modest step down that road; it may well need to go further in future.

Clearly there also has to be an external dimension to the EU's response to energy insecurity, and that too needs to be multi-faceted. Part of it, deriving from the success of the internal response, will result from a reduction in demand for imported energy below what would have been required if present policy responses, or rather the absence of them, had simply continued. But the main driver should be diversification of supply to the greatest extent possible. That points to a vigorous policy designed to obtain supplies of gas from Central Asia, where both Kazakhstan and Turkmenistan have massive resources; it points too to the desirability of pushing ahead more purposefully than in the past with the NABUCCO pipeline bringing gas from the Caspian region and beyond, which is going to need some public funding to get it under way; and it also points to the development of new LNG terminals with a gradually developing network of contracts with LNG suppliers such as Qatar, Algeria and Nigeria.

The Nabucco pipeline is clearly important as reducing the EU's dependence on Russia as a transit country for Caspian and Central Asian gas. But it should not be seen simply as a chess move in some "great game" designed to thwart Russia. Because in any foreseeable set of circumstances Europe will still require substantial quantities of Russian gas. The development of a healthy and cooperative EU/Russian energy relationship, with European companies working in a framework of transparency and accountability to assist in the development of Russia's oil and gas resources, even if ownership of them remains off-limits, must surely be a firm medium-term aim.

I hope I have managed to set out here for you the elements of the policies needed if we are to respond to the twin challenges of climate change and energy security; and why those policies need to be pursued at a European, and not just at a national, level if they are to succeed. In the case of energy security the logic of the need for the European dimension remains to be fully accepted, although everyone pays lip-service to it. There are still far too many closet supporters of bilateral, national links which have so far enabled Russia, for one, to divide and rule. But continuing experience of a Russian government which clearly regards gas supplies not simply as a matter for commercial judgement and decisions but as an instrument of its foreign policy may be changing that. It needs to. In the case of climate change the European dimension is more clear-cut, although not without its critics like President Klaus of the Czech Republic, whose numbers could well increase as the reality of the policy decisions required to give effect to the commitments Europe has already entered into gradually sinks in. Here Europe has, for once, given a lead, and it is important to remember the continuing importance of that if the negotiations leading up to Copenhagen are to succeed. The shift we are seeing in US policy on climate change is enormously welcome, and will greatly strengthen the chances of success; but the Obama administration will need to keep at least one eye fixed on Congress and the need to enact cap-and-trade legislation – it will thus not be an entirely free agent. So European leadership will remain as important as ever in this new and more hopeful phase; and that will require before too long some substantial, and no doubt in these difficult times, pretty fraught decisions on the size of the support the EU is ready to offer to developing countries.

One closing thought about the inter-linkages between climate change and energy security. These are many and complex. They can be either positive or negative in their effects. For example successful research and technology transfer, particularly on carbon capture and storage, could enable China and India and other countries with large coal deposits to exploit them without increasing pollution damage and could also reduce their demand for imported fossil fuels and pressure on limited global resources, thus increasing our energy security. A rather similar equation applies to the properly safeguarded development of civil nuclear power; but in addition it establishes a link with next year's Nuclear Non-Proliferation Treaty Review Conference and the need for strengthened nuclear disarmament and non-proliferation policies. Our own success in developing renewable energy resources will also enhance our energy security at the same time as it helps us achieve our carbon emission targets. On the development of bio-fuels, the EU could, by removing tariffs on imported ethanol, particularly from Brazil, strengthen our own climate change policy while benefitting a major developing country trade power. Naturally there are less benign inter-linkages, for example the insidious argument that we may need to impose trade barriers in the form of compensatory levies on the exports of countries which do not accept carbon emission obligations. The world needs new trade barriers like it needs a hole in the head. What this all adds up to, however, is the need at all times to have an overall view of our policies on climate change and energy security; and for that overall view to be a European one and not simply a national one.