Mr Peter Vis speech on behalf of the Commissioner Piebalgs

"Accelerating change: 5 years as Energy Commissioner"

Ladies and Gentlemen, it is my pleasure to be here today at the 3rd European Renewable Energy Policy Conference.

After 5 years as energy Commissioner, I would like to take a few moments to take stock on the European Commission's role in energy matters.

Basically I see the role of Energy Commissioner as *an accelerator of change*. My job is *to make the right things happen sooner than would otherwise be the case*.

The drivers of change

What are the drivers of change? There have been three more obvious drivers of change that have shaped EU energy policy recently:

- **High oil prices in 2008, which peaked at $US 147 a barrel, was one of those drivers. And nobody really knows what will happen to oil prices when the global economy recovers.**
- **Another recent driver was Hurricane Katrina. This was a reminder to us all that the energy business is still subject to unexpected set-backs.**
- **And, thirdly, the Russian-Ukraine gas-transit crisis of 2009 has really focussed minds on the security of supply.**

Of course, there is in addition the crucial issue of climate change. The scientific community – embodied by the Intergovernmental Panel on Climate Change – is clear. We know what needs to be done. Our economy has to become a low-carbon economy.

World electricity demand is projected to grow at an annual rate of 2.5% to 2030 under the IEA's latest "Reference Scenario". And electricity demand projections for the EU still show electricity demand increasing through to 2020 and beyond[1]. At the same time, a considerable number of existing power stations, built in the 1960s and 1970s, need to be replaced. Mostly this is because they were only built to last a certain time, and their environmental performance leaves them lagging behind today's standards.

The key message is that there needs to be new investment – and lots of it – if future demand is to be met and climate change is to be addressed adequately. The IEA has recently forecast that to reach the "450 ppm Scenario", the EU will need to made an additional cumulative investment of nearly $ 500 billion over the period 2010-2020, and in excess of $ 1.100 billion in the period 2021-2030.

[1] "PRIMES 2009" preliminary results (July 2009)

The EU's role

Policy-makers do not make these new investments themselves. It is companies that make these new investments. And companies need clear and stable frameworks within which these new investment decisions can be made, and brought forward in time.

So how can the EU help? In my opinion, the EU's role is to accelerate the necessary new investment and steer this new investment towards low-carbon choices. And one of the key prerequisites for this is having the right policy framework.

The most important framework condition that has been introduced in Europe since the beginning of the mandate is the commencement of carbon pricing within the EU.

The EU's emissions trading system is the cornerstone of EU climate policy, and goes to the heart of the energy portfolio. The power sector accounts for about one-third of Europe's total energy-related greenhouse gas emissions. Meeting ambitious climate targets will depend in large part on changes in the power sector, whether in the energy mix, efficiency, or grid networks.

The importance of a successful Copenhagen climate conference

But perhaps the most important thing about good policy-making is that it should be predictable and as stable as possible.

The meeting next December in Copenhagen is so important because of the expectations it will create. It is crucial to maintain the expectation that carbon pricing will stay, and become more stringent over time. Even if every last detail is not worked out, the process going forward must be laid out.

Not to have a successful outcome in Copenhagen, on the other hand, will create doubt and confusion in people's minds on the direction of future policy. Some will interpret a lack of political will as an indication that we can carry on doing as before. Momentum could be lost, even if we know very well that the climate change will go on happening regardless.

<u>EERP</u>

The European Economic Recovery Package has also been an occasion for the EU to contribute to the acceleration of change.

In May 2009, agreement was reached on a financial support programme in the context of the European Economic Recovery Plan which allocated € 565 million from the EU budgets for 2009 and 2010 to offshore wind related projects. There was a very positive response to the call for proposals carried out this summer: numerous good projects were received and it is expected that it will be possible to commit the entire budget to around 10 projects which, in total will represent more than € 4 billion worth of investment.

This is the beginning of what I believe will be a significant scaling-up of financial resources dedicated to a variety of low-carbon energy technologies.

Offshore wind is an excellent example of a new technology developing with funding from the private sector, Member States and the European Union. With this support, costs are coming down. An offshore wind turbine today produces electricity at a range from 6 to 9 Euro cents per Kw/h in shallow water[2], compared to an average wholesale electricity price in the EU in 2008 of between 4.5 and 11 Euro cents per Kw/h.

But industry believes that costs can be reduced significantly towards 2020. The EU is supporting the necessary technological development, contributing to the building of ever larger turbines and in ever deeper waters. And I am confident that the policy framework of renewable energy targets, carbon pricing and funding for R&D will lead to the development of a tremendously significant new energy sector.

Similar support, and cost reduction, is true for other renewable energy sources as well, including solar.

[2] The Economics of Wind Energy – A report by the European Wind Energy Association, March 2009 (costs excluding risk premiums)

Sectors not covered by the EU ETS

I have underlined so far how important the introduction of a carbon price has been for large industrial-sized installations. But what of the other 60% of greenhouse gas emissions, produced by private households, transport, agriculture, the service sectors of the economy? These are sectors where the bulk of measures need to be developed at national level. This has always been the case, and this is why there are specific targets per Member States for the "non-ETS" parts of the economy – the so-called "effort-sharing targets".

However, in these sectors too, the EU can help. This is particularly true for energy-efficiency standards for goods which move freely, or are sold freely, across the 27 Member States. The Commission has instigated legislation on the CO2 performance of passenger cars and light commercial vehicles. But there is also a great amount of work being done on setting energy efficiency standards for a wide range of other goods, from televisions, fridges, freezers, washing machines, water boilers, electric pumps, air-conditioning and ventilation units, and so on.

The combined effect of these standards, mostly being developed under the Eco-design Directive, makes a real difference. Measures either already adopted or in the pipeline add up to saving approximately 8% of the EU greenhouse gas emissions in 2020.

Technology & innovation

Technology is obviously going to lie at the heart of a successful global response to climate change. Neither market forces nor public opinion will be enough to develop and deploy these technologies sufficiently quickly. The Commission's "Strategic Energy Technology Plan", published in 2007, identified a new energy research agenda for Europe which has underpinned efforts made since to streamline and make more effective resources dedicated to research. Effort should be concentrated on the areas of wind, solar, electricity grids, bioenergy, carbon capture and storage and sustainable nuclear fission. More recently, in October this year, the Commission has estimated that an additional investment of €50 billion in energy technology research will be needed over the next 10 years. This means almost tripling the annual investment in the European Union, from €3 to €8 billion.

Funding for this will come from several sources, including the EU budget, national research budgets and the private sector. But here again, the Commission is raising the game by focussing on what will really make a difference, and putting an estimated price tag on it. Only if this is done can the financial contributions even start to be asked for. Getting these low-carbon technologies faster to market is what will really make a difference, and even if the timescales are long, the successful deployment of these technologies will really enable the EU – and indeed the world – to match its long-term ambitions on climate change.

<u>Too much reliance on carbon markets?</u>

I have mentioned the central role of there being a carbon price. I also know that doubts have been expressed lately about the effectiveness of a carbon price that is forecast to be around € 20 to € 25 a tonne in 2020. Carbon prices will be lower, primarily due to the economic recession in Europe. Given that the target in 2020 is

now set for the emissions trading system, the lower-than-expected price of allowances reflects that it will be cheaper to meet this target than previously thought. In many ways, this should be a cause for celebration, not concern, as it shows how emissions trading delivers the emissions limits it is supposed to do, while also having an inbuilt capacity to adjust to the economic situation.

In the end, the carbon price represents the speed at which technological change will be taken up by the ETS sectors. There is the need, though, for other measures to be undertaken in parallel. These other measures should focus on specific energy technologies that are still not competitive in the short-term, but without which our response to climate change in the longer-term will just not add up.

The binding renewable energy targets are very necessary policy instruments that have their own justification, and which have broader scope even than the emissions trading scheme. Many other policy measures and instruments are needed also in the sectors not covered by emissions trading, such as energy efficiency standards for the housing and transport sectors, where explicit carbon pricing is not steering consumer choice and behaviour.

Need for medium- and long-term vision

Obviously, the energy sector, with its major capital intensive investments and the long-life time of its installations and infrastructure, is intrinsically slow to change.

This is why there's a need for a medium- and long-term vision of where we're going. New investment ought to be made with an eye to the future, thereby minimising the costs of premature decommissioning.

Over the past 5 years I have endeavoured to provide greater predictability and sense of where we're going.

Concluding remarks

I suspect that the next Commission will have to work hard to ensure that carbon pricing remains central to the global response to climate change; that global participation in climate abatement is reinforced; and, at the same time, that serious amounts of money are spent on developing technologies that will help meet longer-term ambitions. Renewable energy technologies are at the heart of such ambitions.

We won't be given this time again. Very soon, it will be too late.

That is why, above all, the European Commission needs to be an *"accelerator of change"*.

Thank you for listening.