

The Rt Hon Michael Fallon MP

The European Energy Forum

Energy security and infrastructure – challenges and solutions for Europe

Venue:	Great Hall, King's College London, Strand, London
Organiser:	International Business and Diplomatic Exchange (IBDE)
Host:	European Centre for Energy and Resource Security (EUCERS)
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Keynote:	The Rt Hon Michael Fallon MP, Minister of State for Business and Energy & Minister of State for Energy
Subject:	Energy security and infrastructure – challenges and solutions for Europe

I'd like to thank you for inviting me to speak at an event which goes to the heart of a key challenge facing Europe.

Energy is vital in every part of our lives. It is at the forefront of people's minds. It is vital to our economies. It keeps our homes warm and our businesses and industries functioning.

Maintaining Europe's energy security, whilst keeping bills affordable, our industries competitive, helping our economies grow and moving to a more sustainable, low carbon energy system, is not an aspiration – it is an imperative.

This is a crucial time for EU energy policy – decisions are needed on our objectives for 2030, and on how we address these challenges. We must take these now to give investors the certainty they need to commit the enormous sums of money required by the EU's energy infrastructure over the next decade or so.

It is vital that we develop the right frameworks and the right tools:

We must allow EU countries the flexibility to follow the most cost-effective pathways and use innovative approaches to achieve the investments they require.

We must take full advantage of the benefits that a single EU market in energy has to offer.

Across Europe, we must allow for the full use of all energy technologies, from shale gas to renewables, from nuclear to CCS. And we must look to secure our future with more indigenous resources.

The Commission is also currently consulting on revised Environmental and Energy Aid Guidelines. These are another crucial part of securing investments in our energy infrastructure over the coming period.

Given that the EU will continue to need imported energy for the foreseeable future, we must also ensure a consistent and strong external energy policy.

First I would like to turn to the issue of technology diversity. If we are to have a truly secure energy system in Europe, we will need diverse sources of energy.

Europe has an abundance of energy resources at its finger tips that it can, and must take advantage of.

Renewable energy plays, and will continue to play, a crucial role both in the European energy system and here in the UK. No one should be in any doubt about the UK Government's commitment to more cost-effective renewable energy as part of a diverse, low-carbon and secure energy mix.

Here in the UK, in addition to renewables, new nuclear will form a critical part of our energy future. We recognise nuclear power as a safe, low carbon and sustainable energy source that makes a significant contribution to meeting our energy needs, reducing carbon emissions and creating economic growth.

The UK has already attracted significant levels of investment into the new nuclear build programme. We recently reached a commercial agreement with EDF on the key terms of a proposed investment contract for the Hinkley Point C nuclear power station. We are now working closely with the European Commission on a state aid investigation. A public consultation will be launched by them shortly. This is important for Europe as a whole. Half of the EU have existing nuclear power stations and ten member

states are planning to build new ones. I encourage interested parties to respond to the consultation.

.Carbon Capture and Storage will be another pillar of our energy future. CCS will allow coal and gas to provide us with significant amounts of low carbon generation. It will allow us to exploit indigenous resources and to maintain a diverse fuel base. Without it, our ability to meet emissions reduction targets will be much harder, and the costs much greater.

We want to see CCS deployed at scale in the 2020s, competing on cost with other low carbon technologies.

With and without CCS, we will continue to need gas, including for power and for heating. In the UK, for example, our analysis suggests a need for significant investment in new gas power stations - up to 28GW between 2012 and 2030. In part, this is to replace older coal, gas and nuclear plants as they retire, but also to act as backup for intermittent renewable generation and to ensure adequate capacity to meet peak electricity demand.

Given the continuing need for gas, we cannot afford to ignore the potential for domestic unconventional sources. The development of shale gas in Europe could reduce our reliance on imports, place downward pressure on energy prices and support the move away from high carbon fuels.

The Government has been working closely with the Commission to ensure that EU legislation gives clarity to Member States, and allows for the safe extraction of shale gas, whilst not over-burdening this emerging industry. I believe that – with guidance – current EU legislation is sufficient and the basis on which we in the UK can become an exemplar for exploiting this valuable resource.

To secure investment in a diverse and low carbon technology base, we must have the right framework for 2030 in place, a framework which is ambitious and gives investors the certainty they require.

It must also allow individual Member States to seek investment in those technologies that prove the most cost-effective and appropriate for their circumstances.

At the heart of this framework, the UK wants to see an ambitious EU greenhouse gas emissions reduction target. More specifically, we want a commitment for a unilateral cut in emissions of 40% and a move to 50% should there be a comprehensive global climate agreement.

In support of this, we need a strengthened and reformed EU Emissions Trading System. The EU ETS is the most cost-effective means to help the EU achieve our emissions reductions goals. If reformed, it has the potential to stimulate the investment in the infrastructure we need.

A stronger carbon price signal will make low carbon technologies more competitive. It will encourage their development and help them be deployed flexibly across the EU as Member States decarbonise their energy mixes.

And whilst we need to focus on climate change at the EU level, we must also look to the 2030 framework as a driver for competitiveness and resilience.

Even as we move to a low carbon economy, we know that EU is going to be more dependent on fossil fuel imports in the future as indigenous resources decline. For example, by 2030 the International Energy Agency estimates that EU will be importing nearly 80% of its gas. While some EU imports will come from countries such as Norway and Russia, we will be increasingly reliant on imports of both gas and oil from new sources, such as the Caspian.

Getting the framework right, with an ambitious emissions reduction target, will not only help us make more use of our indigenous resources, it will help drive greater energy efficiency. This will be a vital part of making our economies more resilient to external energy price shocks. It is critical to putting us on the path to secure, resilient and competitive future.

As the Prime Minister has said: “we are in a global race and the countries that succeed in that race, the economies in Europe that will prosper, are those that are the greenest and the most energy efficient.”

A well-functioning and integrated internal energy market in electricity and gas will also be a critical part of ensuring security of our energy supplies and in keeping energy costs down.

By opening up and integrating markets across national boundaries, we can increase competition, access the cheapest energy and reduce the level of back-up generation needed.

The benefits of a single market are clear and undisputed. So, we must ask what we need to do to achieve them.

The European Council has already agreed that the internal energy market should be completed by 2014. This is something the UK strongly supports.

This means full and effective implementation of the Third Package of energy legislation in every Member State. It also means agreeing on key technical rules aimed at removing remaining barriers to cross-border trade.

On top of this, Europe will need significant investment in interconnection to better link markets together.

We will also need to effectively implement rules to allow energy to flow properly across markets.

And we will need to continue to increase cooperation at the regional and European levels.

We will, however, continue to need to import energy into Europe for the foreseeable future. Diversification of routes and sources of gas supply to the EU is an important element of the EU's energy security policy.

In that context I was delighted to hear last month of the Final Investment Decision for the development of the Shah Deniz II gas field in Azerbaijan. This means that the Southern Corridor bringing Caspian Gas via the Trans-Adriatic pipeline to Europe is a significant step closer.

The Southern Corridor will play an important role in improving Europe's competitiveness, by providing consumers and industry with a new gas import route and supply source, increasing the continent's energy security and bringing much needed additional competition to the European gas market.

In conclusion, I would like to share three of my key thoughts.

First, the importance of energy to our way of life means that keeping it secure is not an option. It is an imperative to all of us.

Secondly, we cannot do anything as one country – energy is not limited to national borders. The challenges of tackling climate change cannot be met in isolation.

Our energy security challenges are also best addressed together.

Thirdly, we can only speculate on, not predict the future. Costs of technologies change, as do national circumstances. We must be ambitious in our objectives, but we must be flexible in how we meet these.

The next few weeks will be important in setting the future direction of the EU energy and climate policy; the UK will play its full role to ensure ambitious climate targets, enhanced energy security and a boost to EU competitiveness.

Thank you.