

*Comments by The Rt. Hon. Lord Howell of Guildford, former UK Secretary of State, former Minister for International Energy Security, Chairman of the UK Energy Industries Council, President of the Royal Commonwealth Society, Chairman of the Windsor Energy Group.*

### **UK and EU Energy Policy in the Context of the Ukraine Crisis: Current and Future Scenarios.**

Summary Message: “The Russian people will soon be wringing their hands. Mr. Putin has taken on a load of trouble. Europe’s major energy problems and dangers arise not from current Russian and Ukrainian activities, but from the EU’s own disastrous and unsustainable energy policies.”

1. The Ukraine crisis is said in some quarters to raise key issues for European energy supply and EU energy policy-making.

We must not exaggerate the importance of the Crimean annexation – although many have done so – because many of the issues it has raised for Europe were there all along –notably the heavy dependence of many Central Europe Countries on Russian gas supplies and the need over the medium term to diversify sources.

In my view, Mr. Putin, far from being the triumphant victor in this saga, has brought himself a whole heap of trouble. Investment in Russia has been deterred, the currency weakened, foreign markets shut, a pro-European majority in Ukraine –without Crimea – permanently assured, gas and oil revenues - on which Russia depends for 80 percent of its foreign earnings - curtailed, a vast web of both business and cultural connections seriously harmed, very much to Russia’s disadvantage. Russian interests world-wide have been badly damaged. The Russian people may be cheering Putin and ringing bells now. They will soon be wringing their hands.

Some say that Russia will make it all up by selling gas to Eastern customers. But the Chinese do not like Russia’s high prices and the Japanese, to whom Mr. Putin had high hopes of selling more gas, will only need it until their nuclear power stations re-open, which is already gradually happening.

It is no surprise that Moscow is already making placatory noises and promising no further incursions into Ukraine sovereign territory. In an age of soft power, cyber power and vastly complex financial linkages it was always obvious that Putin could only do Russia harm by old fashioned displays of force. He is bound to be the loser.

2. Europe will continue of course to buy Russian gas, but the difference is that from now on it will be in an increasingly good position as a customer. New interconnector pipelines will be accelerated both west-east and north-south making it easier to meet specific shortages in Central Europe. Norway is ready to supply far more by pipeline into the growing Europe-wide grid. New LNG import facilities are being built or planned – in Lithuania and Poland for instance – although some may turn out to be white elephants.
3. People are looking across the Atlantic for America’s shale gas to be exported to Europe – although it will not be cheap – it costs at least \$6 extra to transport it.

The estimate is that America will be exporting about 15 bcm a year by 2020, although mostly to Asia, and in the teeth of strong opposition from some big US consumers like Dow Chemical.

Meanwhile more gas can flow from Algeria, from the East Mediterranean and in due course from shale via so-called fracking from sources inside Europe, notably Poland and the UK. Pipelines from the Caspian region, such as the proposed Trans-Adriatic Pipeline will soon be feeding into south-east Europe.

Then there are the established big suppliers, such as Qatar itself, moving forward to arrange new supply contracts – for instance the one with Poland to supply 1.5 bcm a year – although at a price 50% higher than the previous Gazprom pipeline price. And therein lies a warning. Expensive contracts may be entered into, and expensive new import facilities and other infrastructure invested in and built. But Russia will still have gas to sell –and maybe at a price which undercuts the new alternatives. How much more will European consumers be willing to pay, on top of already formidably high prices, just to avoid Russian gas on grounds of security? My guess is that as the present crisis blows over, as it will, consumers will soon drift back to the most competitive price, wherever it comes from! Former German Chancellor Helmut Schmidt always used to say that even in Soviet days, the Communist authorities were the best and most reliable suppliers of gas to Germany.

4. This brings me to the far deeper and bigger crisis facing the European energy industry and energy supplies. And that is not Russia at all. Frankly, from the energy point of view there is no so-called Ukraine crisis. On the contrary I see many more supply possibilities opening up. And don't forget that Ukraine itself, once it settles down politically, has enough accessible shale gas resources to keep the whole of Europe well supplied.
5. So much for the peak oil and gas scare-mongers, and so much for the Cold War warriors who see the Crimea as the beginning of a new Cold War age. These people simply do not understand that we live in a totally changed and digitalised world which fundamentally alters the nature of international relations.

The real European crisis lies in its own misconceived and flawed energy policies. The truth is that the EU energy policy-makers have set themselves impossible and immensely damaging targets. They were an impossible dream before the Ukraine/Crimea affair and they remain just as impossible now.

6. The dream was this: to decarbonise the whole of European energy production and to do so in ways which made Europe the green energy technology leader of the world, preserved security of supply and kept energy prices reasonably competitive. This was the so-called trilemma of energy policy objectives – affordable energy, reliable energy and decarbonised energy. It was going to involve heavy new charges and levies on emissions, via the instrument of the EU emissions trading scheme, and via carbon taxes and a huge leap forward in renewable energy capacity. Outright prohibitions would close down carbon-intensive coal burning plant, as wind, solar and other green energy sources took over. As world oil and as prices rose with world supply scarcity green energy would become increasingly competitive.

7. None of these aims have been, or stand the slightest chance of being, achieved. On the contrary energy prices and costs have rocketed, to the point where the European Industrial Commissioner himself has spoken of ‘an industrial massacre’, with competition undermined and new investments being driven away. Energy costs are now double the US level.

Domestic consumers are in revolt, adding general hostility throughout Europe to established governments. Coal, instead of fading away, is being burnt in greater quantities than many years past, with new stations being built, even while EU rules force old ones to close, while quite new gas turbines are being mothballed, driven out of business by unsustainably high taxes and charges.

Prospects of actual power cuts loom, as margins of capacity to meet high demand periods, narrow to danger point – especially in the UK.

Worst of all – from the point of view of policy strategists, carbon emissions are actually rising in Germany, now being deprived of its low carbon nuclear power as well, while immense imports of manufactures from Asian origins mean that carbon intensive goods flood European markets and carbon footprints are rising faster than ever, not falling.

Even if it had been otherwise the central purpose of decarbonisation would be invalidated. This was never going to be actually to reduce global emissions growth. It was to set an example and a legally binding energy commitment target for emissions cuts which the rest of the world would follow.

But no such agreement has been or will be achieved. Other great emitting nations may have their own paths to de-pollution and green cleaner energy. But they care little about any European example. BP anyway estimates that global CO<sub>2</sub> emissions will rise by 29 percent to 2035. And fossil fuels -coal, oil and gas - will still each share a total of 81 percent of all energy supplies by that date. This is the voice of realism. Small wonder that leading voices all over Europe, including both German and British industrial leaders, and including the EU Commissioner himself, are saying ‘We need a new energy policy for Europe’.

None of the objectives of EU energy policy have been achieved, or will be. Green causes have been set back, not advanced. Huge damage has been and is being inflicted on both the industrial and social structure of the European region. There is misgovernment going on of a very high order.

8. For the UK in particular, the EU energy and climate package has been especially damaging. Forced by the EU to close old coal stations, and when an aging nuclear fleet was anyway due for close-down, the British are being compelled to raise astronomic sums by way of taxes and energy charges on consumers to pay for ultra high cost renewables (having little cheaper hydro or geothermal power available), such as offshore wind farms (at three times current prices), or new nuclear power, in the Hinckley Point EDF case at a crippling long-term (and indexed) price of at least twice current costs. Not only will energy costs be propelled upwards still faster but there is not the slightest hope of filling the electricity generating gap by this means. The only hope will be re-opening old stations, prolonging the life of nearly worn-out

nuclear plants and constructing new interconnector cables with nuclear-powered France (with which we have one already), with Denmark, Ireland and Belgium, which have surplus wind power, and with Iceland and Norway, which have surplus geothermal or hydro-power.

9. The plenitude of new gas from shale, and the imminent prospect of America becoming both self-sufficient and the world's largest hydrocarbon producer, mean that targets for renewable energy have become an impossibly costly option in Europe. The UK could dramatically improve its freedom of action, and rescue itself for the present drift to disaster, if it was willing to re-open and re-negotiate Treaty obligations such as:

- Cancelling plans under EU directives to close nine major coal fired stations by 2015, losing at least 15GW of power
- Dropping the 15% renewable obligation commitment for electricity (at present around 3% and only attainable at vast new cost imposed through still higher energy prices and taxes).
- Withdrawing from the failing EU emissions trading scheme.

But this raises the even bigger question on which I offer a final comment. Can the European Union which has trapped itself in this quagmire of incompetence and centralised error be reformed? Is it possible to construct a more de-centralised EU which allows far more flexibility and much greater freedom, not just for the UK but all members on many fronts?

That is the energy issue which is facing not just the UK, but many other governments, such as the Netherlands, Sweden, Hungary, the Czech Republic, and Poland.

But the energy issue is part of a still bigger challenge. With the Eurozone tearing itself in half, with massively high youth unemployment, with slow or zero economic growth overall, how can a reformed and modernised 21<sup>st</sup> century EU be brought into being?

Whether or not Ukraine can be stabilised and its great resources developed; whether or not Russia and Western Europe and America can work constructively together to recreate the Ukraine nation, friendly with both Western Europe and its Russian neighbour – Europe's enormous but self-imposed energy problems will persist, and get much worse – until there is a change of direction.