

Public Hearing “Towards a Common Energy Policy for Europe” - Committee on Industry, Research and Energy (ITRE) – the European Parliament 27 February 2007.

First Panel – New policies for a new reality: priorities, objectives and targets of a common energy policy.

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Ms Chairwoman, Members of the European Parliament, Mr. Commissioner, Ladies and Gentlemen

Thank you for the invitation to take part in this hearing and share some ideas on how to go forward to create a common European Energy Policy

Vattenfall is one of the larger energy companies in Europe with operations in Sweden, Finland, Denmark, Germany and Poland. Our generating portfolio in 2005 was based on 40% fossil fuels, 37% nuclear and 23% renewable energy. In addition we are one of the largest heat suppliers in Europe with 14% of biomass and waste in the fuel mix.

We are welcoming the initiative of further promoting a European Energy Policy aiming at realizing the potential values in a wider Internal Energy Market.

We have summarized our views on the Commissions initiative for an Energy Policy and the accompanying Action plan, available at our web site www.vattenfall.com.

I have been asked to comment in today’s hearing on specific question regarding priorities, objectives and targets for a common policy.

General views

Our recommendation is to be very clear on the objective with such a policy. To mix too many objectives into one instrument will most likely create lack of focus. The objective must be valid for a longer period in time and of course in compliance with other policies.

To us sustainable development in its true meaning – that means a balance between economy, environmental and social responsibility - is becoming more and more important. The energy system must be designed in such a way that it supports a sustainable development of the society as a whole. With such an interpretation the balance between security, competitiveness and environmental performance of the energy system must be evaluated from the contribution it gives to society’s development. That means a balance that has to be set in a constructive dialogue within the society.

The Commissions proposal for an Energy Policy rests on these three pillars. Energy Market – Climate change – Security of Supply. We think this is a good foundation to establish a policy on.

How to set objectives, targets and actions to also make the policy realizing the values?
Some highlights on the three subjects:

Energy Markets

To us a well functioning energy market is a prerequisite. This must be the foundation for all other initiatives. It will help to prioritize actions, it will find cost effective solutions and competition will stimulate innovation.

Today's energy markets are mostly national in scope. We need to continue to integrate our national markets into regional markets.

Based on our experience from the Nordic system Vattenfall believes that to set up regional Independent System Operators (ISOs) with support from a European regulatory function responsible for cross border issues is the best way to create regional markets and ultimately a pan European market. We believe that regional ISOs can help in integrating markets better than national TSO, even if ownership unbundled.

We need to set targets on when regional markets shall be in place and what elements that are necessary and what is expected from the various stakeholders – a Road Map may be the way forward – aiming at a pan European Energy Market.

Such a clear way forward will give all market actors clear signals. (It needs of course also Member State commitments.)

Climate change

The issue of Climate Change is addressing ways to limit a global temperature rise. An effective Climate Policy will also lead to an efficient use of resources – an important part of sustainable development.

Vattenfall is in favor of the challenging proposal put forward by the Commission for a near term target of 20% CO₂ reduction in 2020 based on the long-term target of limiting the global temperature rise to 2 degrees. The overriding objective must however be to find international agreements on Green House Gases reduction schemes. Only a European solution will not be sustainable in itself.

A price is needed for CO₂.

The EU-Emission Trading System (EU-ETS) will be a good instrument also after 2012 – taking present experiences into account. (longer trading periods more in line with investment cycles, access to relevant information, etc)

More sectors than the Energy Sector have to contribute to CO₂ reductions. Not all of them are suited to be part of a trading system. Other policy instruments are better suited. Not yet competitive technologies will need further R&D support to become realistic alternatives.

We must keep all options open. Some key technologies like Carbon Capture and Storage (CCS) needs special attention, as its possibilities are so large for reductions in the energy sector. The most cost effective applications for CCS are based on coal as a fuel – making coal also a realistic option in a CO2 reduction scheme. The proposed program for construction of demonstration plants up to 2015 is essential. Equally essential is the political will to clarify the viability for this CCS technology from a legislative point of view.

Security of Supply

Finally I would like to say only a few words on security of supply. We are of the opinion that many aspects of security of supply will be taken care of by market solutions and through Climate Change ambitions.

When it comes to international agreements regarding fuel supply our opinion is that the EU administration is much better suited than we are to find good solutions.

To conclude,

We are in favor of the initiative and want to continue the discussion and to share our views and experiences regarding all the elements building a European Energy Policy.