

# **Brexit and European energy policy – the case for engagement**

With a few honourable exceptions, the debate on British membership of the EU has so far consisted of a contest between the outs and the half outs – that is, those who want Britain to leave completely and those prepared to stay only if the country is protected from further incursion by immigrants or European policy makers. The other approach – active engagement to change and improve what happens – has barely been articulated. In several areas positive engagement is much needed and offers substantial benefits. Energy policy is a good place to start.

The EU has only limited competence when it comes to energy policy. The mix of fuels and the tax system under which they are traded remain matters of national choice. That isn't likely to change. It would be a waste of time to try to force France to accept fracking or to tell the Germans that they are going to have to keep nuclear power. Any attempt to centralise such emotive decisions will fail.

In any case it is unnecessary. What matters is that European citizens have safe and secure supplies of energy when they need it at a price they can afford and that the different energy policies of the 28 member states contribute to the progressive reduction of emissions which is a clear common policy objective.

Those three objectives – energy security, competitiveness in a world where energy prices can influence employment as well as living standards, and environmental protection – are not always easy to combine. But there are things European countries working together could and should do that would

help.

Security would be improved if supplies were diversified – so an accident or some act of political hostility by one supplier could easily be resolved by the provision of supplies from elsewhere. Emergency stocks could be held collectively – a much cheaper solution than expecting 28 different countries to each keep stocks of their own. And, most important of all, infrastructure could be built to ensure that no individual state is isolated, and that back up networks especially for the supply of gas and electricity are available to everyone. The European Commission has talked and written a good deal about the last point but nothing has happened. Diversity has been promoted as a concept but German policy in particular now seems to be working to strengthen the role of Russian gas supplies, which will benefit Germany at the expense of the common good.

As a result, in a period when imports are growing as production of oil and gas from the North Sea declines, Europe's energy supplies are becoming less secure year by year.

In terms of competitiveness current policies are not working. Electricity prices across Europe, with the exception of France, are materially higher than those in the US because of the cost of subsidised renewables. Gasoline prices for both business and ordinary consumers are also higher because petrol is used as a way of extending the tax base. In the UK almost 80 per cent of the pump price motorists pay is accounted for by taxes.

On the environment, the European approach has been to set targets – for instance for emissions reductions. Many such targets are regularly missed – even Germany will not meet its own 2020 targets because of continued support for coal-fired power generation. The gap between targets and performance undermines the credibility of public policy generally. The

greatest contributor to the reduction in emissions is low growth and austerity – a pyrrhic victory bought at the price of high unemployment and social dislocation.

None of this is a reason for writing Europe off, or for giving up on the objectives. European policy could and should be much more practical and productive. Let's take three practical suggestions.

- First, the key infrastructure links should be built – particularly to areas such as the Baltic states which remain uncomfortably dependent on the energy networks of the old Soviet era Comecon economy (the communist version of Europe's common market). European structural funds should be combined with the proposed Juncker investment fund in a way that would materially help the local economy. The proposed lines linking the Baltic states to western Europe are not the only important project but they are a symbol of what could be done and would represent a confirmation of Europe's commitment to the full integration of its eastern member states.
- Second, Europe should proceed step by step with the development of an ultra-high voltage grid which could eventually be connected across the continent. The Chinese have mastered the technology – why can't Europe do the same? A new grid would allow power to be moved over long distances with minimal losses. The greatest beneficiary would be the renewables sector, where production is often located at a long distance from the main centres of consumption. A grid that could access supplies from all areas would reduce the costs of intermittency arising from the fact that the sun does not shine all the time and the wind does not blow continuously. In particular, a strong grid would remove the burden of maintaining high-cost back-up supplies in the form of power stations usually fired by gas which are used for only a fraction of the day.

- Third, and perhaps most important of all, Europe could refocus its response to climate change away from self-indulgence. A clean, carbon-free Europe is irrelevant if other parts of the world remain dependent on energy sources that produce high levels of emissions. Climate change does not recognise national boundaries. The key challenge for the next 20 years is to find a way of enabling the world's poorer countries to raise living standards without creating a global environmental disaster. India, and other emerging economies, cannot afford high-cost renewables as an alternative to coal. They need energy supplies that are simultaneously low cost and low carbon. The scientific and engineering challenge of achieving that should be at the heart of European policy.

None of these are impossible goals. But they are not being achieved. Current European policies are too rigid. Britain has a long history in energy development and trade and great strengths in technology and science but the UK government has stepped back from the development of energy policy in Europe because anything that requires co-operation has been seen as toxic in the narrow terms of the country's political debate. That means that the potential gains are lost and the real possibilities of progress are left out of the debate at a moment when as the former UK prime minister Gordon Brown argues in his new book, *Leading not Leaving*, "people need to hear a positive message about what Europe can deliver for them".

On the current opinion polls, the UK will vote to remain part of Europe on June 23. But that is not enough. Once the current crazy exchange of threats and fears is over, there needs to be a serious engagement so the key policies can be shaped by British experience and skills as well as those of other member states.

A vote to remain should not be a vote for the status quo, or

for a Europe in which Britain is a reluctant, whining member who stays only under sufferance. Europe can do more and Britain can help to lead the process.