

**JEAN PISANI-FERRY**

**Why Energy is Key for Europe's Future**

When the heads of states and governments meet at the end of next week, energy will be high on their agenda. The European Commission has put forward an ambitious blueprint for a common policy ([http://eur-lex.europa.eu/LexUriServ/site/de/com/2007/com2007\\_0001de01.pdf](http://eur-lex.europa.eu/LexUriServ/site/de/com/2007/com2007_0001de01.pdf)), but there is no shortage of disagreements among the member states and it is not clear they will be able to achieve more than paper over their divergences.

The two powerful reasons to disagree are history and geography. History is divisive because it has resulted in member states making opposite energy policy choices. Back in 1973, when the first oil shock hit, the EU failed to agree on anything of substance and European countries embarked on diverging paths. France went nuclear and as a result, this energy today amounts to more than 85% of domestic electricity supply. Germany took the opposite way: nuclear represents just above one-fourth of domestic supply, against one-half for coal. It is hard to believe that those choices could be accounted for by deep-rooted preferences. One can certainly argue that nuclear energy was more agreeable an option to the French because it echoed Gaullist claims for independence through the bomb, but in many other fields from agriculture to trade, a European policy emerged despite initial differences. Hysteresis is a more likely explanation: what led energy choices to diverge was in part random, yet differences have solidified.

Geography is the other reason to disagree. Poland and Portugal are bound to have different perceptions of the potential threats to their energy security and the potential remedies. The only important question for the former is how to deal with Russia, while for the latter this is only an issue of remote importance.

Yet there are also powerful reasons to agree too. The first one is that a large and efficient internal market goes a long way towards providing energy security. The more integrated the market, the more countries can rely on it to ensure continued access to resources. Obviously, the pooling of resources among energy-dependent countries does not create any new supply. But it gives the participating countries market power and an ability to jointly negotiate with suppliers – chiefly Russia. Economics taught us that monopoly is a power, but monopsony too. The gain from a common policy is bound to be larger for small, totally dependent countries than for large ones like Germany. But even Germany would benefit from EU countries speaking with one voice in discussions with their Eastern neighbour.

The second reason to agree has also to do with a form of market power. The Europeans are divided on many issues, but one on which they do agree is global warming. Having a joint emission control policy does not suffice to convince the US and the big emerging countries to go along with it, but it helps. And whenever negotiations on a new Kyoto protocol start, the

Europeans will need to unite to be able to influence its outcome and have a say in the rules that will shape energy policies in the decades to come.

The stakes are therefore high. What the EU needs to achieve is a compromise that takes irreconcilable differences as a fact and focuses on the areas where common objectives can be set and common rules can be agreed on. A good example is the setting of targets for CO<sub>2</sub> emissions : it does not matter whether they are achieved through increasing the share of nuclear or of renewable energy, and national choices can differ. In the same way, a single market for electricity does not imply that all countries agree on how it should be produced.

The big question the next week's summit will have to answer is whether the EU is part of the response to the energy challenges confronting Europe. Energy security and the environment are major concerns for all citizens and whether the answers to them will come from the EU or from the nation states only has become a key litmus test of the usefulness of the EU in the XXI<sup>st</sup> century. It is well-known that the EU's legitimacy derives from its output rather than from its procedures. At a time when the participants in the summit ask themselves how to find a solution to the constitutional conundrum, here is something to remember: the more the EU agrees on the response to one of the major challenges it is confronted to, the less difficult it will be to agree on a revised treaty.