



European Economic and Social Committee

TEN/493
Getting EU energy islands
connected

Brussels, 13 December 2012

OPINION

of the

European Economic and Social Committee

on

**Getting EU energy islands connected: growth, competitiveness, solidarity and sustainability in
the EU internal energy market**
(exploratory opinion requested by the Cyprus presidency)

Rapporteur: **Pierre-Jean Coulon**

On 18 July 2012 the Cyprus presidency decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on

Getting EU energy islands connected: growth, competitiveness, solidarity and sustainability in the EU internal energy market (exploratory opinion requested by the Cyprus presidency).

The Section for Transport, Energy, Infrastructure and the Information Society, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 November 2012.

At its 485th plenary session, held on 12 and 13 December 2012 (meeting of 13 December), the European Economic and Social Committee adopted the following opinion by 159 votes to 5 with 13 abstentions.

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1. **Conclusions and recommendations**

- 1.1 Energy insularity, in its broadest meaning, places the affected countries and regions in Europe at an economic, as well as social and environmental disadvantage since they are often heavily dependent on fossil fuels. It leads to significant price discrepancies, which contribute to creating disparities in terms of solidarity and uniform development across European regions.
- 1.2 The EESC endorses the objective of eliminating energy insularity, set by the European Council in February 2011. To this end, it supports, in particular, initiatives to improve energy interconnections, around priority corridors, between EU countries. Interconnections between energy islands and third-country networks may be a priority when this is the best way to secure and diversify their energy supply.
- 1.3 Not all Member States affected by energy insularity are in the same situation when it comes to energy production or importation options. In addition to developing interconnections, a necessity for all energy islands, but also for other Member States, local energy solutions must be adapted to each situation.
- 1.4 More specifically with respect to the Baltic States and Central and Eastern European countries, the EESC calls for the abolition of disparities in the interpretation of principles of energy markets and energy supply between Russia and the EU, and for this to be recorded in international agreements, one of which could be a new partnership and cooperation agreement, with particular emphasis on energy (Cf. European Parliament resolution of

12 September 2012 on the Annual Report from the Council to the European Parliament on the Common Foreign and Security Policy (12562/2011 - 2012/2050(INI)).

- 1.5 The EESC calls for the Energy Community of South-East Europe to incorporate an external consultation and integration aspect, together with a "civil society" dimension.
- 1.6 Some of Europe's island States or regions clearly find themselves in special situations. The Republic of Cyprus's geostrategic position could make it a veritable energy hub for renewable energy as well as gas flows. Generally speaking, indigenous energy production needs to be developed on islands. From this point of view, they could serve as privileged test beds for demonstrating and validating new energy technologies. Evaluation criteria that take their specificities and needs into account could be applied when granting them EU funds for development and demonstration activities. This joint effort could contribute to correcting the disadvantages they suffer in terms of energy because they are not sufficiently connected to the rest of Europe.
- 1.7 The EESC recommends simultaneously encouraging the improvement of interconnections, the development of indigenous renewable energies and the deployment of energy efficiency and energy demand optimisation measures. The evaluation criteria applied to EU programmes in these areas should take into account the goals of reducing energy insularity, particularly when selecting energy infrastructure projects of common interest.
- 1.8 In any event, if the EU – in cooperation with the Member States, the industries, civil society and the regions concerned - does not act swiftly to launch initiatives to gradually eliminate energy insularity, it will become considerably more difficult to fully achieve the Europe 2020 goals and to reap the full benefit of the joint efforts already launched to promote the EU's growth and competitiveness.
- 1.9 The EESC believes that, in this context, energy poverty can no longer be viewed as a purely national or local problem, to be tackled entirely through social policies. Since some of the major causes of this type of poverty extend beyond the national scope, the EESC would like EU energy policy to address the large imbalances which contribute to it. As a result, concrete policy measures should henceforth be evaluated in the light of the impact they are expected to have on the factors that could accentuate or reduce energy poverty.
- 1.10 The EESC considers that energy islands represent a cost for all. This cost must be evaluated and the solutions for reducing it must be incorporated in a comprehensive approach. The European energy policy has to be completed and granted appropriate means of action, commensurate with both the Member States' level of interdependence and the difficulties they encounter. In order to assess the full impact of this situation, the EESC calls on the Commission to carry out an exhaustive study on the "cost of non-Europe in the energy sector" caused by the existence of these "energy islands".

1.11 The EESC advocates a transparent, comprehensive and precise evaluation of the costs – including external costs – of fossil fuels and renewable energy sources, including the indirect costs associated with strengthening the network, the back-up capacity and the support needed for green technologies. This evaluation is essential to reaching optimal investment and policy decisions, especially with a view to a powerful boost to the development of renewable energy production in some energy islands in order to export such energy to EU or non-EU countries.

2. **Introduction: multiple geographical and political insularities**

2.1 The Cyprus presidency's request is another example of the need to Europeanise energy policy and to establish a European Energy Community (EEC), as advocated by the EESC¹. This presupposes stronger regional cohesion and a uniform vision of development in Europe's regions. The goal of improving connections for the EU's "energy islands" is therefore consistent with the practical guidelines for improving cooperation in the area of energy advocated in the opinion on *Involving civil society in the establishment of a future European Energy Community*² in January 2012.

2.2 In the context of the Cyprus presidency and EU-level discussions (see in particular, point 5 of the conclusions of the European Council (4 February 2011) EUCO 2/1/11 rev. 1, the term "energy insularity" or "energy island"), for the purposes of this opinion, refers to island or mainland regions with little or no indigenous energy sources and insufficient links to energy transmission networks and which, as a result, are often dependent on a single external energy source or supplier. The differences between the Member States' energy balances reveal major fault lines between them. As a result, the concept of energy islands is both technical and (geo)political (dependence on a single supplier).

2.3 The factors to be kept in mind include the lack of interconnections, dependence on a single energy source and/or supplier, the distance from production sites/energy transmission corridors, investment costs relative to the size of the market, the difficulties involved in altering strong tendencies in national energy policies, and specific geographic/climatic conditions.

2.4 According to the Eurostat definition, the European Union has several hundred physical islands of various dimensions and statuses. In addition to four Member States - Cyprus, the Republic of Ireland, Malta and the United Kingdom - over 286 islands in Europe are inhabited by over 10 million people in the North Sea and the Baltic Sea, and the outermost regions (ORs) of three Member States (the Canary Islands for Spain, Madeira and Azores for Portugal and Réunion, Mayotte, French Guiana, Martinique and Guadeloupe for France. Islands belonging to Member States, including the ORs, are not covered individually in this opinion.

¹ [OJ C 68, 6.3.2012, p.15-20.](#)

² Ibid.

- 2.5 There is another type of energy insularity, mainly connected with 20th Century history. The Iberian Peninsula is still a quasi-energy island due to the Franco and Salazar regimes' autarkic approach to most policies involving transport (especially rail) and electricity networks, with few external links, especially with the rest of Europe via France. This situation has persisted over the last twenty years due to many instances of local opposition to the various projects for improving grids across the Pyrenees. This problem is being resolved and a new direct current link will soon improve connections with the South-West Mediterranean. However, in addition to improving French-Spanish electricity interconnections (which will raise the exchange capacity from 1400 to 2800 MW in 2014), it will undoubtedly also be necessary to plan other energy corridors between the Iberian Peninsula and the rest of the continent. The goal of achieving an exchange capacity of 4000 MW by 2020, mainly through a new electricity interconnection on the Atlantic side must be supported. This project must be added to the list of projects of common European interest, to be drawn up in the context of the regulation on guidelines for trans-European energy infrastructure.
- 2.6 The Baltic States (Lithuania, Latvia and Estonia) are also energy islands vis-à-vis the EU since their networks are still entirely dependent on their former "exclusive" partner, Russia (to a lesser extent, Belarus). This is one priority that argues in favour of European energy integration. It is indeed a paradox that while the three Baltic States are an integral part of the political union, they do not reap the benefits of intra-European integration and solidarity in the energy sector. How can we accept that they continue to depend on a third country, moreover a WTO member now, which does not respect European standards regarding access to networks, has not signed the Energy Charter, and does not facilitate the improvement of interconnections between central and eastern European countries (CEEC)? The EESC therefore calls for a reduction in disparities between the Russian and European energy markets and for an ambitious and comprehensive new partnership and cooperation agreement that includes a chapter on energy cooperation (Cf. European Parliament resolution of 12 September 2012 on the Annual Report from the Council to the European Parliament on the Common Foreign and Security Policy (12562/2011 - 2012/2050(INI)).
- 2.7 South-East Europe (the Balkan Region) is a transit region and the progress of some States towards EU accession (Croatia, but also Serbia, Montenegro, FYROM, etc.) calls for further developments, mainly with respect to their EU neighbours (Romania, Bulgaria, Greece, Slovenia, Austria, and soon Croatia). The establishment of an energy community in this region is a sign of growing awareness and needs to be encouraged and nurtured, especially through effective and transparent consultation with the region's civil society organisations on the energy strategy.
- 2.8 On the whole, all EU Member States find themselves in a situation of very close interdependence. Some of them, although they are not strictly speaking "energy islands", are very dependent on their neighbours, especially in Central and Eastern Europe, and Hungary in particular. As a consequence, the EESC believes that we need to develop a common energy

policy that takes account of this situation. These circumstances demand a general EU debate on improving solidarity between EU States. Moreover, this aspect is alluded to in Article 194 TFEU.

3. **Energy insularity: a drag on Europe's economic performance and social progress**

3.1 Energy insularity covers a range of varying circumstances, but which have virtually identical consequences irrespective of the situation. These types of "insularity" almost always result in:

- increased supply insecurity;
- price variations, often with an upward trend, and dependent industrial and trade activities;
- more significant energy poverty for people in these States or regions;
- a negative impact on their economic competitiveness;
- increased environmental pressure;
- instability in political and economic relations between the EU and third countries.

3.2 Demand for energy is high and rising in energy islands, just as in other parts of the EU. Given this situation, the consequences of a potentially less reliable and, in any case, significantly more expensive supply is severely undermining the economic competitiveness of energy islands. This may threaten certain industrial sectors, and therefore jobs, because some activities are becoming insufficiently profitable.

3.3 Similarly, high energy bills put significant pressure on household budgets. Energy poverty has long been considered a purely national, or even local, problem. It is indeed these levels that are responsible for direct support measures to help these groups. That said, some of the key causes of energy poverty transcend the national framework and, by addressing major imbalances, EU energy policy should also help to reduce this problem.

3.4 CO₂ emissions are kept high by a dependence on fossil fuels, especially oil, which is often very significant. In the light of environmental standards (the industrial emissions directive) and general health concerns, substantial investments will have to be made to reduce these emissions. These costs must also be factored into the energy bills of energy islands.

3.5 The consequences of energy insularity should be better assessed in terms of the growth, competitiveness, and sustainable development of the affected regions as well as in terms of solidarity, cohesion and "lost revenues" for the rest of the EU due to the absence of a complete and functional energy market throughout the EU. The EESC considers that energy islands represent a cost for all. This cost must be evaluated and the solutions for reducing it must be incorporated in a comprehensive approach. The European energy policy has to be completed and granted appropriate means of action, commensurate with both the Member States' level of interdependence and the difficulties they encounter.

3.6 Beyond demonstrating the benefits of greater European integration, the purpose is in fact to promote industrial development, and hence employment. The competitiveness of European industry depends on several factors over which the public authorities have no, or little control. The challenge is therefore to prevent energy policy – an area where the EU can and should take action – from becoming a brake on growth and employment. The EESC calls on the Member States and the Commission, as of now, to push ahead with the application of already identified measures that can reduce energy costs and increase security of supply, e.g. better coordination of national decisions relating to energy and joint infrastructure and network planning, the creation of European fossil fuel purchasing groups and, if need be, mandates for EU negotiations with external partners.

4. **What solutions? Developing renewable energy sources and improving network infrastructure**

4.1 There appear to be two preferred solutions at this stage: firstly, more interconnections between energy islands and the internal energy market (market infrastructure and organisation) in order to increase practical solidarity and to align the technical organisation of the European network with the EU's political and legislative objectives and, secondly, to promote alternative energy sources, i.e. local renewable energy production. This involves highlighting potential - if it exists - and suggesting measures for its full and viable exploitation. Finally, using smart grids to encourage energy efficiency and demand management can help to optimise energy demand.

4.2 The European Commission has already launched a major reform of the EU's energy infrastructure support policy, especially through interconnections (cf. the Connecting Europe Facility), which the EESC supported in its opinion³. This being the case, it might be worth taking this even further through the joint planning of infrastructure, as the EESC advocated in its opinion on the European Energy Community⁴. In 2002, the European Council had already set Member States the target of achieving a capacity of electricity interconnections equivalent to 10% of their installed production capacity. We are still far from achieving this target on certain European electricity borders, which are still congested.

4.3 Massive growth in renewable energy in the North Sea, and in solar and wind power in Southern Europe means that new "smarter" infrastructure will be needed to maximise their integration with the European mainland grid. These improvements to smart grids could make it possible to reduce consumption by 9% by 2020 and cut CO₂ emissions by 9 to 15%. It might be easier to deploy smart grids and measures for managing demand in smaller markets, which could deliver better results faster. Combined with enhanced energy efficiency measures, it could contribute significantly to the optimisation of energy demand. The substantial investments required have to be seen in a context of complete control of action in

³ [OJ C 143, 22.5.2012, p. 125-129.](#)

⁴ See footnote 2.

this area, lower energy costs in a context of higher prices and less need to invest in conventional (reduced volume of operating margins) or renewable energy production capacity.

- 4.4 In total, ENTSO-E estimates that over the next ten years, 52 300 km of new high-voltage power lines will need to be constructed in Europe, amounting to an overall investment of EUR 104 billion, involving about one hundred priority projects, 80% of which will be due to the development of renewable energy sources. The concept of "scale" in energy islands that have potential in this area makes the integration of renewable energy sources an even more sensitive issue if they have small networks. The production capacity of renewable energy industrial installations (as opposed to decentralised production) can represent a relatively high percentage of production or consumption, the effects of which, especially its intermittent nature, are more difficult to manage.
- 4.5 It is therefore vital to improve interconnections in order to increase security of supply but also to allow more balanced energy production and consumption across an extended network in a context of strong renewable energy development. This also applies to conventional capacity, which takes over when renewable energy production stops or slows down significantly.
- 4.6 Developing renewable energy sources requires an appropriate, flexible back-up capacity capable of functioning at a low baseload. Liquefied natural gas (LNG) might be a solution to dependence on single gas suppliers and the high prices they charge, which would also offer a more flexible and cheaper alternative to oil, alongside the development of renewable energy sources. Nevertheless, developing LNG involves substantial investment in port and storage infrastructure.
- 4.7 The EESC is convinced that the future of the European energy systems depends in particular on better interconnections and the development of renewable energy sources, especially for energy islands, in order to improve security of supply. The use of fossil fuels will continue to predominate but higher renewable energy production will make it vital to improve national and European networks dramatically (cf. EESC opinion *Energy Roadmap 2050* and the "no-regrets" option⁵).
- 4.8 However, this need cannot be substantiated efficiently without a transparent, global and precise evaluation of the costs. The most objective knowledge possible is required concerning the costs – including external costs – of fossil fuels as well as the additional costs created by renewable sources in order to be able to reach optimal investment and policy decisions. Studies on these indirect costs are highly contradictory, which makes this need all the more urgent.

⁵ [OJ C 229, 31.7.2012, p. 126-132.](#)

- 4.9 With regard to renewable energy, it is important to consider not only the amount of investment in new production capacities, but also the cost entailed by improving the network and possible subsidies. On this last point, it may be necessary to provide more support for regions that are more dependent in terms of energy and where renewable energy sources are still less developed. That said, the pace at which green energy production increases must be compatible with the pace at which the network is improved. It is also important to establish the back-up capacity per additional renewable energy production unit. The back-up can nevertheless be imported but this requires efficient interconnections and regional and European cooperation. Support arrangements for renewable energy should take this aspect into consideration in order to optimise the pace of development and the cost of support to be borne by the taxpayer.
- 4.10 Once all these costs have been precisely evaluated, they should be compared with the energy bill for imported fossil fuels integrating all costs, including political and environmental costs. This is essential in order to assess the positive and negative repercussions on the region's competitiveness. It is also in this perspective that renewable energy production can be developed in some energy islands, with a view to exporting it to other EU countries or to third countries.
- 4.11 The EESC believes that the improvement of this infrastructure should include, as a matter of priority, the States and regions affected by energy insularity since their higher dependence needs to be considered when priority corridors are being decided. For instance, the Baltic Energy Market Interconnection Plan (BEMIP) could pave the way to improving energy policy coordination and the energy mix in the region. This would help to connect the region's energy networks, especially Lithuania's, Latvia's and Estonia's.
- 4.12 There has been recent progress in cooperation between Lithuania and Latvia. There is a flagship initiative in this area: Lithuania is to build a liquefied gas terminal in Klaipeda, which will feed the Incukalns storage facility in Latvia. Lithuania believes that this storage facility could serve as a "regional gas reserve". In this context, the EESC reiterates its suggestion to pool fossil fuel energy sources, and in particular to form gas purchasing groups⁶. Lithuania, Latvia and Estonia are developing and implementing electricity interconnection projects (LitPol Link NordBalt and Estlink 2) with other EU countries, in particular Poland. At the same time, the three Baltic countries are working towards fully-fledged integration into the European energy system combining electrical power systems with the continental European electricity networks for synchronous mode (currently undergoing a feasibility study). The Baltic States are also jointly developing the Visaginas nuclear power plant project, which could help to ensure the energy security of these countries and could be an important element in the integration of the European electricity system.

⁶ See footnote 1.

- 4.12.1 The new development in Cyprus's energy situation (the discovery of substantial gas reserves in its territorial waters) could make it a key regional player. A significant increase in its means of renewable energy production and strong involvement in the abovementioned projects could turn it into an energy hub, geared to improving regional integration, and a neighbourhood policy player in the energy sector. In this respect, the recent selection of the operators that will be responsible for the future exploitation of Cyprus's gas fields will simultaneously guarantee better EU integration and promote an active neighbourhood policy.
- 4.13 Furthermore, dependence on a single supplier can be reduced by implementing the 3rd energy package. The question of regional market organisation is also vital. Lithuania and Estonia are participating in Nord Pool Spot, the electricity market of the Baltic and Nordic States, and Latvia is planning to join next year. Beyond this example, the EESC urges the Baltic States to seek shared responses to their needs and to develop regional dialogue on energy.
- 4.14 Interconnections have to be increased with the EU's third-country neighbours, which could either produce and export energy to the EU or ensure its transmission to the EU from other producing countries. This applies mainly to the energy projects in the Mediterranean region (the Mediterranean Solar Plan, Medgrid, the "energy" dimension of the Union for the Mediterranean, Desertec etc.) by calling for the relevant countries (Cyprus and Malta) or regions (Crete, Sardinia, Corsica, Sicily, the Balearic Islands, etc.) to be involved in these projects.
- 4.15 The Energy Community [of South-East Europe] must incorporate an external consultation and integration aspect, together with a "civil society" dimension. This is an area where the EESC's joint consultative committees (FYROM, Montenegro and Croatia) and the ESCs and similar institutions of these countries have a role to play.
- 4.16 Furthermore, the demonstration and development of renewable energy sources could be further promoted, especially in connection with the Energy Roadmap 2050 and the recent Communication on integrating renewable energy into the internal market (COM(2012) 271 final).
- 4.17 Joint solutions and proposals are needed within the EU and with its neighbours, involving:
- the Member States;
 - the European Commission, an essential coordinator for these discussions and proposed solutions;
 - energy operators, especially network operators (electricity, gas), without which nothing can be achieved (technical expertise, financial clout);
 - the local and regional authorities, which have decision-making powers alongside States, and which are increasingly the managers of transport, and above all, distribution networks. The Committee of the Regions could be an ideal intermediary;

- organised civil society and its organisations, which the EESC reflects: consumer organisations, the social partners, environmental organisations, anti-poverty organisations, minority representatives, etc.

4.18 Inter-State and interoperable solutions are the only viable ones. Energy policies, be they in the area of supply, network construction, research and development, etc. cannot be undertaken by a few EU States which can have an "autonomous" energy policy because this would have significant repercussions for the other States. Stronger coordination of the energy mix is needed, e.g. between States and regions affected by energy insularity and which have very constrained energy policies. By doing this, these States and regions could even lead the way to greater EU-level cooperation, beyond concerns of "energy sovereignty".

4.19 These solutions – infrastructure, renewable energy production, strengthened energy policy coordination between States and regions – must nevertheless be accompanied by greater civil society involvement due to their implications for the energy mix, market organisation, prices, competitiveness, environmental considerations or even social acceptance. On this point, the EESC recalls the suggestion it made during the course of its work on the European Energy Community⁷ to set up a civil society forum on energy issues.

Brussels, 13 December 2012.

The President
of the
European Economic and Social Committee

Staffan Nilsson

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N.B.: Appendix I to this document is set out on the following page.

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See footnote 1.

APPENDIX

to the opinion of the European Economic and Social Committee

The following amendment, which received at least a quarter of the votes cast, was rejected at the plenary session:

Point 2.5

Amend as follows:

There is another type of energy insularity, mainly connected with difficulties in developing interconnections ~~20th Century history~~. The Iberian Peninsula is still a quasi-energy island because interconnections could not be completed ~~due to the Franco and Salazar regimes' autarkic approach to most policies involving transport (especially rail) and electricity networks, with few external links, especially with the rest of Europe via France~~. This situation ~~has persisted over~~ during the last twenty years due to many instances of local opposition to the various projects for improving grids across the Pyrenees. This problem is being resolved and a new direct current link will soon improve connections with the South-West Mediterranean. However, in addition to improving French-Spanish electricity interconnections (which will raise the exchange capacity from 1400 to 2800 MW in 2014), it will undoubtedly also be necessary to plan other energy corridors between the Iberian Peninsula and the rest of the continent. The goal of achieving an exchange capacity of 4000 MW by 2020, mainly through a new electricity interconnection on the Atlantic side must be supported. This project must be added to the list of projects of common European interest, to be drawn up in the context of the regulation on guidelines for trans-European energy infrastructure.

Outcome of the vote:

Votes in favour:	60
Votes against:	81
Abstentions:	18
