

Energy security without the North Sea – time to think European

Dieter Helm

Professor of Energy Policy

University of Oxford

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Security of supply – along with climate change – has taken centre stage in energy policy debates. The oil and gas price shock from 2000 onwards, the world-wide scramble for resources, and closer to home, Russia's ominous lurch away from democracy and open markets have together changed the terms of debate.

But whilst even British politicians – accustomed to abundant coal and North Sea oil and gas – must have noticed what has been going on, they remain by and large trapped in the time warp of the 1980s and 1990s. These were indeed golden times: oil prices, contrary to what had been expected at the end of the 1970s, collapsed and stayed very low. Demand changed too, as the early 1980s witnessed the de-industrialisation of the British economy. There was significant excess supply. And as a result, the right energy policy was to sweat the assets – which is what privatisation, liberalisation and competition did. Security of supply did not matter – for the very good reason that energy was abundant and cheap.

Energy policy is typically very good at solving yesterday's problems, and the British model is now exceptionally well tuned to solve those of the 1990s. Energy policy is less good at adapting to future problems, and unsurprisingly, the British have been caught out by the new tight energy markets. The assets are typically old, much new generation capacity is needed in the next decade, and Britain is now a gas importer, at the end of some very long gas pipelines.

The full force of the consequences of the rapid depletion of the North Sea (at the historically low prices) is becoming apparent, and now Britain joins the main European powers who have always been energy poor. Britain, however, still wants to impose its 1990s model on its European partners. Rather than joining forces with Germany and France and giving a lead to a common European front (particularly to Russia), the British still bang on about the need to break up the German and French markets, and to break down long term contracts. The result is European paralysis, and the dash to do bilateral deals with Russia, with Germany in the lead. Gazprom has been stunningly successful, and Europe has been divided, and therefore ruled.

To be fair, some belated moves in the right direction have begun. After years of dithering there is some signs of decision making on nuclear. Yet even here, the muddle remains deep. A proper nuclear policy starts with deciding about where and how to bury the waste. Yet after two decades we still do not have a decision about nuclear waste. Then there is the long term price of carbon. The government says it is important, but will not actually provide it unless there is evidence it is needed – by which time the damage (and costs) will have been inflicted. There is a ramped up renewables obligation, but not a nuclear one. Why back one technology but not another? The Secretary of State has spoken of “energy independence”. What does this mean? How could it be achieved now the North Sea is fast declining?

The scale of the task ahead is immense. The problem is: how to ensure security of supply and radically reduce emissions *simultaneously*. If the solution is to be delivered through the market, then incentives for private companies to invest in security and low carbon technologies have to be provided. The way to do this is to create a proper capacity market (to pay for the excess supply which is of the essence for security), and to provide for a long term carbon price. The former can be grafted onto the existing market; the latter can be via long term carbon auctions (to reinforce the EU ETS) or through a minimum price of carbon (in effect a threshold carbon tax).

This much can – and should - be done at the British level. But the new paradigm for energy is European – neither security of supply nor carbon policy can be dealt with effectively at the national level. For the 2005 Hampton Court Summit, I set out what some of the measures required might be: completing the European energy grids, strategic gas storage, common nuclear licensing and so on (Helm, 2005). None of these measures are incompatible with competitive markets, but they are *additional*. They will not spontaneously happen without energy policy.

But over two years later, the Europeans remain as fractured on energy as ever – and in no small measure because the British have put most of the emphasis on bashing the Germans and the French, almost exclusively focusing on unbundling and the competition agenda. These might be desirable, but they will not *solve* the climate change or security of supply problems. Both need proper energy policy frameworks within which competitive markets might operate. Unfortunately, we continue to apply 1990s solutions to a new and rather different post 2000 era. In the history of energy policy, it usually takes a crisis to change energy policy. The good news is that there is one on the way; the bad news is that it is not yet serious enough to mandate action.

898 words.

Helm, D R (2005), “European Energy Policy: Securing supplies and meeting the challenge of climate change”, Hampton Court Summit paper, October: www.dieterhelm.co.uk